Financialization and the Moral Economy: Lessons from Non-Intermediated Credit Relationships

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Introduction

This paper provides a cross-disciplinary contribution on the related topics of the moral economy and the process of financialisation. By financialisation we mean the notion that the growth of financial intermediation means that the financial sector becomes disembedded and disconnected from the real economy through (i) formalization (via reliance on formal instruments and enforcement) at the expense of economic relationships underpinned by trust and, by corollary, (ii) the growing use of novel financial instruments. A key purpose of the financial sector is to facilitate the provision of credit in the economy precisely by enabling transactions and innovating mechanisms for ensuring cooperation and maintaining trust. At the same time, precisely this intermediation role creates agency problems, whereby actors involved in the intermediation process pursue their own self-interest, which is not necessarily congruent to either of the transacting parties in the credit relationship. As a result, the disconnection between the financial sector and the “economy” occurs through two channels – the growing reliance on more formal impersonal mechanisms of trust and the possibility for financial sector actors to pursue their own interests over those of the parties to a credit relationship. Technology (such as information technology) can contribute to the process of disembodiment because it can facilitate innovative financial products, which can fuel both channels described above.

To the extent that the results of the above processes are seen to be problematic, various responses by private actors and by policy makers are available. Given that the recent financial crises have placed the problem of financialisation into sharp relief, much of the focus in the post-financial crisis discourse in various jurisdictions has been on strengthening financial sector regulation. Many of the measures introduced across different jurisdictions are principally aimed at controlling or reducing conflicts of interest, though some measures do also have a relational element (such as the imposition of know your customer or fiduciary duties on financial sector actors) which may nonetheless be inconsistent with market conduct. We would characterize these as top-down measures with likely unintended consequences, particularly when they are not sensitive to local financial problems and practices.

Some authors have argued that legal or regulatory responses will not provide an adequate solution to the identified problems in financial intermediation and have proposed instead “cultural” reforms of financial institutions to promote other-regarding behaviour. And yet such authors also recognize that cultural changes are difficult to achieve top-down, particularly in an environment of potentially misaligned incentives.

By contrast, we aim to provide a bottom-up perspective on the problem of financialisation through case studies of non-intermediated credit relationships in a historical and a contemporary context. Our interest is on the familiar questions of what facilitates transactions and trust in non-intermediated credit relationships, as well as the role of novel technologies and innovation in the process of credit facilitation. Apart from these transaction facilitation problems, we are also interested in mechanisms of adjustment as between the parties to the credit relationship. As Katharina Pistor has pointed out credit relationships are legal constructions. Generalising her analysis (which focuses on instruments at the apex of the modern financial system and the question of systemic risks), we would argue that when problems arise in credit relationships (such as the inability of a party to repay, for example), there is a choice between a rigid or elastic response also at the micro level in the context of what might otherwise be regarded as private law dispute resolution. It is precisely this moment of adjustment and accommodation that provides one of the key links between non-intermediated credit relationships and the moral economy, underpinning the idea of sustainable credit.

In other work, we have provided evidence from early modern credit relationships that parties’ mutual adjustment – and in particular the lender’s repayment demand – is sensitive to the immediate ability to pay constraints of the borrower. The adjustment can be accommodating without necessarily harming the interests of the lender and by maintaining the terms of the credit relationship tethered to the economic activity of the borrower. We are not claiming that all non-intermediated credit relationships disclose these features, but we are interested in identifying the conditions that make such features more likely. In particular, we are interested in asking whether size (small communities) and pre-existing relationships of trust or kinship are pre-conditions for the “moral economy”, as well as the role of technology and innovation in disembedding finance versus giving it a moral dimension.

To help answer these questions, we conduct two case studies of non-intermediated credit relationships – one historical and one contemporary.

The historical case study draws on archival research from notarial records in pre-industrial France and from probate inventories featuring informal credit relationships in pre-industrial Finland. Our aim here is to reconstruct both transactional and dispute resolution practices in non-intermediated credit relationships where this is possible to do via archived notarial records. In that respect, this paper continues in the methodological approach of our prior joint work, but seeks to provide a systematic focus on the conditions that are propitious to the moral economy. Apart from allowing us to perform comparisons, we would argue that this case study is not only of historical interest, given evidence that modern financial technologies

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have sometimes explicitly sought to mimic historical transactional and trust-building practices of trading communities.\(^7\)

A second case study focuses on contemporary non-intermediated credit relationships in South Africa. An existing literature discloses the importance of informal and non-intermediated credit in the South African context and we specifically study the institution of the stokvel in the area of KwaZulu Natal.\(^8\) Apart from the questions identified above, we are particularly interested in the role, if any, of new technologies for both enhancing the facilitative and adaptive institutions of the stokvel in order to allow for generalizing the stokvel relationships and to make them more propitious to moral economic order.

By way of contrast to the case studies, we also draw on a recent case pursued by the Australian Securities and Investments Commission against a credit provider in a “cross-community context” (a non-indigenous credit provider to indigenous customers in a remote community). We see in this example that the absence of pre-existing trust and the diversity in cultural practices and social norms leads to credit relationships which are both exploitative and unsustainable.

In further work, we propose to examine the relationship between non-intermediated credit and the financial sector or “outsider” investors, as well as the role of state regulation in either supporting or displacing these credit relationships specifically and the moral economic order more generally.

**Credit Markets in Pre-modern Europe and the Moral Economy**

In pre-industrial Europe, before the advent of banks, most financial transactions took place via peer-to-peer transactions. These exchanges were sustained by strong norms of collaboration, fairness, and solidarity and took place through inner circles. Craig Muldrew estimates that nearly 90% of daily transactions in early modern England were carried out on credit.\(^9\) In France, before the proliferation of banks, the volume of mortgage debt equalled 10% of GDP in 1807.\(^10\) In Finland, peer-to-peer lending dominated financial exchange up until the eve of World War I.\(^11\) In the absence of banks, peer-to-peer lending was used either to support investments or to alleviate temporary resource shortages. Additionally, a chronic shortage of cash as a medium of exchange made credit critical in daily transactions. As such,

\(^7\) See, for example, the apparent attempt to mimic the practices of the Maghribi traders famously studied by Avner Greif by modern financial transfer technologies, such as Transferwise. Eg, Rachel Botsman, Who Can You Trust?: How Technology Brought Us Together and Why It Might Drive Us Apart (Penguin 2017); cf. Greif, A., 1993. Contract enforceability and economic institutions in early trade: The Maghribi traders’ coalition. The American economic review, pp.525-548.


\(^11\) See Dermineur E, Non-Intermediated Credit Networks in Pre-Industrial Finland, working paper. 2020.
viable financial markets existed long before the emergence of modern banking institutions in the nineteenth century. These private financial markets remained, however, for the most part local, hermetic and highly embedded in social systems.

Early financial markets were characterized by exchanges that were autonomous from the State. Also before at least the nineteenth century, most private loan transactions took place without much institutional intermediation. In some parts of Europe, with a long commercial tradition, state institutions did provide some facilities for the conclusion of contracts (notaries in France, Spain, Italy for instance) but not in others (Sweden and Finland for instance). In most Western jurisdictions, the State did nevertheless provide some facilities for the enforcement of contracts (typically courts) but regulation was otherwise largely absent. Even in the presence of legal rules, authorities did not have sufficient reach or mechanisms to enforce existing regulations. Credit relationships were embedded in a tightly-knit social context, making them subject to a social discipline and self-regulation – quite separate from any legal and market discipline. The parties to credit contracts were generally members of the same community and typically there was not much disparity in bargaining power or knowledge. Overall, these private credit markets were quite closed and narrow, not characterized by competitive forces and not transparent. According to some authors, they cannot really even be characterised as “markets”.12

The infrastructures for concluding and enforcing credit contracts, in pre-industrial Europe, consisted of informal channels that often co-existed with an institutionalized credit market for extending credit. In the case of informal credit exchanges, many small credit transactions still elude historians, either because they were not archived or because they were verbal agreements between parties.13 We can track some of these transactions with the help of existing archival documents, most notably probate inventories. As a matter of fact, probate inventories are the only source available in Finland with which to track early informal non-intermediated credit transactions. The amounts exchanged were typically small and they did not necessarily require any official validation for the promise to be enforced. Creditor and borrower often knew each other and were bound either by family ties or by geographical or social proximity, if not all three, and often avoided the burden of registering their transaction.14 These exchanges allowed for greater negotiating flexibility regarding contractual terms, including, and especially, interest rates.15

Importantly, the use of relatively informal mechanisms allowed private parties to negotiate interest rates higher than the legal ceiling.16

15 An interest rate superior to 5% was legally considered usurious. The legal cap for notarized loans was 5%, with the exception of the years 1766-1770 when it was 4%.
16 The question of the setting of interest rates is interesting. On one hand, it is certain that most contracts, either institutionalized or informal, comprised an interest component. Men and women rarely extended capital for free. Profit seeking was probably not the main concern. Instead, creditors charged an interest because of the uncertainties of reimbursement; in this sense the interest worked as a premium in the contract. On the other hand, the interest rate could not legally exceed 5% for most of the eighteenth century. Merchant capitalist ventures could easily reached a profit of 15-20% by comparison.
Many of these informal loans were in fact deferred payments in a rural economy where cash was still scarce. In 1853, Maria Finne and her husband from the village of Dagsmark in Western Finland owed 3 markka to Johan Finne, a relative from the same village ‘utan revers’, i.e. without contract.\(^\text{17}\) In 1850, the farmer Anders Stormartonen from the village of Bötom also in Finland had extended cash to 11 fellow farmers all ‘utan revers’ for small amounts. His 11 loans all together amounted to 20 markka. Because of strong ties between the parties, a written contract appeared superfluous and perhaps even offensive. For similar reasons, while guarantees could be included in such transactions, this form of surety instrument appears to have been rare.

Notarial credit contracts usually stipulated the maximum and legal interest rate of 5%. In practice, however, parties could negotiate an additional price on the side. Rural Jewish moneylenders in the South of Alsace, for example, always required an additional compensation in nature (in the form of grains).\(^\text{18}\). In the early 1780s, Marguerite Dermineur, a widow living in the village of Suarce lent 400 livres to Jean Pierre Fleury one of her neighbors. He promised to reimburse the widow within two years at 5% interest rate. But the contract also stipulated that he would let her the usufruct of the land he pledged as a collateral as a form of interest over the duration of the contract. Interest rates could be hidden in the capital or arranged on the side.\(^\text{19}\) Interest rates just like any other terms of agreement were understood to be negotiable.

While it is difficult to assess the volume of exchange in informal credit, it is safe to assume, based on the examination of probate inventories, that most small transactions used the informal channel before the nineteenth century.\(^\text{20}\) A recent estimation found that the volume of informal loans in early modern France could have been equal to the institutionalized credit market (i.e. the notarized market).\(^\text{21}\) Small daily credit transactions were ubiquitous and critical to the life of the community.

In pre-industrial France, by contrast, the notary recorded other deeds and contracts such as sales, wills, and donations, alongside credit transactions. While his role was critical in guiding individuals and helping them to choose from among several credit instruments, the notary’s input should not be overestimated, especially in rural areas. In fact, individuals resorted to the notary mostly to have their deed “engrossed” so as to ensure legal validity, fill a trust deficit gap and insure the seniority of their debt.\(^\text{22}\) The great variety of conditions and terms of agreement observed in these deeds indicates that parties negotiated their contracts before arriving at the notary’s office. In larger cities, notaries acted as brokers, but in small traditional communities with tight-knit social structures, credit was more of a personal and

\(^\text{17}\) Korsholman etetäisien tuomiokunnan arkisto (VMA), Lapvärtin käräjäkunnan perukirjat, E2a:7a, 3
\(^\text{18}\) Dermineur E., Banking Before Banks, Credit and Debt in Pre-Industrial France, forthcoming.
\(^\text{20}\) Other channels of credit operated at the margins of the institutionalized credit market. Religious institutions (abbeys, convents, Mons pietatis) could extend credit and recorded the transactions in their own account books. Parish wards also extended credit. Religious institutions offered only annuities contracts, the only type of contract that was not usurious in essence. Lending and borrowing therefore existed through different channels, fulfilling different functions, meaning that the alternate circuits did not typically compete with each other.
moral matter. Even with respect to such contracts, the notary did help to standardize contracts and throughout the eighteenth century – as resort to notaries increased – we note a tendency towards greater uniformity of contracts through assimilation and habits of practice.

In cases of dispute, the local judge summoned the parties to appear at court, assessed the validity of the contract and requested its terms be enforced. If the debtor fell short and could not meet the terms of payment, the judge ordered foreclosure and an auction of the debtor’s assets. This process often proved to be quite long and costly. The judge could nominate an external party – a mediator – to help the parties reach a consensus and avoid foreclosure. In fact, many lawsuits stopped after the first hearing at court and parties preferred to resume talks and negotiations privately. It could be argued that a summons to court for the first hearing was a means to publicly shame a defaulting debtor. It acted as a tool to expose a defaulter’s “wrong” in his community, in the absence of other monitoring devices.

Despite the fact that most deeds specified a short-term repayment deadline, in practice, it took (much) longer for borrowers to repay. In other words, the initial repayment term specified in the contract mattered very little. As a result, some loans were renewed either informally or formally. Some of these loans were not even renewed before the notary, as this would have meant an additional transaction cost. But most were simply “rolled over”, as long as the interest was paid. Some of these loans could roll over to several generations, resulting in considerable on-going indebtedness.

A further commonly observed term in such contracts in France included guarantees, given the delayed nature of exchange in credit contracts and the risk of loss of capital. But even in this context, it is worth underlining the fact that in the local French credit markets, a good reputation as an honest person – having credit – was perhaps the most important form of security for the lender. A good reputation for trustworthiness mattered a great deal and enabled the debtor not only to find credit more easily but also to put fewer guarantees on the deed. In small rural communities, critical information about a person’s credit reputation was relatively easy to come by, thanks to the high degree of social proximity. And yet despite such proximity, some information about a borrower’s assets, capacities, reputation, and prior dealings (such as mortgaged assets with other creditors) could be missing. Moreover, repayment could also be hindered, delayed or become impossible because of unexpected events and external factors.

To the extent that loan contracts included guarantees, these could involve a specific mortgage in the form of land, livestock, real estate, or simply in the form of a general mortgage of all the borrower’s assets (“tous ses biens meubles et immeubles”). A co-signer might also be added to the deed. In the studied sample, collateral in the form of specific plots of land dominated the guarantees offered until the middle of the eighteenth century. We can posit that

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25 The rise of debt litigations in the eighteenth century indicates the difficulty borrowers had in repaying their debt on time.

26 D. P. Waddilove, “Mortgages in the Early-Modern Court of Chancery” (Cambridge University, 2014).

the specific plots added to the deed as collateral had been negotiated and chosen by the parties beforehand and likely without the intermediation of the notary.28

In sum, before the second half of the eighteenth century, early modern credit contracts in the studied jurisdictions demonstrate a high degree of flexibility for the parties on at least three levels. First, parties could negotiate the terms of their agreement beforehand and could skirt around the standardized or legally-imposed interest rate limit. Secondly, parties had the possibility to soften contractual repayment terms through tacit “rolling over”, whereby each side was satisfied with the on-going agreement. Finally, a degree of flexibility existed regarding the guarantees supporting loans and the function of such guarantees. Apart from providing an alternative return, also to avoid forfeiture of their lands, borrowers could offer the payment of interest in kind (linking the terms of credit to the underlying economic activity and conditions of the borrower).

By the late eighteenth century, new practices emerged in credit relationships. In France, a group of new investors stemming from the new class of civil servants turned their attention to the local credit market. Traditionally, it was the land market that primarily attracted capital. But facing a series of bad harvests, high prices and high transaction costs, this new caste of investors began to enter credit provision instead, disturbing the traditional transacting formats in such markets.29 In the nineteenth century, the first banks emerged. While it took a while before a complete switch between peer-to-peer lending and institutionalized credit materialized, private lending progressively disappeared. In Finland, this process did not occur until the eve of World War I. And yet this shift in practices, leaving behind not only peer-to-peer lending but more importantly personal ties, led to the emergence of increasingly depersonalized banking institutions. While some bank-customer relationships to some extent involved personal and local ties through branch banking, increased competition and the proliferation of novel financial products have combined with technological change to eliminate or attenuate these relational features.

South African Stokvels

Our second case study examines the “stokvel”, an informal saving and lending system, generally considered as the South African variant of a rotating saving and credit associations. It involves a group of people of prior acquaintance who regularly contribute to the saving or/and lending of money via the common pooling of resources. It is estimated that about 8.6 million South Africans belonged to a stokvel (which is approximately 23% of the adult population). The NASASA (National Stokvel Association of South Africa) estimates the number of existing stokvels at 800,000 for an economy of R49 billion.30 These figures apply to the official registration of stokvels. In practice, a larger proportion of South African are involved in such a group. For the purpose of this paper, we studied this institution in the

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28 Pledging a particular plot to the deed may be seen as a form of emotional commitment by the borrower. Historians have argued that in partible inheritance regions, peasants were not attached to specific plots but rather to the notion of possession. While this argument sounds reasonable, engaging a particular plot of land, perhaps inherited, perhaps bought, in a risky and uncertain credit transaction could have had emotional significance.


province of KwaZulu Natal, where we conducted different rounds of interviews with community leaders, rural and urban women.

The origin of rotating saving and credit associations remains uncertain. In South Africa, elders in rural Hsushuwe and Makshasa told us that reciprocity and mutual aid were features of traditional communities and belonged to a timeless tradition, part of the indigenous knowledge system, dating well before the penetration of monetization in rural areas and before the time of colonization. Just like in early modern Europe, solidarity has always been a prominent tenet of social life in these communities. Elsewhere in Africa, Asia, and South America, rotating savings and credit associations can also be found, although again the exact period of their emergence is not well-established.

For many, the term ‘stokvel’ seems to originate from the nineteenth century ‘stock fairs’. At such fairs, farmers and agricultural workers engaged not only in economic negotiations and bargains of livestock but also in socialization. Popular with rural Black communities, these meetings quickly spread and thrived also in urban areas. Grietjie Verhoef underlines that, originally, women established stokvels in the urban environment in response to their own needs and to their lack of access to formal financial institutions. Today, female stokvels continue to supplement irregular and low incomes. Another possible origin points even further back in time, to the medieval Low Countries.

A stokvel is characterized by a prior agreement between several members in the form of an oral contract or a written “constitution” establishing the rules of the game. The amount of the contribution amount, the number of participants, the purpose of the stokvel, the name of the stokvel, for instance, are either stated in writing or stated orally (in the majority of the cases we observed, the stokvels did not have a written constitution). Rules are collectively set and understood among the group’s members. The stokvel system relies on social and community-based norms featuring trust, reciprocity, solidarity and fairness. Ubuntu, described as a Pan-African norm meaning caring for each other’s well-being in a spirit of mutual support, constitutes an important cornerstone of the stokvel institution. The lack of institutional intermediation in the formation of the stokvel, as well as the conclusion of contracts or their enforcement underscores the “informal” nature of stokvels.

Enrollment to a stokvel happens upon recommendation and cooptation. Members often belong to the same community, live in the same street, frequent the same Church, or are involved in the same trade. Homophily in terms of gender, socio-professional background, ethnicity and religion constitute a critical criterion of recruitment. Some stokvels are only

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31 We met various communities in the area around Hluhluwe, lake St Lucia and around Richards Bay. We are thankful to Andile Mthembu for the translations and Helin Bäckman Kartal for her assistance with the interviews. We also would like to thank Unathi Kolanisi, Ishmael Iwara, Igor Martins, Marie-Lise Perrin and TP Kheswa who helped us to conduct and record the various interviews in this project.
35 We thank Jaco Zuijderduijn for this.
36 Ibid. p 272
reserved to women, while others featured only male members. While mixed-sex groups do exist, they seem to represent quite a small fringe of the stokvels.

Victoria, a young housekeeper in her late 20s, explained:

“the primary requirement to join our stokvel is being trustworthy (…) We look for someone that we know from this community because we must know their lifestyle. We don’t take just anyone because stokvels are all about money.”

Trustworthiness works as a collateral. To sustain this trust, most stokvels generally count about a dozen members. The type of stokvel determines its number of participants. Lending stokvels count less members, while groceries stokvels can involve up to 200 participants.

Interviewees insist on the flexibility of the stokvel system, highlighting above all opportunities for (re)-negotiation with other participants. After a stokvel meeting, Estelle stresses the negotiability feature specifically comparing borrowing money from a stokvel to that of a loan shark:

“The difference is this … today we met to resolve some of our challenges, whilst with a loan shark you might not find the money you are looking for or it might happen that you might not be able to pay the loan from the loan shark and the interest rate will be increasing. But in this stokvel you are able to negotiate with the members, and we are able to see the severity of the person’s problem and we able to come up with a solution.”

As such, stokvels are self-enforcing institutions. Strong social norms not only prevent default, but also prevent or sanction non-compliance. In case of non-compliance with the rules, members do not resort to the formal justice system (from which they historically would have been excluded). A system of fines punishes both late contributions and non-attendance to the mandatory stokvel meeting, emphasizing the importance of participation. Negotiations between the stokvel members are conducted in cases of likely default. If these talks fail, violence and ostracism may occur. An interviewee explained that if someone is not repaying the interest and the capital, sanctions have to ensue. First, some of the stokvel members are sent to negotiate with the defaulter. If the group fails to obtain either the repayment or insurance of future payments, a community disciplinary forum (called Isikebhe in Zulu) may decide to physically seize a defaulter. Our group of interviewees referred even to hanging a defaulter to a tree and whipping him as a coercion method. Such shaming is used to underline the untrustworthiness of a stokvel community member in the public eye. Based on the interviews we conducted and the existing literature, the default rate in such lending and saving groups is apparently very low.

It is important to note that we can observe innovation and contextualization also within the stokvel institution. Thus, a stokvel is characterized by its specific purpose and aims, reflecting the needs and expectations of the members. At least four major types of stokvels can be identified:

- Savings stokvel
- Investment stokvel / Building stokvel
- Groceries stokvel

37 All the names have been anonymized to protect the privacy of the interviewees.
Savings stokvels have a polymorphic character and appear to be a common variant of a saving institution. A saving stokvel could be a simple rotating system in which each member contributes the same amount of money to a common pot. Members take turn in retrieving the entire amount. In cases of emergency, members can pass their turn to let the person in need get the common pot. The ultimate goal is to save money collectively, taking advantage of the discipline and pressure of social norms. Some of these groups aim at achieving something specific, collectively, via the common savings pool. Madelaine, for example, belongs to Zisize (help yourself), a rotating stokvel which aims at savings of money to build and furnish a house. Members of this stokvel do not just pool resources collectively, they also assist each other in the actual construction of the building. Madelaine underlined that her stokvel uses the savings “productively, so we don’t just buy food”.

Some other rotating stokvels pool resources, but lend the accumulated capital to one or several members for a price. The interest rate applied varies and can be anywhere between 10 and 30%. Conditions of repayment also vary from stokvel to stokvel. The dividends collected are then distributed equally among all the contributing members. It sometimes happens that non-members are granted a loan upon the recommendation of one or several members. In such a case, the interest rate seems to be always higher. This type of stokvel is apparently incredibly popular among the Black middle-class, in particular among civil servants.

Groceries stokvels are quite common in rural South Africa. Their main function is the pooling of resources either to get a better deal from the wholesale retailer or to save money for December. Indeed, the month of December is usually perceived as the costliest month of the year because of the holidays and the subsequent start of a new school year. While most of the stokvels count a small number of participants, groceries stokvels can count as many as two hundred participants. A groceries stokvel can also involve the pooling of resources to buy consumables. Elizabeth belongs to a stokvel called Maisibambisane (let’s work together). Together with ten other women, they collectively save money for the purchase of crockery, cutlery and glassware. In her interview, she emphasized the importance of having such brand-new items at home, mostly to enhance her household’s good reputation.  

Anna, an old lady in her late 70s, is a member of a burial society named Ubumbano (solidarity). This particular stokvel provides financial assistance to its members upon the death of a relative, typically an expensive event in South Africa. Anna, who has herself lost a relative, was able to cover the costs associated with the burial thanks to her membership of this stokvel. But she also emphasises the social aspect of the stokvel. Members of Ubumbano “assist with the cleaning, help you prepare for the funeral and make sure the place is tidy before your guests arrive.” Anna considered that being a stokvel member is important “because it assists families that are in need. They get assistance in difficult times, even when you don’t have anything, you don’t have anyone and no parent or family but we make you our family. We build family.” In an estimate from 2014, 65% of the stokvel population belonged to a burial society for which the average contribution is R134 per month per member. This type of stokvel functions like the burial societies we can observe in early modern Europe, for instance, which precluded life insurance. In fact, South African burial societies are today a type of informal insurance.

Overall, one person can – and typically does – belong to several stokvels. In 2014, stokvel members belong to – on average – 1.3 groups, and a group has on average 31 persons. In absence of accurate statistics, it is difficult to fully grasp the profile of stokvel members. It seems that most members are female, Black, and financially disadvantaged. Stokvel members engage in the saving and lending of money for at least two reasons. First, for many, participating in a stokvel is a survival strategy keeping their households afloat. Secondly, the social aspect appears to be critical, not only as a social activity enabling members of the community to socialize and achieve a common purpose, but also as a means to keep their reputation (a point to which we return).

The savings injected in stokvels is sourced from both government social grants as well as from remuneration for work (both official and informal). Since the end of the Apartheid in 1995, South Africans have depended heavily on state salaries and welfare payments. In KwaZulu Natal, civil servants such as university lecturers, for instance, have started their own stokvels. Overall, the amount each member contributes varies from stokvel to stokvel. Our interviewees indicate monthly contribution ranging from R100 to R1000.

Figure 1 Percentage distribution of sources of household income in KwaZulu Natal and in South Africa, 2018 (note: a specific household can have more than one source of income. Percentages therefore do not add up to 100%). Source: [http://www.statssa.gov.za/publications/P0318/P03182018.pdf](http://www.statssa.gov.za/publications/P0318/P03182018.pdf) p 64

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41 The official current level of unemployment in South Africa is 29%. In 2018, 44,3% of the households received at least one social grant from the government. [http://www.statssa.gov.za/publications/P0318/P03182018.pdf](http://www.statssa.gov.za/publications/P0318/P03182018.pdf) p 30.
42 Social grants from the government include old age pensions, child support grant, care dependency grant, grant in aid, war veteran’s grant, foster child grant and disability grant. The child support grants are for those not earning more than R48000 per year as a single parent or R96000 per year as a married couple. The amount received is R420 a month per child. Old age pension are for people older than 60 years old, who do not earn more than R78120 (single) or R156240 (married). It is R1780 per month, R1800 for people older than 75.
While stokvels are a popular form of saving and lending system, other channels of credit coexist alongside stokvels. Mashonisas, for instance, are local unregulated moneylenders similar to payday lenders. They usually lend small amount of cash upon short-term repayment deadline with high/excessive interest rates. A recent study estimates their number to about 40,000, or 1 for 100 inhabitants in townships. Mashonisas are frequently disparaged as loan sharks. Beatrice, a 22 years old female student, refers to one particular loanshark in these terms:

“The loan sharks… I heard many stories about them. They are not good, they are abusive, and sometimes they take everything from you. Where I lived it was once a loan shark called Oskhomba. So Oskhomba was a loan shark and if you had to borrow money, even just 5000, then it was hard to pay his money. You can ask for a small money, like 3000 rand, but these 3000 rand become 10,000, 30,000, 80,000… and then after that he will go to your home and take your furniture, your car and everything from you. So when I grew up I saw that loan shark is no good, and you end up having nothing because of them…up until he died. And people were free. People were happy and they were saying they were happy because he is dead, and they were so tired of him.”

In 2018, official statistics indicated that about 65% of South Africans have a bank account. But accessing loans via a banking institution appeared exceedingly difficult for many of our respondents. Estelle, a 46 years old mother pointed that banks do not lend to those who do not work. Most of our rural respondents never had access to a loan offered by a bank. Some of them did nonetheless engage in savings and lending via stokvels.

South African banking institutions use credit scores to determine loan eligibility, such as the FICO score widely used in the US. Daniel, a 26 years old small retailer, describes borrowing from a bank as follows: “if you can’t pay in time you get a bad name when it comes to your credit. Unlike the informal stuff, there you take money from someone and you pay then whenever you can, and they don’t need your identity document and that kind of stuff. It’s easy to understand each other, it’s no law or something like that. So that’s it.”

Banks, understanding the role played by stokvels as a form of financial institution, have developed specific products targeting stokvels. Ithala, a state-owned development bank, for example, proposes deposit accounts specifically for stokvels. The manager of the bank declared: “As a banker, I feel good about stokvel because it brings business to us. Stokvel makes deposits of the lump sum to us for saving.” The bank charges stokvels to open an account and then 66 cents per R100 deposited.

Respondents not only resent the credit score system, but they are also distrustful of an institution that possibly has incentives to discriminate against them, based on the country’s long and violent history of segregation and xenophobia. Eleonore, a 43 years civil servant, thinks banks discriminate against Blacks by charging more for a loan. This is also the opinion of Sophia, a 29 years old civil servant: “I think, when it comes to bank, we are not equal…colour counts, and your race counts when it comes to banking system. (…) So the banks sometimes charge different interest rates, so it’s not fair to use them. We use them because they are the standard, and they are generally a reliable financial source, but when it comes to interest rates, they charge us differently.”
Most of our respondents showed defiance at the banking system, highlighting its lack of flexibility, its race bias, the requirement to have a good credit score, the need to show official documentation, and the fact that bank interest rates are too high. Paradoxically, while banking institutions do offer high interest rates, they are often lower compared to the ones proposed by stokvels. But as respondents told us, the stokvel interest rates go to members of the community not to a bank, therefore they perceive it differently. Their strategy may not be viewed as optimal from a self-interested point of view, but nonetheless is seen as worth pursuing from a social point of view.44

The advent and uptake of information and digital technologies has facilitated communication between stokvel members. In a country where 45% of the population is younger than 25 years old, social media and smartphones are increasingly widely used, even in rural areas. Several of our respondents used smartphone applications such as WhatsApp to communicate with their group members. Recently, the emergence of Facebook pages dedicated to stokvels has been observed. Most such pages propose membership and allude to profitable investments, but apparently in reality these proposals are often scams and Ponzi schemes. Some of our respondents discussed the online Ponzi scheme “Triple M” whose collapse in 2017 made national headlines. At the same time, however, a new generation of stokvels appear to have enthusiastically embraced new technological tools such as blockchain and cryptocurrencies.

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Table 1 Comparative features of stokvels and preindustrial peer-to-peer lending frameworks

Non-Intermediated Credit and the Moral Economy

South African stokvels and premodern peer-to-peer lending frameworks present many similar characteristics (see table 1). One of the most interesting outcomes observed in both is the low rate of default. Why do participants of informal financial transactions rarely default? On the one hand, both systems seem to rely on interpersonal connections, solidarity and trust. Tight-knit communities allow the collection of information about agents’ characteristics and repayment capabilities. Such socially available information is primarily put to work for entering the informal market and participating in exchange in the first place. The incentive not to default originates in the critical notion of obligation in the sense of duty and engagement. Defaulting on a stokvel or on a member of the community would prompt the automatic exclusion of the defaulter from future transactions and could even induce social ostracism. Honouring one’s debt comes within the scope of a collective social and economic contract guarded by social institutions such as the family, the village, or the Church group. Note however that there is a perceived mutual obligation, given the accommodating response by lenders to the borrower’s problems in repaying. This prompts some social scientists to recently refer to an economy of obligation rather than a moral economy.45

The social autoregulation and collective discipline can be observed in South Africa through its stokvels, in informal credit markets in preindustrial Europe, but also in nineteenth century German rural credit cooperatives.46 There, farmers pooled resources in similar fashion to the stokvel, while also witnessing low rates of default. By contrast, in nineteenth century, Ireland, inspired by the success of the German cooperatives, rural cooperatives were launched. But contrary to Germany, the capital was injected by the Irish government not by the farmers themselves. The borrowers were not risking the savings of their neighbours but impersonal funds. The experience has been judged a failure.47

The pressure from social institutions such as the village or the family is also used by microcredit agencies. Microcredit banks recognize the importance of social norms and often prefer to extend loans to groups. In China, for example, Becky Hsu studied microcredit agencies lending to an entire village.48 There, the political leader of the community is held responsible in case of default of one of his fellow villagers. This form of an “entire village lending system” had better repayment rates compared to schemes in which agencies lent to smaller groups. The suggested explanation lies in the relations of power. Instead of being horizontal, the relation of power in this example is in fact vertical. Fearing both social ostracism and the coercion of the local government, borrowers were prompt in repaying their dues. A similar type of relation of power was in place in the middle ages with what Avner Greif coined as the Community Responsibility System, a system enabling contracts to be

47 Timothy W. Guinnane, A Failed Institutional Transplant: Raiffeisen's Credit Cooperatives in Ireland, 1894-1914, Explorations in Economic History, Volume 31, Issue 1, 1994, Pages 38-61
enforced even between merchants engaged in long distance trade.\textsuperscript{49} Before the rise of an efficient legal system provided by the state, impersonal exchange did function because of this collective peer pressure. A citizen of a Western European city was considered liable for the unrepaid debt owned by another citizen of the same city (usually a merchant) in another town. Travelling could mean being physically seized and deprived of one’s property on behalf of one’s neighbours. Evidently, this system pre-supposed a sense of community belonging. In fact, the community responsibility system has not totally disappeared and is the essence of the blockchain technology used in financial transactions.

A further contrast to the within-community non-intermediated credit relationships presented in the case studies above is provided by drawing on a recently decided case in the High Court of Australia. In \textit{Australian Securities and Investments Commission v Kobelt},\textsuperscript{50} the court considered the “book up” credit system provided by Kobelt to members of a remote community of Australian Aborigines. Kobelt (who was not a member of the Aboriginal community) owned a general store in remote northern South Australia, where he sold goods on credit to both Aboriginal and non-Aboriginal customers. Customers at Kobelt’s store could buy every day items (such as food), as well as more elaborate items, such as second hand cars. Many purchases were made on credit, though the credit arrangements were not formally recorded: Kobelt had a fairly rudimentary and chaotic system of recording the amount owed by each customer. By way of security, (only) the Aboriginal customers would hand over their bank account debit card to Kobelt, as well as disclosing to him their card pin number.

The main source of income for members of the community were government welfare payments. On the day on which each customer received their payment, Kobelt would withdraw the entire amount, putting half of it towards a customer’s existing debt. While the customers were in theory “free to use” the other half of their welfare payment, they could do so either by buying goods at Kobelt’s store, or he could issue – at his discretion – the customer a money order to use to purchase goods in another store, for which the (typically low income) customer would be charged between $5 and $10.

The Aboriginal customers apparently readily and willingly participated in this system of credit, even if it left them locked into a relationship with Kobelt. The evidence before the court was that Kobelt had withdrawn a total of $1 million over 2 years from the accounts of his Aboriginal customers. The effective interest rate he charged such customers was anywhere between 20-40% when they bought second hand vehicles, much higher than prevailing lending interest rates. The Aboriginal customers needed to purchase the vehicles in order to be able to maintain their relationships with distant community members in a remote area of the country, even if the cars were relatively expensive and of poor quality, typically breaking down after relatively short periods of time.

The indigenous customers’ relationship with Kobelt was not acrimonious and in fact the court emphasised the fact that they seemed to willingly take advantage of his extension of credit.

\textsuperscript{50} [2019] HCA 18.
The court found that the customers understood how the book up system worked and could not easily access credit in any other way. Moreover, they had means through which to opt out of the system, at the very least by cancelling their debit card with their bank, though they never did so. Moreover, evidence from an anthropologist was adduced, which the court accepted as demonstrating that Kobelt’s system of credit was advantageous to the indigenous customers, because it alleviated the pressure of two community practices. The first supposed advantage was that Kobelt’s system of credit allowed indigenous customers to smooth their consumption over the month, compared to the “boom/bust cycle” generated by their tendency to spend most or all of their money after it was received. Further, the court found that this form of credit provision alleviated the pressure of the community norm of sharing (ie, when a member of the community has resources, this social norm means that they are expected to share them within the community).

A majority of the court, in light of the above evidence, found that Kobelt’s system of credit for indigenous communities (which was different from the forms of credit he extended to non-indigenous customers) was not unconscionable within the meaning of the relevant legislation. Given that the Aboriginal customers were aware of the terms of credit broadly speaking and participated in it voluntarily (though in the absence of any other credit options), Kobelt had not unconscionably taken advantage of them despite the substantively harsh terms on which credit was extended to them.

In reaching their decision, a number of justices considered the issue of whether “moral taint” or “moral obloquy” was necessary in order for a finding that the market conduct was unconscionable under the statute. Most of the judges considered the presence or absence of moral taint as relevant to the analysis of whether Kobelt’s credit system was unconscionable. Even Gaegler J, who thought that the reference to “moral obloquy” was arcane language, thought that the appropriate standard is “that conduct proscribed by the section as unconscionable is conduct that is so far outside societal norms of acceptable commercial behaviour as to warrant condemnation as conduct that is offensive to conscience”. The problem of course is that the reference to societal or community norms simply leads to the question of which is the relevant community. The court recognised that Kobelt’s credit system would not have been acceptable to his non-indigenous customers. Indigenous customers accepted it because they had no other options and they needed the second-hand cars to maintain intra-community and kin relationships. Moreover, the system was said to “save” such customers from the pressure of their community’s norm for sharing, albeit by constraining them to spend their income at Kobelt’s store.

The foregoing discussion squarely poses the question of whether one can speak of moral constraints on behaviour at least in credit markets only within fairly close-knit homogeneous communities with pre-existing ties of kinship and sources of relational trust.

**Lessons for regulating financial intermediation?**

Turning our attention to contemporary financial markets, the question of the non-legal constraints on the behaviour of financial market actors has become a key focus of both scholars and policy-makers in the aftermath of the financial crisis. In discussing the pathologies of banking conduct with specific reference to the credit and securitisation practices that led to the US sub-prime mortgage problems, Allen argues that “financial crises result from everyday activities performed by large swathes of the financial industry in an
attempt to maximise short term profits”. Moreover, she argues that legal constraints – including new regulations – would be insufficient to prevent destabilising behaviour unless participants in the industry “view themselves as stewards of financial stability who are willing to make some sacrifices for the greater good”. As such, Allen argues that it is necessary to reform financial industry culture by engendering “other-regarding norms” in the intermediation process. Similarly, financial regulators from different jurisdictions have made it their objective to go beyond existing paradigms of regulatory intervention with the aim of rebuilding trust between society and financial service providers which necessitates imposing a “responsibility of treating customers fairly”. Allen’s prescriptions do not focus on developing legal or incentive-compatible mechanisms that constrain pathological behaviour among financial intermediaries, but instead on “changing the norms that characterise financial industry culture”, including business school reform, corporate governance reforms (of corporate boards and corporate compliance departments) as well as reform of self-regulation.

What lessons, if any, does the case study material provide for imbuing moral economy principles into contemporary finance? That to some extent depends on our interpretation of the interaction of social, moral and economic forces in producing sustainable credit relationships. One interpretation of the case study material presented is that other-regarding behaviour in the non-intermediated credit relationships studied presupposes pre-existing social or kinship ties in small communities. An alternative (though not totally inconsistent) interpretation is that the relationships are structured in a way that parties have “skin in the game” whenever credit is extended, so that applying moral principles in the extension and accommodation of credit is relationship-preserving as well as to some extent incentive-compatible.

Our conclusions thus far are quite tentative and we look forward to discussions and feedback.

52 Ibid, 864.
54 Allen, p. 888.