



Research Article

Volume-02|Issue-01|2021

An Assessment of the Socio-Economic Impact of Usury in Ethiopia: The Case of Aira Woreda, West Wollega Zone, Oromia Regional State

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Article History

Received: 29.12.2020

Accepted: 14.01.2021

Published: 30.01.2021

Citation

Kitila, G. F. (2020). An Assessment of the Socio-Economic Impact of Usury in Ethiopia: The Case of Aira Woreda, West Wollega Zone, Oromia Regional State. *Indiana Journal of Arts & Literature*, 2(1), 8-33

Abstract: *Usury is a practice of lending money with exorbitant or abusive rates of interest which illegally enrich the usurers. Usury is now a day's become a serious problem in economic activities across the globe and it is one of the contributing factors for fluctuations of economy and obstacle in economic development; especially in the third world countries. Usury is abstract mechanisms which dry out the interaction between supply and demand and affect the socio-economic life of the society. This study is aimed to assess the socio-economic impact of Usury in Ethiopia by taking Aira Woreda as a case which found in Oromia region West Wellega Zone; With the specific objectives of investigating mechanisms of practicing usury, identifying major causes of usury, examining the socio-economic effect of usury and identifying the major challenges that faces the eradication or elimination of usury. The investigator used exploratory case study type of research design and mixed method is employed as the research strategy. The data were collected from both primary and secondary sources. The primary data for this study was collected from 207 respondents which were selected by applying systematic sampling techniques using survey questionnaires and in depth interview was conducted with 8 individuals who were affected with usury by identifying them through snow-ball technique. The study applied both qualitative and quantitative methods of data analysis to interpret the result of the study. The study's finding shows that; usury is accepted as a normal practice and loan is easily obtained through usury than formal loan. Traders, farmers, government and NGO workers are engaged in usury activity in study area. Furthermore the study shows lack of access of formal loan and inability to fulfill requirements of MFI are major causes of usury. In addition this study indicated that brokers are the most mediators between borrowers and usurers and this usury has negative impact on social and economic life of the community and result in expropriation of assets of poor by usurer. Based on the findings of the study, the impacts of usury on socio-economy of the community are identified. As recommendation different government institution and NGO should focus on creating the awareness of the society on the effect of usury. In addition justice sectors should entertain loan contract in line with anti-usury measure. In general this study shows that the impact of usury significantly affects the socio-economy of the society.*

Keywords: *Loan Shark, Riba, Usurer, Usury.*

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INTRODUCTION

Background of the Study

Usury is a practice of lending money with exorbitant or abusive rates of interest. It is the practice of loan which is categorized under immoral or unethical loans that unfairly enrich the lender. In the past, usury was defined as interest of any kind including loan with less than official interest rate. Now a day, loan is considered as usurious because of excessive or abusive interest rates. In different religious institution charging any interest at all would be considered as usury around the globe. Those organizations and individuals who practices usury can be known as usurer, but a more common name is loan shark. In most part of our world charging any interest for loans was regarded as sinful in many religions. India was the first country to condemn the usury. In case of religion different religious text of

Buddhism, Judaism, Christianity, and Islam condemned the practice of usury. In ancient time few nations like; Greece and Rome have outlawed loans with any interest; but during the Roman Empire interest was allowed with carefully restricted interest rates. In medieval period the Catholic Church legally prohibited any kind of interest charge. Any kinds of interest were restricted with laws and religious thoughts in an ancient time. In Greece the known philosopher Aristotle strongly argued that money should be sterile. He considered the breeding of money from money was unnatural and unjust. During the period of the Roman Republic interest charges were forbidden but they were permitted during the time of Roman Empire. During the middle age different scholars treated the subject of interest and usury more thoroughly reached on conclusion that loan on interest was unjust (Bowsher, 1974).

According to Norunn (2005) usury demonstrate extremely high informal interest rates charged on loans to poor individuals. In developing countries; the poor individuals were under the monopoly power of informal lenders; and the rural and urban credit programs were intended to break the monopoly power of informal lenders in the credit markets. The intention of the government was to decrease the informal interest rates. But, these policies do not improved the credit terms for the poorest households in rural and urban areas. Accessibility to credit plays a vital role on the overall economic development and on poverty eradication of one country.

Since 1991, the government of Ethiopia has given special emphasis to improve access to finance, through policies such as priority to sector lending (lending to agriculture, small-scale and village industries, etc.), and spread of bank and MFI branches to rural areas. Notwithstanding such endeavors, a large percentage of households in Ethiopia still borrow from informal credit markets including usury (Degefe, 2009).

In Ethiopia the FDRE Criminal Code of 2005 stated the term usury. Especially article 712 says:

“Whoever, by exploiting a person's reduced circumstances or dependency, material difficulties, or carelessness, inexperience, weak character or mind lends him/her money at a rate exceeding the official rate; or obtains a promise or assignment of benefits in property in exchange for pecuniary or other consideration, which is in evident disproportion, shall be punishable, according to the gravity of the case, with simple imprisonment, or with rigorous imprisonment not exceeding five years, and fine. In addition whoever, with a similar intent, acquires a usurious claim and sets it up against or assigns it to another, shall be liable to the same punishments” (FDRE, 2005).

According to Ethiopian Criminal Code of 2005 the usury is interpreted as any loan which is given with exceeding official interest rate based on the social, economic and personality or healthy problems of the individuals who take a loan. It also includes promising to get or taking property which has high value than the actual money given as a loan.

In addition article 2479 of Ethiopian Civil Code of 1960 clearly states that:

- ***The parties may not stipulate a rate of interest exceeding twelve percent per annum.***
- ***Where it has been agreed that the loan will bear interest but a higher rate has not been fixed in writing, the borrower shall owe interest at the rate of nine per cent per annum.***
- ***The borrower shall also owe interest at the rate of nine per cent per annum where a rate***

exceeding twelve per cent per annum has been agreed in writing.

This provision clearly limits the interest rate of loan. It shows that the interest rate should not be abusive and exorbitant and should not be greater than 12% percent per annum. In addition the individuals should not make a loan contract to pay more interests by their free will; if they do, it will be null and void (*Eth. Civ. C, 1960*).

These criminal and civil codes provisions indicate that giving loan with higher interest rate which we call it usury is legally prohibited in Ethiopia. But in our country under the umbrella of interest free loan some people practice usury; especially by exploiting the individuals' reduced circumstances and material difficulties. According to Reporter Newspaper July 22, 2017 report, the usury crime was committed under the umbrella of interest free loan by different mechanisms. The Case of Addis View Hotel owner Ato Abiy Abera, which is recently in July 2017 suspected with usury profit of 18 million ETB and investigated with Federal Police in Addis Ababa, can be sited as one indicator for existence of usury in Ethiopia. In Study area because of the economic difficulties of individuals; peoples are practicing usury in different mechanisms as it is identified by preliminary observation of the investigator. So the purpose of this study is to assess the socio-economic impact of usury or loan with exorbitant rate of interest which is given by traditional money lenders or loan sharks.

Statement of the Problem

Usury has now a day's become a serious problem in economic activities across the globe and it is one of the contributing factors for fluctuations of economy and obstacle in economic development especially in the third world countries. It is an abstract mechanism which dried out the interaction between supply and demand. When supply and demand is not balance in the market; money becomes self-perpetuating in itself rather than just a mediating agent and it decreases return from investment. The usury acts as a mechanism by which the rich get richer and the poor get poorer. The main objection to usury is that it is an endemic factor in the instability of economies, i.e. the cycles of boom, bust and recession (McIntosh, 1998).

The informal credit market is very heterogeneous and is always a component of the prevailing political, economic, and social relations network, involving additional transaction costs for credit supply. The informal credit market couldn't satisfy and met the demand of the society; especially for sectors that were directly productive. In Ethiopia legally as well as socially “Arata Abedari” is prohibited. The 1960 Ethiopian civil code and the 2005 Ethiopian criminal code declared usury as an illegal and punishable by law.

In Ethiopia still moneylenders (usurer) have persisted under the umbrella of interest free lending, in which the contract between the borrower and lender states only the amount due from the borrower at a specified future date. As Degefe, 2009 stated, in western part of Oromia, money continues to be lent for the next harvests where agreement between farmer and lender fix the price in advance as sales at discount with implicit interest rate. Money lenders also provide short term loans collectible in cash. Money lenders; in rural and urban area charges higher interest rate which is greater than the official interest rate. Currently poor households borrow from private moneylenders mostly for consumption or when there are problems of meeting social or financial obligations. The interest rates charged by moneylenders are exorbitant up to 240%, thus it is difficult for borrower to pay back the loan. Even though usury is legally prohibited in Ethiopia; it is practiced as a legal activity and resulted in many social and economic problems particularly in western parts of Oromia (Degefe, 2009).

Preliminary observation by the investigator indicates that, in Aira woreda (which is found in Western Oromia) usury is practiced in different mechanisms; because this woreda is known with cash-crop like coffee. People living in the study area during summer season especially farmers have taken money from traders as a loan before the coffee is collected to pay back in kind (with coffee) in very low price after the coffee is harvested. Also there are circumstances in which individuals give coffee farm to lender, when there is shortage of money to pay back loan with higher interest. In addition on market day, daily based loan is practiced with high interest; this means in the morning some people take money as a loan from rich or traders for business activity to pay back in the evening after transaction; with high interest. This indicates that the usury is a common practice in Aira Woreda.

In general paying back the loan with high interest in kind and cash may influence the social and economic status of the individuals and community as a whole; which may farther affect the country's economy depending on how prevalent it is practiced across the board. In our country, even though the laws clearly prohibits usury; it is practiced under the umbrella of interest free loan but as far as review of related literature by the investigator is concerned, no research had been conducted on the issues of usury in the selected study area. So this research was conducted to assess the socio-economic impact of usury and to recommend the solutions.

OBJECTIVES OF THE STUDY

General Objective of the study

The general objective of this study is to assess the socio-economic impact of usury in Aira Woreda West Wollega Zone Oromia Regional State.

Specific Objectives of the study

On the basis of the above general objective, this study has the following specific objectives.

- To investigate mechanisms of practicing usury in Aira Woreda.
- To identify major causes of usury in Study area.
- To examine the socio-economic effect of usury in study area.
- To identify the major challenges that faces the eradication of usury in study area.

Research Questions

To assess the socio-economic impact of usury, this study targets Oromia regional state, West Wollega Zone, Aira Woreda residents as survey participants. In order to achieve the intended objectives of the study and to address the research problem properly, certain research questions are designed accordingly:

- To what extent does the practice of usury is prevalent in the society specifically in Aira?
- What are the mechanisms of practicing usury in Aira Woreda?
- What are the major causes of usury in study area?
- What are the social and economic effects of usury in study area?
- What are the challenges in fighting against usury in study area?

Significance of the Study

The finding of the study is useful in many ways and too many parties. The results of the study help the community in general and the business community and farmers in particular. This study aims at identifying the socio-economic effect of usury and suggesting the possible solution to eradicate usury. It suggests the community to abstain themselves from practicing usury.

The inaccessibility of credit from the formal sector is resulted in depletion of productive assets of the poor individuals; assets used as collateral are transferred from the poor to loan sharks, and households may become impoverished. Therefore, the findings of the research will have great policy use. Thus, the result of the study would be useful to design new options and new institutional structures that would serve as an input for policy makers in formulating credit policy. To be specific, this study will help in making decisions with regard to fast tracking policy dimensions that help the facilitation of microfinance institutions and the effective operation as well as supervision of financial services institutions. The other important benefit that the findings of this study will have is; its contribution to knowledge building and academic research by helping other researchers to undertake a further detailed investigation on the subject and providing relevant empirical evidences. Also the findings will help the legislatives, Judiciaries and executives to enact interpret and execute law, policy and strategy which have a direct relation with the issue of usury.

LIMITATION AND DELIMITATION OF THE STUDY

Limitation of the Study

The potential limitation in conducting this study was; lack of relevant and exhausted related research works on the subject. The other important limiting factor was worth of mentioning unrelated ideas with the participants of the study. Most of the participants had not clear understanding about the intents of the study and there were inherent risk of reservations in full participation, due to the high sensitivity when it comes to criminal matters. The participants were reserved to participate because of the usury issue directly related with the criminal investigation. Lastly time and budget constraint was the basic limitation of this study.

Delimitation of the Study

The scope of this study was delimited to only assessing the socio- economic impacts of usury by taking Aira Woreda as survey participants. This study was delimited to traders and farmers because in study area most of the time these two groups are engaged in practicing usury as it was identified by the preliminary observation of the investigator. The other part of the community was left for other researchers. The study was not included the political dimensions of usury.

Organization of the Paper

This paper is organized in to five chapters. The first chapter consists of Introduction, which includes the background, statement of the problem; research Questions, objectives, the scope and limitation and significance of the study. The second chapter deals with review of literature both theoretical and empirical ones. In the third chapter, the adoption of methodology for this research is presented. The fourth chapter deals with data description and analysis. Finally, chapter five contains conclusions, recommendations and further research areas.

REVIEW OF RELATED LITERATURES

Conceptual Frame work

The concept of usury has been referred to the practice of charging financial interest in excess of the principal amount of a loan. In addition in some instances, it has been interpreted as interest above the legal and socially acceptable rate. According to Jain (1929) the practice of usury has been condemned, prohibited, scorned and restricted, by moral, ethical, religious and legal grounds. The most dominant critics of usury have been propagated by religious institutions of Hinduism, Buddhism, Judaism, Islam and Christianity. In general terms usury is the practice of charging, taking, or contracting to receive excessive or illegal rates of interest for money on loan. Up to the sixteenth century, however, the word was generally used to mean any kind of interest charged for a loan of

money or property. In the past few years most industrialized countries were highly decreased the formal interest rate in financial system. In addition some developing countries were liberalized their financial policies. The rationale for these changes was that making financial markets more accessible has a positive impact on growth, productivity, and poverty reduction and to decrease the informal credit market (Jain, 1929).

In addition usury laws for controlling and implementing interest rate have a long history going back to ancient times. Some countries have been using usury laws since many years such as from Europe France (1935), from Asia Japan (1954), and from Africa Namibia (1968). Similarly, these laws are incorporated in criminal and civil codes. For instances; Malta's civil code which was proclaimed in 1868 prohibited Usury and Poland introduced interest rate regulations on loans through its civil code in 2005. The United Kingdom has enacted a law which prohibits interest rates since 1979, while Ireland and Myanmar has used the legislation since 2012. Other legal instruments, which were used to limit the consumer credit, are also in use: Spain since 1995 and Australia since 2009. Bangladesh (2010)) and most Asian countries have regulated the maximum interest rates that microfinance institutions can charge through microfinance laws. Across the world different countries have different laws to control the official interest rate and to control the practice of usury (Gallegos, 2014).

Usury is the activity of making unethical or immoral loans that result in unlawful enrichment of the lender. At the beginning, any kind of interest including loan with less than official rate was considered as usury. Even though different definitions were given for usury, recently it is defined as a loan with excessive or abusive interest rates. (<https://www.herald.co.zw/impact-of-microfinance-interest-rates>).

According to preliminary observation of the investigator; usury may be caused by lack of credit opportunity and access to microfinance institution. In addition the MFI most of the time gives loan in group which leads to equal share of the risk in case of default. Thus; usury has its own impacts on social and economy of the community. The economic impacts are exorbitant of interest rate which is difficult to pay back the loan for lenders and when the borrower fails to pay back the loan the lender may took the movable and immovable property in kind which was given as collateral. As it was observed by the investigator in study area this may result in commission of crime for revenge by the family and relatives of person who affected by usury and also there are disagreement between family members especially result in divorce. Hence, based on the above explanations and the investigators preliminary observation and knowledge of usury's impact in the study area; the following conceptual framework is

designed to show the cause and socio-economic impact of usury in the study area.

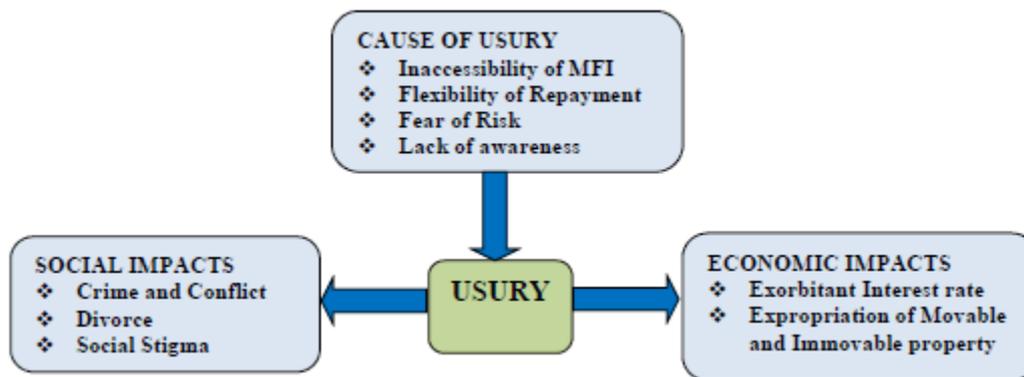


Figure 1. Conceptual Framework
Source: Own Sketch

RELIGIOUS CONTEXT OF USURY

Biblical Context of Usury

Across the globe; most Christian writers condemned the practice of charging high interest on loans. Tertullian, Clement of Alexandria, Basil the Great, and others could all be cited in this regard; but none was more specific in his denunciation of charging interest than Ambrose of Milan. He wrote, “If a man has need of assistance because he has not enough of his own wherewith to repay a debt, and if the individual has nothing to pay and survive; it is strictly forbidden for the lender to expect repayment from him”. Similarly Augustine, though more enlightened than many of his contemporaries on many economic issues such as profits in business transactions, condemned usury outright. He argues that; lend not money at interest. One who does so will go into the flame. This all came from a straightforward reading of the Old Testament texts (McIntosh, 1998).

The ancient and medieval Roman Catholicism was strongly oppose any interest charged on loans for any reason. The Catholic Church in the sixteenth century, changes were already in the offing on the issue of usury by Calvin. Calvin (1509-1564) taught and wrote, not as an economist or political theorist, but as a pastor and a theologian. For him, economic life was part of the fallen world, which meant that borrowers might default on their loans. Calvin recognized that usury was clearly subject to abuse the poor in the form of exorbitant interest. He argued that all forms of interest should not be condemned. Calvin knew well that professional moneylenders extorted immoral sums from economically weak people. He also urged that there should be exceptions to the charging of interest; “It is always wrong to exact usury from a poor man.” Like all activities in a Christian commonwealth lending practices should be governed by love. The Christ only wished that the faithful in lending should go further than profane men. Martin Luther (AD 1483-1546) did not share Calvin’s views; he opposed all forms of usury.

In the Western world of today, there are mortgages, car loans, credit cards, and various other

situations in which a lender places financial resources into the hands of people and situations where people place their money with institutions that use it for investment, with the promise that investors will receive it back with high interest. Everyone wants to borrow money at the lowest interest rates, and everyone wishes to receive the highest return on investments. So people shop and invest as wisely as possible (*Ibid*).

Generally in the Bible the usury issue is stated in different parts. There are some texts in the Old Testament which directly deal with the issue of usury. While the New Testament does not address the issue directly, there are at least some texts in which interest issues are indirectly addressed. These Old Testament texts are:

Exodus 22:25: ‘If you lend money to one of my people among you who is needy, do not treat it like a business deal; charge no interest.’

Leviticus 25: 35-37: If any of your fellow Israelites become poor and are unable to support themselves among you, help them as you would a foreigner and stranger, so they can continue to live among you. Do not take interest or any profit from them, but fear your God, so that they may continue to live among you. You must not lend them money at interest or sell them food at a profit.

Deuteronomy 23:19 - 20: ‘Do not charge a fellow Israelite interest, whether on money or food or anything else that may earn interest. You may charge a foreigner interest, but not a fellow Israelite, so that the LORD your God may bless you in everything.’

Even though the prohibition against charging interest on loans was limited to fellow Israelites, a universalizing tendency in Christian theology eventually extended the protection against charging interest to all with whom one had financial dealings. The New Testament provided an explicit warrant for such a broadening of the claim in **Luke 6:35:** “But love your enemies, do well, and lend, expecting nothing in return. Your reward will be great, and you will be

children of the Most High; for he is kind to the ungrateful and the wicked.” (HB NIV, 1984).

Gradually, the church had changing and modifying the view of strict prohibition against all interest. From the time of Aristotle, whose influence on Christian thinking was great in this area as well as in many others, money was regarded as sterile and unproductive, so that it seemed a perversion of the natural order of things to charge for its use. With the early developments of capitalist economies, money came to be seen as highly productive and thus the charging of interest seemed less out of accord with the nature of things. Working in this changing economic context, John Calvin came to believe that usury (charging interest on loans) was acceptable among the rich, but was explicitly constrained when it came to burdening and oppressing poor debtors and he argued that usury is not unlawful, except in so far as it contravenes equity and brotherly union. According to Calvin's idea usury would be accepted based on two limits. The first limit had to fix the amount of interest rate, likely in accordance with some version of the golden rule and the spirit of equity and solidarity. The second limit had to do with the prohibition of charging interest to the poor. Those who experienced the greatest amount of economic distress were to be afforded the greatest amount of protection in economic transactions. Loans were becoming categorized in two ways, those that were a matter of economic necessity for the poor and financially stressed (for which charging interest was not appropriate) and those that were a matter of mutual economic opportunity by which transaction both the borrower and lender might improve their economic circumstances (for which charging reasonable rates of interest was appropriate (http://officeofpublicwitness.blogspot.com/2016/03/rend-nelson-joins-faith-call-to_17.html)).

In the 1560s the reformed theological transited the prohibition of all forms of interest to the prohibition of exorbitant interest. Charging interest was accepted based on whether it harmed the borrower or not. In the case of the poor, charging interest obviously caused harm. Three overlapping distinctions came to be made in dialogue with the scriptural sources pertaining to usury: Gifts to those in need where even the money given was not expected in return; loans to those in economic distress where the money given was to be repaid but without interest; and loans to those undertaking business enterprises in pursuit of economic gain where socially acceptable interest rate may justly be charged (*Ibid*).

Quran Context on Usury

The Shariah of Islam makes no dissimilarity between interest and usury and there is no difference of opinion among Muslims that usury (riba) is clearly prohibited by both the Qur'an and Sunnah. There are several reasons for the prohibition of riba in the Quran

which is Surah Al-Rum-39, Surah Al-Nisa-161, Surah Al-Imran 130-2 and Surah Al-Baqarah 275-281. Riba causes various evils such as moral, social and economic evils. In the Holy Qur'an, the word riba has been mentioned on several occasions. The word "riba" extracted from the Arabic word "raba", it means addition or increase. So, literally riba means increase, addition, growth or augmentation. Since the Prophet Mohammed's life, the criticism of usury in Islam was well established and reinforced by several of his teachings in the Holy Quran. The Quran evidence and condemnation on the concept and practice of riba is clear and supported by Muslim society. However, particularly the Muslims today who are satisfied in their ignorance and unconcern are probably still and continue to live their lives in and around the system, which is abhorred by God. O you who believe, beware of God, and refrain from all outstanding gains from usury, if you are truly believers. Because of this reason most Muslim followers are not even take interest from banks; they are using interest free banking system. In Muslim, usury can be defined as the act of transgressing the bounds, and limits of charity and loan set by God, with the intention to cheat, and seeking gains from God's commandment or purely social obligation. According to Quran any profits and earnings derived from unfair interest are usurious, and prohibited; whether it is one per cent or 50 per cent, Islam forbids taking of interest in all its forms. In Islam, interest comes under the category of riba, or usury. A Muslim is not allowed to receive, pay or witness interest payment (Jamul, 2014).

The Quran prohibits riba unambiguously and denounces this practice as being unjust and exploitative. Riba is prohibited because it prevents people from undertaking real economic activities. This is because when a person having money is allowed to earn more money on the basis of interest, either in spot or deferred transactions, it becomes easy for him to earn without bothering himself to take pains in real economic activities. This leads to hampering the real interests of humanity, because the interests of humanity cannot be safeguarded without real trade skills, industry and construction (Neelam, 2008).

Usury in Modern Reformist Thinking

Some modern economists strongly support controlling of usury. Adam Smith the Father of the Free-market Capitalism and advocator of laissez-fair economy strongly support controlling of usury while he opposed a complete prohibition of interest. Thus, he argued that all individual should get the opportunity of credit without the discrimination of economical background (Smith, 1937).

The great twentieth-century economist John Maynard Keynes also argued that the rate of interest would be kept down by using moral laws and customs of the community with believing that the disquisitions of the schoolmen on usury were directed towards

elucidation of a formula which should allow the schedule of the marginal efficiency to be high; so that a wise government is concerned to curb it by statute and custom and even by invoking the sanctions of the Moral Law. Another less well-known anti-usury economic reformist was Silvio Gesell (1904). Gesell, as a successful nineteenth-century merchant in Germany and Argentina, condemned interest on the basis that his sales were more often related to the price of money (i.e. interest) than people's needs or the quality of his products. Margrit Kennedy, a German professor at the University of Hanover, is one of the most vocal contemporary critics of interest; she builds on Gesell's ideas, believing that high interest acts like cancer in our social structure. She takes up the cause for interest and inflation-free money by suggesting a modification of banking practice to incorporate a circulation fee on money, acting somewhat like a negative interest rate mechanism. Finally, another school of modern interest critics have their roots in the complementary work of several socio-economic reformists of the early twentieth century, namely Douglas (1924), Fisher (1933), and Soddy (1926). Their chief common premise was that it is completely wrong and unacceptable for commercial banks to hold a monopoly on the money or credit creation process. For banks then to charge interest (including to government) on money which they had in the first place created out of nothing, having suffered no opportunity cost or sacrifice, amounted to nothing less than immoral and fraudulent practice (Ibid).

The distribution of wealth in a society becomes inequitable due to high interest. Usury is an overhead

charge which does not form part of any factor of production. Interest is received by the capitalist who continues the use of his wealth to earn more wealth. This causes an unjust distribution of wealth in the society. In this way the rich in the society get richer and the poor, poorer. Research shows that around sixty per cent of world's resources are controlled and consumed by the twenty per cent rich (Muhammad, 2012).

Usury has been prohibited by law to prevent exploitation. The usury (riba) known for a long time and had been one of the most merciless unjust income appeared with the reason of postponing debt and this means whereby payee exploited their debtor in needs. Therefore, higher interest-based loans result to the exploitation of the poor and the needy as it fallout in more poverty, by reducing their future earnings. On the other hand, these high interest-based loans or usury make the rich creditors richer and add to their future earnings (Ali, 2008). A high rate of interest creates conditions of extreme uncertainty in investment market. Gesell's (1904) state that main objection to interest is that it is a prevalent factor in the volatility of interest-based economies, are the recession, cycles of boom and bust and recovery. Kennedy (1995), suggesting that the inflation may in fact cause by compounded growth of interest. An appreciation in invested monetary capital will results in compound interest, hence it is assumed rational for people to rather having a particular amount of currency now than the same amount in the future (Ibid). Based on the above literatures; usury and formal loans are compared as follows.

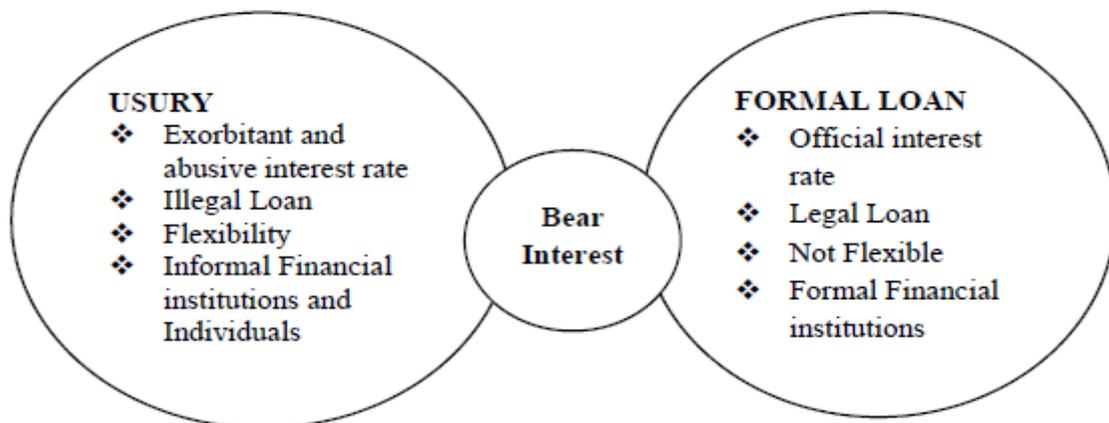


Figure 2. Similarities and Dissimilarities of Usury and Formal Loan

Source: Own Sketch

EMPIRICAL LITERATURE REVIEW

Usury in Ethiopia

Ethiopia is a country which has her own financial system. There are some individuals who went to earn money in illegal ways to cover their income gap and accumulate capital. In Ethiopia loans from traditional moneylenders (Arata Abedari) are comparatively give short-term loan which usually exploit the poor through interest and unfair seizure of

collateral. A survey by the National Bank of Ethiopia (1996) concluded that CBE have not fill the demand of credit for small farmers. The financial services provided to small and micro-enterprises in rural and urban areas, therefore, mostly originated from the informal financial sector such as Iqqub, moneylenders and friends (NBE, 1996).

The informal financial sources do not generate enough and affordable finance for business to stimulate economic development. In particular, the individual moneylender (the Arata Abedari) is extremely expensive, and is only resorted to in the absence of any alternative. In this case borrowers are required to provide guarantors and the interest rate is excessively high. The annual interest rates that the money lenders charged were estimated to range from 60% to 120% in Ethiopia. On the other hand the non-formal sources in Ethiopia include friends and relatives (66 percent), moneylenders (14 percent), Iddir (7 percent) and others (13 percent) (Getaneh, 2005).

According to Sisay (2008), the major source of finance for rural and urban community is informal loan. The informal lenders have easy access to information about their borrowers with whom they have social relations. This permits credit contracts more direct to enforce repayment even through social capital like arbitration. Also, in informal loan most of the time collateral is rarely used to meet the need of the community that cannot be met by the formal financial institutions. Despite its flexibility, rapidity and transparency of procedures, the interest rates charged on these loans are often exorbitant. These money lenders are private moneylenders, friends and relatives, neighbors, Equbs and Iddirs (Sisay, 2008).

Until the the beginning of twentieth century the money lender (known as arata- abadari) has been active in Ethiopia and it was the only source of loan. The financial operations of moneylenders are simple, cost effective, and flexible compared to that of the formal financial system. Interest rates, which are never stated in the agreement made with the borrower, are influenced by the extent of personal relations, degree of risk involved, availability of funds in the community, length of the maturity period and extent of competition from the formal financial market. In some cases, the credit market is interlinked with product market. According to Mauri (1987) in cash crop areas of the country like coffee producing districts around Jimma and Gore, the merchant lenders pay the cultivators a sum of money, which represents both a loan and an advance payment for the purchase of a given quantity of coffee to be produced after the next harvest. The price of coffee is determined by the merchant lender in the advance payment based on the price of the previous harvest or of the estimated price of the next one duly discounted. This is also common in other crop producing areas of the country. There is no adequate information on the size of the interest rate. According to a survey undertaken it ranged from 24-90 percent per year. The bank's lending interest rate varied from 4.5 - 9.5 percent per year depending upon the type of project and the borrower during that time (Mauri, 1987).

During feudal system moneylenders were rich landowners, but after the down fall of this system

landlords disappeared as a social class and their roles as moneylenders were replaced by rich traders. At the beginning of loan agreement between the money lender and borrower it is impossible to determine the risk involved in offering contract. The lender would not sign a loan contract for every one that comes along, because this could easily increase the riskiness of the loan that the lender would find unacceptable. Higher interest rates that moneylenders charge are due to the higher costs and risks associated with informal loans. The risks of long term lending are also greater, because informal lenders and their customers are poor. Different individuals and other small business often turn to moneylenders for short- term credit needs. There are profit sharing arrangements in some parts of the country under which the borrower receives say Birr 5000 and repays the principal and half of the profit earned, in the business to the lender. The more the profit is earned, the more the lender gets and which is extremely usurious (Dejene, 1993).

Definition of Key Terms

Riba: - It is Arabic word linguistically means increase and growth. It means increase in anything, or addition to anything. The payment of an unjustified increment on the amount borrowed, which is paid in kind or cash above that amount, and which the borrower will return to the lender at intervals until the principal is paid back or increase, addition, growth or augmentation.

Usury: - is the practice of charging financial interest in excess of the principal amount of a loan, and it is interpreted as interest above the legal or socially acceptable rate. It is lending of money at exorbitant interest rates. In short it is loan with high interest rate more than official rate including paying the loan in kind. In this study riba and usury are used interchangeably.

RESEARCH METHODOLOGY

Research Design

Research design is a plan for data collection. It is a blueprint for research aimed at answering specific research questions. This study was conducted by using explanatory research design in order to answer the research questions. *Explanatory Research* is the conducted for a problem which was not well researched before. It is actually a type of **research design** which focuses on explaining the aspects of socio-economic impacts of usury in a detailed manner which is not well researched in our country. It is meant to provide details where a small amount of information exists for a certain product in mind of that investigator. *Explanatory research design* is conducted in order to fill the gap that was not studied before in-depth. It is not used to give us some conclusive evidence but helps us in understanding the problem more efficiently. When conducting the research, the researcher should be able to adapt himself/herself to the new data and the new insight that

he discovers as he/she studies the subject. It does not aim to provide final and conclusive answers to the research questions but allows the researcher to explore the research with a varying level of depths. The *purpose of this design* is to increase the understanding of socio-economic impacts. It does not provide conclusive results because of lack of its exhausted related literatures, but determine how and why usury is practiced.

This design is selected because it allows the investigator to provide the deep insight into a specific subject that is socio-economic impact, which gives birth to more subjects and provides more opportunities for the researchers to study new things. The deep study of subjects creates a cycle and, the critical thinking/study of the subject creates more questions and those questions lead to more ways for the researchers to study more things related to that subject. In addition this design is selected as it represents a comprehensive and in-depth observation of a particular area and it is used to analyze a components of a given social situations or analyze of individual case that be a person, group, community, society or any other unit of social entity with the purpose to develop as full understanding of that case as possible. It aims to understand the case in depth, and in its natural setting, recognizing its complexity and context and places more emphasis on the full analysis of a limited number of events or conditions and their interrelations (Bhattacharjee, 2012).

Research Strategy

This study was conducted by using mixed method approach in order to answer the research questions. The approach is employed in order to capitalize on the strength of both qualitative and quantitative approaches and compensate for the weakness of each approach. The strength of mixed method is its ability to discover a wide variety of social and economic factors potentially related to the phenomenon of usury that may not be known in advance. As it was stated in statement of the problem, as far as review of related literature is concerned the issue of usury had not been directly researched before; so for this issue mixed method was more appropriate to deal with it. In this study using mixed approach helped the researcher to collect the data from diverse sources; that is from traders and farmers consisting both usurer and usurious (Creswell, 2009).

A mixed methods design is useful to capture the best of both quantitative and qualitative approaches. The investigator generalizes the findings to a population and develops a detailed view of the meaning of a phenomenon or concept for individuals. In this research, the investigator explored generally; issues related with socio-economic impacts of usury. The researcher first surveyed a number of individuals by using questionnaire, then follow up a few of them to obtain their specific socio-economic problem about the topic

by interview and individual case analysis. In these situations the advantages of collecting both quantitative and qualitative data proved advantageous to best understand a research problem (*Ibid*).

Especially qualitative research method provided the opportunity to triangulate the information gathered from different sources and methods. So this approach helped the investigator to triangulate and interpret the issues of usury from different perspectives such as social and economic problems. The participants replied about the usury only what they fill, but it is up to the investigator to give the meaning and explore the new ideas about the problem based on the data collected by interviews, questionnaires and individual case analysis. However, interpretations of findings depend on the perception and integrative ability of the investigator. The Quantitative research method is used to quantify and describe the numerical data; like the frequency and percentages of respondents who gave responses. In addition the quantitative method helps the researcher to quantify the interest rate of loan given by loan shark in the study area (Bhattacharjee, 2012).

Study Area

The study area is Aira woreda. It is found in Western part of Ethiopia and Western part of oromia in West Wollega Zone. It is about 506 KM apart from Finfine. It is bounded with Gulliso woreda in East and North; Yubdo Woreda in South and Kelem Wollega Zone in West. Its total area is around 4134 hectares. The district is divided in to 18 kebeles (15 rural kebeles and 3 urban kebeles). The economy is highly based on agriculture especially on coffee production; over 50 square kilometers is planted with this crop. The 2007 national census reported a total population of this woreda is 47,537 and now estimated to be 66,350. From the total population 12.79% of its population is urban dwellers. The majority of the inhabitants are protestant with 88.37% and 6.96% are followers of [Orthodox Christianity](#) and 4.42% are [Muslim](#) (CSA, 2007). From this total population there are 11,911 farmer households and 301 traders from which the samples were selected.

RESEARCH METHODS

Data Types and Sources

The investigator collected data from two main sources. These sources are primary and secondary sources. The primary sources of data were collected from traders and farmers through the administration of questionnaires and interviews and individual case analysis. The secondary data were collected from books, manuals, legal provisions, and reports and any other relevant documents like cases entertained by courts. The research is conducted by using exploratory case study type in which all data relevant to the case was gathered and analyzed. This method was used because the research attempted to assess and explore the socio-economic impact of usury by taking Aira woreda as a study area. Combinations of qualitative and

quantitative data were gathered through open ended and close ended questionnaires, interviews and individual case analysis as a primary source of information for the study. The information obtained from primary sources was also supported by a document analysis as sources of secondary data.

Sampling Techniques and Procedures

The investigator takes into consideration a number of factors in determining the sample size. The factors include cost of data collection, type of data required for the study and number of target population. This research is conducted in West Wollega Zone Aira Woreda which has a total population of 66,350 of which 301 traders and 11,911 farmer households. The study employed probability and non-probability sampling techniques to select samples. The respondents were selected by systematic random sampling since traders are registered by woreda Market Development office and farmers are registered by kebele administrations to collect data through questionnaire. In case of farmers, the 15 rural kebeles are taken, because the majority of communities live in these kebeles are farmers. The 15 rural kebeles are categorized in to five clusters with containing three kebeles each based on their location.

Afterwards five rural kebeles (one kebele from each cluster) namely *Kata Aba Korma, Lalisa Buye, Wara Kura Suchi, Homi Suchi and Wayu Kolobo* were selected from five cluster kebeles which contains 3219 farmer households by employing lottery method.

In addition there are 301 traders in three urban kebeles namely Aira 01, Aira 02 and Bondo 01 kebeles and they are purposively selected by the investigator because licensed traders are living in urban kebeles. By using Yamane formula and taking various factors in to consideration, the researcher used 93% confidence level and 7% sampling margin of error to calculate the sample size. This formula is selected, because the population of the study is finite and the population size is known. So from 3219 farmers and 301 traders (3520 sampling frame); 207 respondents were selected by systematic random sampling and the sample size were proportionally distributed to sampled kebeles by applying the Yamane’s formula to collect data through questionnaire. To determine the sample size (number of farmers and traders) and to calculate the proportion of respondents the researcher applied this formula (*Yamane, 1967*).

For Sample size determination $n = \frac{N}{1 + N(e)^2}$

Where, n=Sample size
N= Population size
e = level of precision or Sampling error, i.e. 0.07

$n = \frac{3219+301}{1+3520(0.07)^2} = \frac{3520}{17} =$

For Proportional Distribution of sample size

$n_i = \frac{p_i \times n}{N}$

Where, n_i= strata sample size
p_i= total population of strata
N= total population

To elaborate the sampling techniques and procedures; it is presented by the following figure

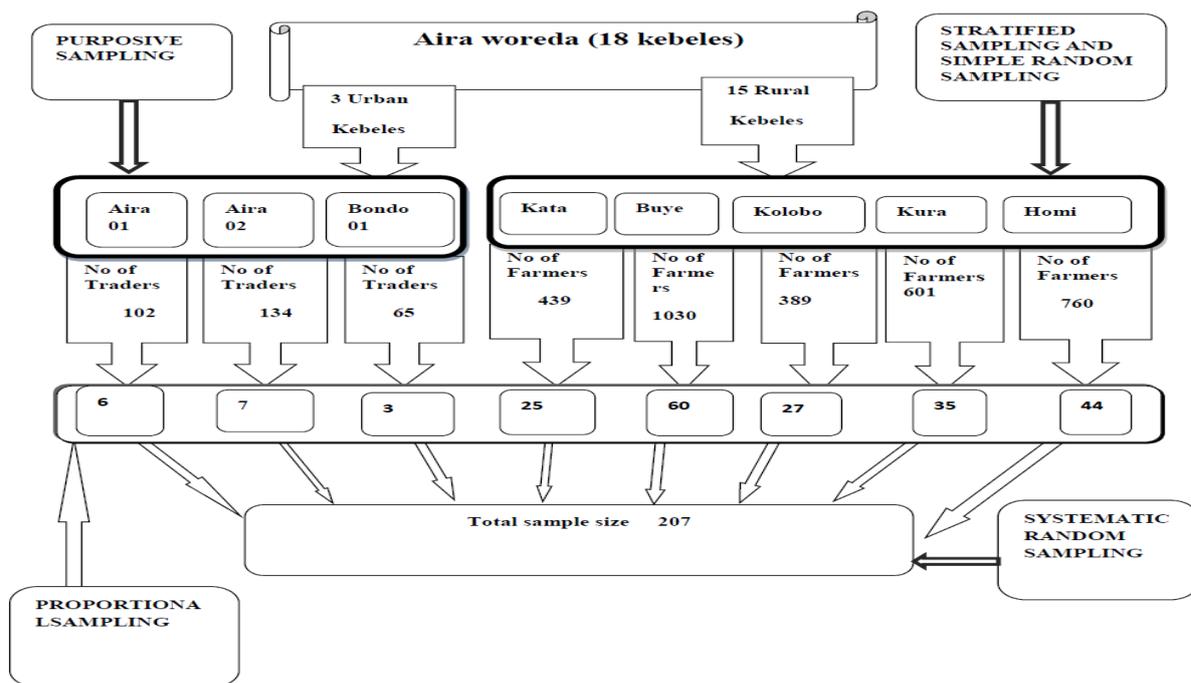


Figure 3. Sampling Techniques and Procedures
Source: Own Sketch

The subsequent table indicates the total number of farmer households, traders and proportional respondents of the sampled kebeles. In general the table

shows the sampling frame and population size of the study.

Table 1: Sample Informants of Farmers and Traders

S.N	Clusters	Kebeles	No of Farmers	No of Traders	No of Respondents	Remark
1	1	Kata Aba korma	439		25	
2	2	Lalisa Buye	1030		60	
3	3	Wara Kura Suchi	601		35	
4	4	Homi Suchi	760		44	
5	5	Wara Wayu Kolobo	389		27	
6		Aira 01		102	6	
7		Aira 02		134	7	
8		Bondo 01		65	3	
Total			3219	301	207	
Sampling Frame = 3219+301= 3520						

Source: Aira Woreda Market Development and Revenue offices (2019)

The respondents (both farmers and traders) were proportionally selected from each sampled kebeles. The calculation of the proportion was done by applying the above mentioned Yamane’s formula which used to calculate proportional sample size. To gather more information about socio-economic impact of usury, interview questions were forwarded to 8 peoples who were affected by usury; which were selected with snow ball technique from sampled kebeles. The interviewed individuals are 3 traders (2 male and 1 female) where as 5 are farmers (4 male 1 female).

Methods and Tools of Data Collection

According to Cohen and Manion, (1994), use of the combination of different methods is suggested as having advantages of correcting some of the deficiencies of any one source of data. Therefore the instruments employed to gather the necessary data for this study were questionnaire, interview, individual case analysis and document analysis.

Survey Questionnaire

In this study, questionnaires were used as the primary research instrument to collect data from respondents. The questionnaires were mostly closed-ended type of questions and few open-ended questions were distributed to 207 respondents. From 207 respondents only 198 were returned which is about 95% response rate. The closed-ended types of questions were selected to make it simpler for the respondents and also easy for analysis and enable the respondents to select one among listed alternatives based on their feeling. On the other hand, open-ended questions were included in order to provide the opportunity to the informants to express their interests, feelings and attitudes on issues related to usury. The nature of the study was explained to respondents, and respondents’ confidentiality of any information provided was also assured. Respondents were provided with detailed instructions as to how the questionnaires were completed and returned. The rationale behind providing clear instructions and assuring confidentiality of information in order to

reduce the likelihood of obtaining biased responses. To avoid language barriers the investigator constructed the questionnaire in Afan Oromo and translated in to English during data analysis. The investigator employed DA workers as a data collector in each kebele after they have given half day orientation on how to collect data.

In-depth Interview

In-depth interview was conducted with 8 persons who were affected by usury and which were selected with snowball technique from 8 sampled kebeles. The in-depth interview was conducted by making use of semi-structured interview schedules with open ended questions. This technique helped the investigator to explore the ideas of the respondents on the issue of usury by asking more question based on the respondents response. Respondents were probed when much more clarifications were needed even going beyond the questions listed in the schedule. The questions focused mainly on how usury affects the socio-economic status of the participants. The interview was conducted depending on the respondents’ status and social background, as their understanding differs based on how they were situated in the problem. The investigator conducted face to face interview at kebele administration office.

Individual Case Analysis

Individual case analyses were also used as one of data collection tools. In this method two individual cases (one is farmer and the other is trader), those who were affected with the problem of usury are interviewed and presented as specific cases in the study. As preliminary observation of the investigator indicates; usury was practiced in different mechanisms causing socio-economic challenges. So this study investigated deeply how this people started to practice usury and how it affects the individuals’ life. Finally the study presented the individuals cases by anonymously without exposing their identity.

Document Analysis

Data collections from secondary sources were obtained for additional information. This study used two unpublished usury cases entertained by Aira woreda court as an invaluable source of information. To keep the courts confidentiality the file number, names of the parties and decision given by judges were not mentioned.

Method of Data Analysis

The collected data were analyzed both with qualitative and quantitative methods of data analysis interpret the finding of the study. The data collected through interview and open-ended questions were analyzed using qualitative techniques in the form of narration and content analysis to determine that it satisfies the research questions and the general purpose of this study. In addition the investigator has tried to explore the feelings; understanding and experience of interviewed participants. In case of qualitative data, the data collected from respondents is organized, reduced in to themes, categorized, summarized and finally concluded. On the other hand, data gathered through questionnaires were analyzed using descriptive statistics. The important descriptive statistics such as mean, frequency percentage were computed to analyze the collected data and to do so, SPSS version 24 is used. In addition to the views of informants, documents were analyzed and interpreted so as to strengthen and elaborate the information obtained from the participants. The themes and ideas were developed by inductive approach; from data collected with interviews, questionnaires and individual case analysis. Findings of the study is thematically identified and discussed by comparing the results from the analysis of data obtained from the secondary and primary sources. The collected data were analyzed using percentages, tables and bar charts and presented in chapter four of this study (*S. Greener, 2008*).

Pilot Test

To check the consistence of the questionnaires, the investigator distributed 50 questionnaires for the West Wollega zone, Guliso Woreda (adjacent to study area) people as a pilot test before the actual study begins. From 50 questionnaires only 44 was filled and returned by respondents. This woreda was selected because almost it has the same socio-economic background with study area.

Ethical Consideration

The Woreda Administration Office is the responsible organ to follow up every activity in its jurisdiction. So, before starting any activity of study the researcher asked permission from the woreda Administration office. It means that the objectives of the research were clearly explained for the concerned body to get permission for data collection. In addition the respondents and interviewers were told the goal of the study. The questionnaire also clearly stated the

purpose of the study. The respondents gave their idea based on their free will and permission without any pressure. Moreover, the information they provided is confidential and would not be attached to their names in any part of the study to grant anonymity since the topic is related to criminal investigation. Further, the information provided by informants were analyzed and presented without any distortion and misinterpretation.

DATA PRESENTATION, ANALYSIS AND INTERPRETATIONS

Introduction

This chapter comprises of presentations of data, analysis and its interpretation. The results are presented according to research questions which were:

- *To what extent does the practice of usury is prevalent in the society?*
- *What are the mechanisms of practicing usury?*
- *What are the major causes of usury?*
- *What are the social and economic effects of usury?*
- *What are the challenges in fighting against usury?*

The data presentation begins with demographic analysis of respondents. Even though socio-demographic characteristics of respondents have no direct relationship with the subject matter under study, it helps by way of elaborating the background information about the participants of the study. The presentation and analysis is based on the data obtained from questionnaires and interview results which were designed in line with the research questions and research objectives. For the purpose of achieving the objectives of the study and to answer the research questions, the collected data is analyzed using qualitative and quantitative method; specifically descriptive analysis method. Data is analyzed by employing statistical analysis method such as frequency, total scores and percentage. Moreover, tables, graphs, charts and figures are used to present the findings of the study.

Questionnaires were designed and distributed to 207 respondents of which 191 are farmers and 16 are traders who live in Aira Woreda. Accordingly 198 questionnaires were returned, which is 95% of the total distributed questionnaires. The response rate is fair enough to represent the sample. To gather more information about socio-economic impact of usury, interview questions were forwarded to 8 peoples who were affected by usury; which were selected with snow ball technique from sampled kebeles. The interviewed people are 3 traders (2 male and 1 female) whereas 5 are farmers (4 male 1 female). Accordingly the interviewee's responses and data collected with

questionnaires were analyzed together with individual case and court case analysis to supplement each other.

Demographic Characteristic of Respondents

The first part of the questionnaire consist different items about demographic information of the

respondents. It covers the personal data of respondents, such as sex, age, educational background and current job. The subsequent tables show the total demographic characteristics of the respondents. The table below depicts that out of 198 respondents 154 (77.8%) are male, while 44 (22.2%) are female.

Table 2: Summary of Respondents by Sex

<i>Sex of Respondents</i>		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Valid	Male	154	77.8	77.8	77.8
	Female	44	22.2	22.2	100.0
	Total	198	100.0	100.0	

Source: Field Survey March, 2019

Moreover, considerable proportion of the respondents; 141 (71.2%) are within the range of 31-40

years of age; while the rest are slightly below and above the aforementioned age range (See table below).

Table 3: Summary of Respondent by Age

<i>Age of Respondents</i>		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Valid	20-25	7	3.5	3.5	3.5
	26-30	42	21.2	21.2	24.7
	31-35	63	31.8	31.8	56.6
	36-40	78	39.4	39.4	96.0
	>41	8	4.0	4.0	100.0
	Total	198	100.0	100.0	

Source: Field Survey March, 2019

As it is stated in the table, significant proportions of the respondents belong to 31-40 years old age group constituting 71.2% of the participants; while 21.2% are aged between 26 and 30. This implies

that people aged between 26 and 40 are most productive and engaged in different activities to support themselves and their families.

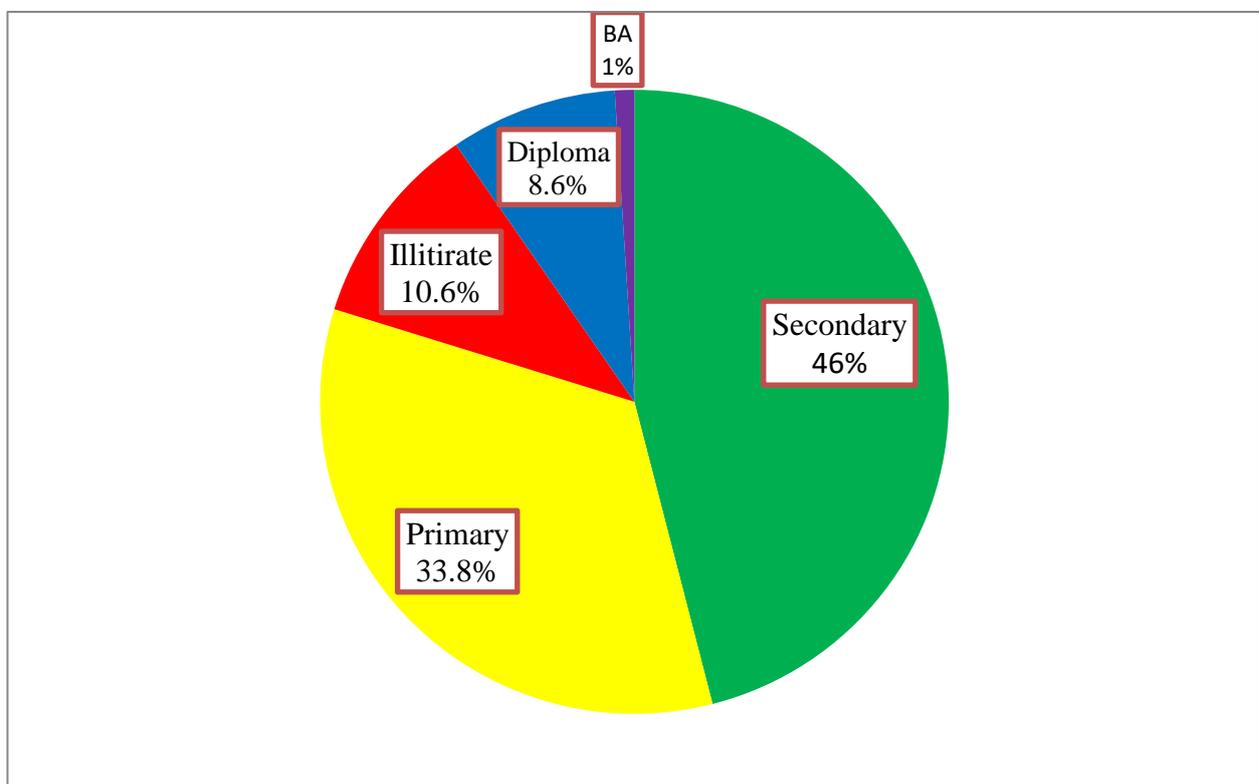


Figure 4. Summary of Respondents by Educational Background

Source: Field survey, 2019

Table 4: Summary of Respondent by Educational Background

<i>Educational Background</i>		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Valid	Illiterate	21	10.6	10.6	10.6
	Primary	67	33.8	33.8	44.4
	Secondary	91	46.0	46.0	90.4
	Diploma	17	8.6	8.6	99.0
	BA	2	1.0	1.0	100.0
Total		198	100.0	100.0	

Source: Field Survey March, 2019

The above table and figure exhibits that 158(79.8%) of the respondents are enrolled at primary and secondary level. Only few respondents 19(9.6%) are college graduates. About 21(10.6%) of them are

also found to be illiterate. This implies that most respondents can at least read and write and will be able to access information regarding credit institution in their study area.

Table 5: Summary of Respondent by Job

<i>Respondents' Job</i>		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Valid	Farmer	176	88.9	88.9	88.9
	Trader	16	8.1	8.1	97.0
	Other + Farmer	6	3.0	3.0	100.0
	Total	198	100.0	100.0	

Source: Field Survey March, 2019

The table demonstrates that 88.9% of the respondents are farmers while the rest are engaged in business activities. There are 6 farmer respondents who have another job as par time; but they are considered as farmers for this study.

Magnitude of Usury

This part tries to assess the magnitude with which usury is practiced in the community under the study. The data obtained is discussed as follows. For the purpose of reporting the findings, Yes or No questions were added to know what the magnitude of usury and its expansion looks like in the study area.

Table 6: Respondents view on acceptance of usur

<i>Is usury an accepted practice?</i>		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Valid	YES	141	71.2	71.2	71.2
	NO	57	28.8	28.8	100.0
	Total	198	100.0	100.0	

Source: Field Survey March, 2019

The magnitude of usury in study area is assessed by using the acceptance of usury in the community as one indicator. The above table displays the acceptance of usury in the community; in which about 71.2% (141) of respondents agree with the acceptance and existence of usury practice in the

community, which shows that majority of the community consider it as a normal practice. Whereas few number of the respondents 28.8% (57) did not agree with the existence and acceptance of usury in the community. This may indicate that usury is practiced and accepted as a normal practice in study area.

Table 7: Access to loan through Usury

<i>Is it easy to get loan through usury?</i>		<i>Frequency</i>	<i>Percent</i>	<i>Valid Percent</i>	<i>Cumulative Percent</i>
Valid	YES	137	69.2	69.2	69.2
	NO	61	30.8	30.8	100.0
	Total	198	100.0	100.0	

Source: Field Survey March, 2019

In terms of getting access to loan through usury easily; 69.2 % (137) of the respondents replied that the loan can be obtained in simple way with in short period of time through usury. This also shows that usury is treated as a normal practice in the community.

Giving loan with high rate of interest is widely practiced in the community. In addition the informants replied that the loan is easily obtained through usury than formal loan securing process.

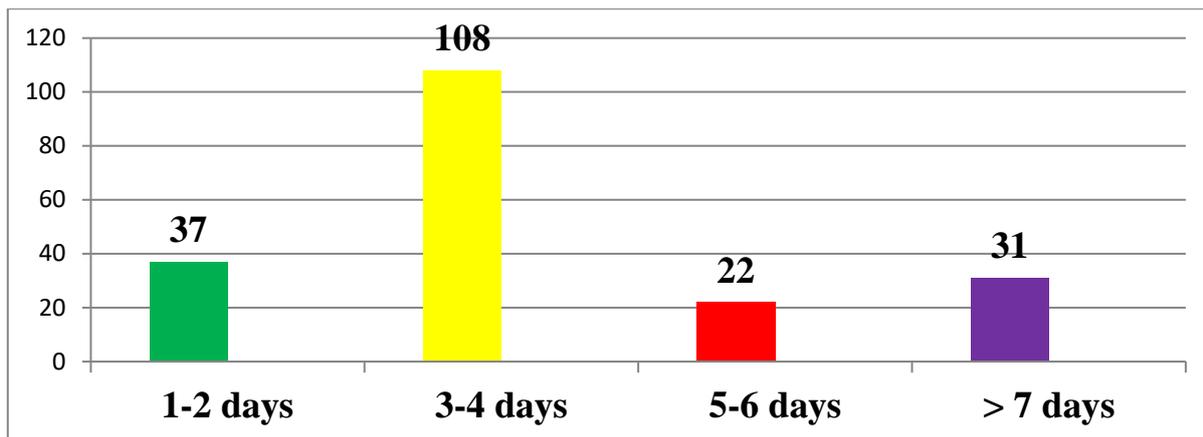


Figure 5. Length of time to receive loan through Usury
Source: Field Survey March, 2019

Respondents were also requested to indicate the length of time with which they would be able to access a loan through usury once they have decided to do so. Accordingly, as demonstrated by the figure above 108 (54.5%) of them said it takes 3-4 days while 37 (18.7%) of them said it took 1-2 days. The rest of them constituting 31 (15.7%) and 22 (11.1%) took them more than 7 days and 5-6 days respectively. This

implies that on average someone can get loan through usury within or less than 4 days which is very short period of time when we compare with the formal financial sectors loan. It implies the loan sharks have intimate relation with their customers and quick response is given for borrowers by usurers. In general findings indicate that the usury is practiced now a day in the study area.

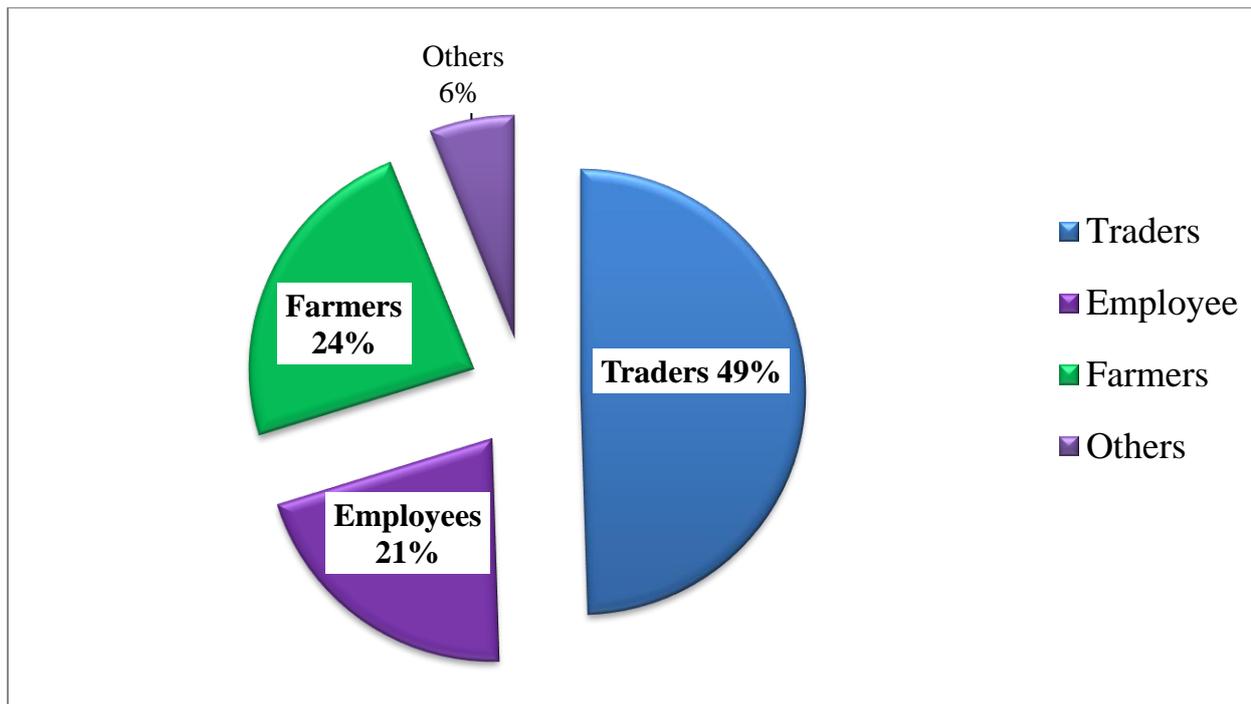


Figure 6. Category of people who practice usury
Source: Field survey, March, 2019

Respondents were also asked to identify which categories of people are participated in usury. Accordingly, as the above figure indicates traders, farmers, government employees and other part of the community engage in giving and taking loan with high interest rate or participate in usury activity. The figure shows that majority of the respondents which is about 49% said that traders are major parts of the community

whom commonly engage in usury practice. Almost the same number of respondents 24% and 21% of the respondents explained that farmers and government employees participate in the usury activity respectively. This indicates that traders are the most practitioners of usury in study area. In addition farmers and government employees stand 2nd and 3rd in practicing usury respectively. Lastly the response shows that only 6% of

the respondents replied that there are other community parts who engage in usury. As suggested by interviewed respondents NGO workers, Iddir cashiers and different church cashiers are engaged slightly in usury. In

addition the interviewee indicated that both in urban and rural area, there are some Iddir which give loan with high interest rate in the form of usury.

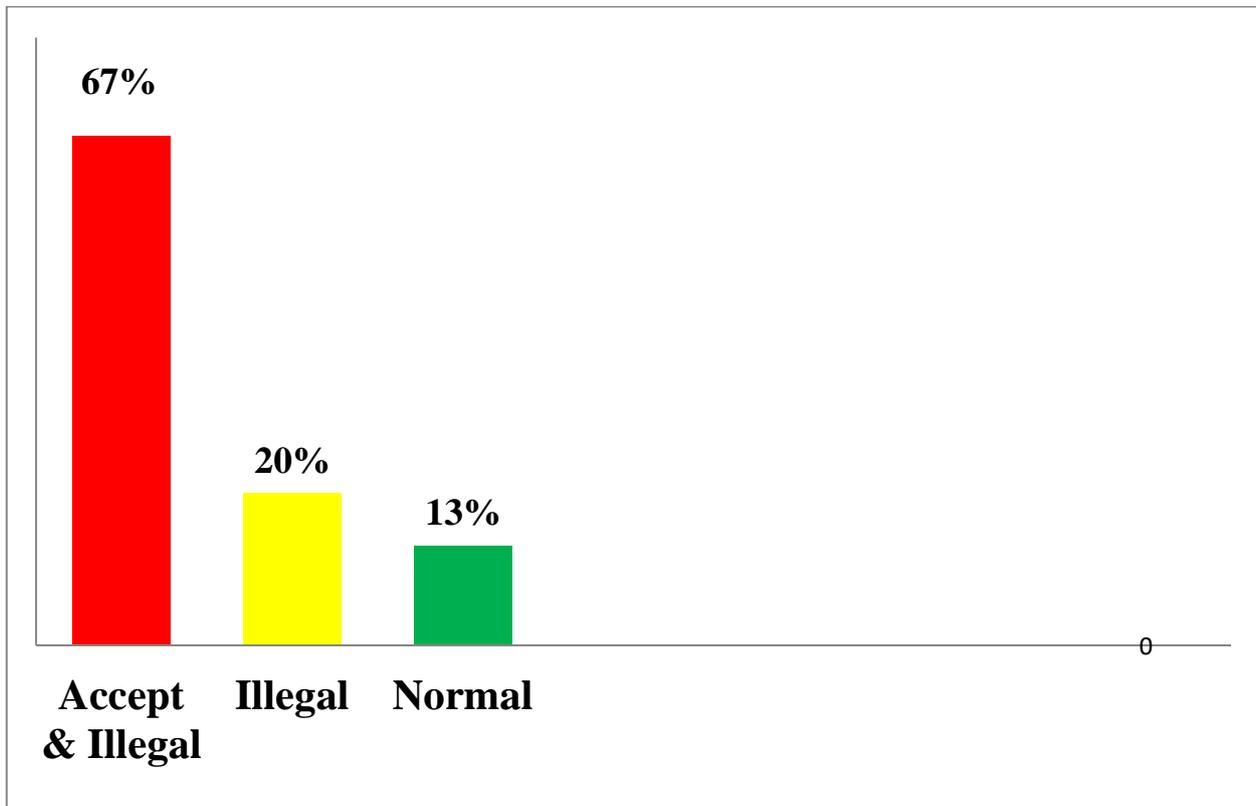


Figure 7. Attitude of Society towards usury
Source: Own Survey March, 2019

The society’s attitude is one of the best indicators to know the magnitude of usury. To know how the communities view the practice of usury; questions are forwarded for the respondents. Accordingly, as it is stated on the above figure; about 67% of the respondents said that, the peoples view the practice of usury as an acceptable but legally prohibited practice. This shows that they are well aware of its illegality but practice it any ways to fill their income gap. In addition 20% of the respondents said that the people know that usury is illegal practice. But only 13% of the respondents agree that people see the practice of usury as a normal; which mean that they lack awareness about the illegality of practicing usury. An interview result also shows that there are peoples who purposely take loan from formal financial institution and give it as a loan for economically poor people with very high interest rate in the form of usury. This may shows that

the follow up of the client’s business plan by the financial institution is somewhat weak.

Some part of the society practice usury as it is a legal activity. Most people give and receive loan with high interest rate from individuals based on their economic status. At the beginning few economically powerful individuals take loan from formal financial institution and disseminate it to the community through usury. The rich person in local area may receive loan with high interest rate from richer person in the community and give loan with high interest for economically poor persons and also the poor person gives loan for the very poor person. Accordingly the usury is practiced based on economic status of the borrowers and lenders. The magnitude of usury in the community flows according to the following figure.

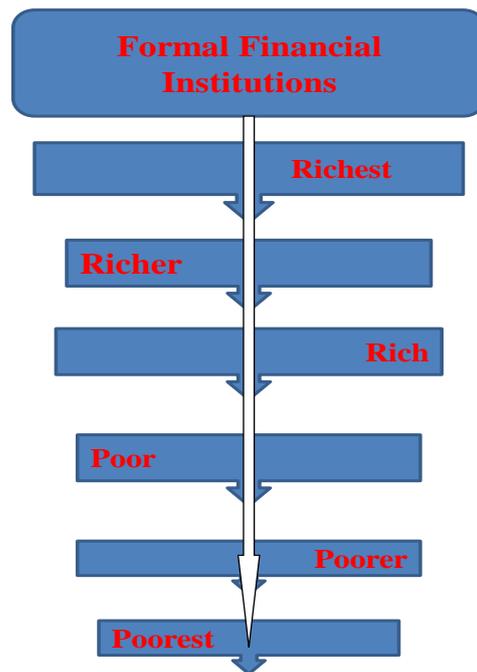


Figure 8. Magnitude of usury in study area
Source: Field survey March, 2019

The moneylenders give usury loan for borrowers in few days without any bureaucracy in short period of time, because they know each other and day to day activity of the borrower is followed by the broker and loan shark. According to the response of the interviewees; usury is practiced in all parts of the study area in rural and urban kebeles. But the difference is the amount of interest rate of the usury.

Causes of Usury

Considerable proportion of the respondents (83%) agreed that the major cause of usury in the study area could be related to lack of access to loan from formal financial sector due to the long process of giving loan. Formal financial institutions need collateral to give loan for the community, but lower income peoples have no asset to give collateral. In practice of usury the lenders and borrowers knows each other and they are also tied to each other with values of the society. Some respondents (14%) said that high interest rate loan from the individuals can be seen as if it is legal activity and there is no appropriate punishment by the concerned body. Especially the government institution like Police and public prosecutors see the usury case as it is only civil matter.

Interview participants stated that; the criminal investigators most of the time refer the usury case to court to be entertained it's civil case and they had not yet investigate it's illegality as a crime. In addition few respondents (3%) are to the opinion that the religious

leaders are not properly teaching the followers of their religion that usury is sin and it occurs due to the selfishness and greedy nature of human being to cover their income gap. Most respondents agreed that the MFI especially OCSSCO is not functioning well its activity according to the standards set by the organization. In general there are some pushing factors of usury; among this, inability to fulfill the requirements of the MFI. Such requirement barriers include forming association and group loan system and lack of legal status after forming an association are the prominent ones pointed out by the respondents. In addition respondents also attribute lack of collateral as a primary cause of usury that prohibits them from accessing some formal credit sources. In general usury practice is prevalent in the society because:

- MFI asks guarantee to give loan; but those peoples who doesn't have guarantee may borrow from usurers. Especially in rural area the farmers have only land, house and livestock but the rural assets are not used as collateral for financial institutions. In addition in urban kebeles most people have their own house which hasn't site plan. So those houses which have no site plan could not be used as collateral. In general lack of collateral may be one of the major causes for usury.
- Fear of risk is another cause of usury. All MFI give credit in group which is formed from different economical and social background of

people. When the credit is given in group if default occurs the entire group member is responsible to repay the loan.

- Some part of the community doesn't have clear understanding on how to get loan from formal financial institutions. Specifically OCSSCO is the only MFI which serves the community. Since the study area is vast this MFI couldn't address the whole community to give awareness and to access credit service.

As per the reply from participants; MFI may not be better alternatives to get loan due to the reasons mentioned below.

- The loan repayment period in other case provides limited flexibility.
- Group based loan provision is quite risky in case of default of partner.
- Inability to get reliable and trusted partners whom they know each other and honest to take a loan with.
- Lack of interest to provide collateral.
- Considering the failure of previous users of such loan.
- Individuals living with their family faced a problem of obtaining their family permission to take loan from MFI.
- Complicated and bureaucratic procedures by the MFI.

Thus, the limited access and lack of favorable opportunities to formal loan service for the community

together with other constraints may have led to accepting usury as a better alternative to get loan.

In addition the findings shows that due to family characteristics people of Aira woreda engaged in usury among family characteristics includes families disintegrated either through death or divorce are viewed to be more at risk of practicing usury and due to individual interest people engaged in usury. This is related with own benefit and sometimes wishes to increase the income of the family through usury. One of the interview informants replied that

“.... I started to receive loan with high interest rate (Usury) from locally known person when my husband got seriously sick to take him to better hospital. And I continued to take it when he passed away for funeral ceremony and still I am using it.....”

This implies that the person may engage in usury activity due to the family characteristics to fill the income gap.

Mechanisms of Practicing Usury

Once borrowers have decided to get loan through usury they must establish contract with lenders. It was an area of interest for this study as to how communications are initiated between lenders and borrowers. The following graph shows the initiators or mediators of usury.

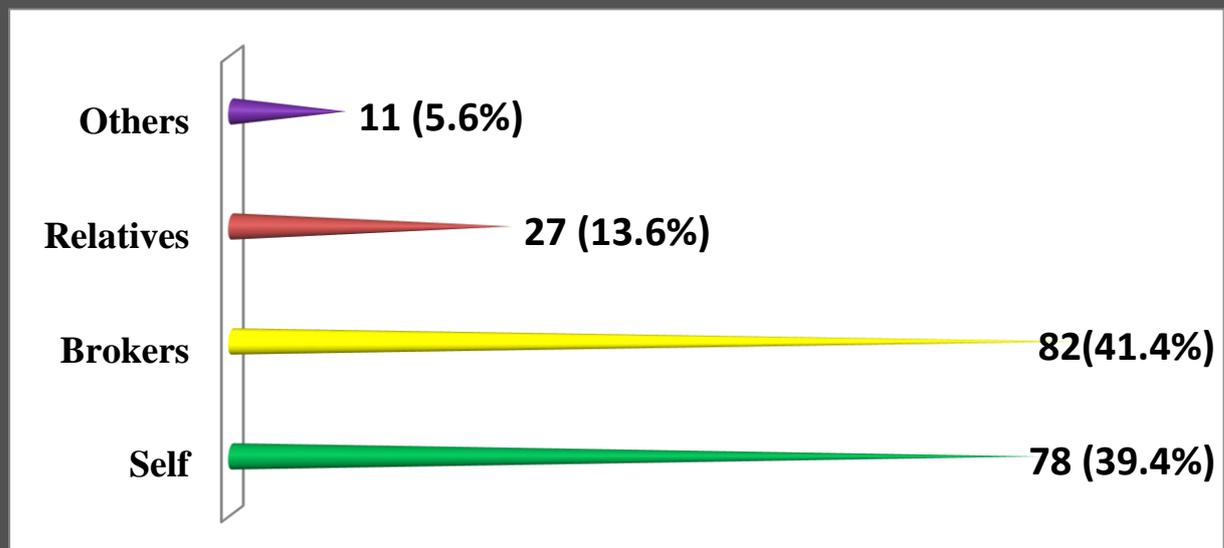


Figure 9. Mediators of usury
Source: Field survey, March, 2019

The borrowers communicate the userer in different ways. As we can observe from the above figure majorities of the respondents (41.4 %) indicates

that brokers are the prominent mediators of usury. They communicate through local brokers of usury which get a commission from both lenders and borrowers.

Similarly the interview response confirms that there are different mechanisms of practicing usury. Among these there are brokers who facilitate the practice of usury by getting commission from both lenders and borrowers. These brokers have also the duty to follow up the activity of the borrowers whether they are on the right track to pay back the loan in the future or not. In addition the brokers have the obligation to report for usurer in case when the borrowers are going to be bankrupt. The statement of interview respondents confirmed that due to the role of broker the borrowers decided to borrow money through usury from local money lenders or Arata Abedari with abusive interest rate.

Further the following verbal words of informants clearly indicate the role of brokers in usury;

“.....the pressure of the broker has influenced me to decide to take loan with usury to fill my income gap in shorter period of time” (Informant 1)

“.....the broker has persuaded me how my life will be changed if I engage in usury and I thought it is an opportunity that should not be missed” (Informant, 3) The verbal words of respondents indicated that the false promises of brokers have influenced them to decide to engage in usury. It indicated that both were influenced by the attractive words of the broker.

Similarly 39.4% (78) of respondents approves that usury is practiced through the direct communication of the usurer and borrowers. This implies that the usurers are known individuals in the community. The contract which is signed between them is based on the interest of the lenders. The borrowers are obliged to accept the contract. Sometimes, the borrowers give their land with coffee and house as a mortgage or guarantee. This means, when they fail to pay back the loan the guarantee would be taken by the lenders with very low price. According to their response peoples are losing the moveable and immovable property due to this usury activity. In addition there is daily based usury. Some peoples take loan from traders on market day to pay back with high interest in the evening after transact with it. This daily based loan has averagely from 10-50% interest rate per day.

Relatives also participate in facilitating the communication between lenders and borrowers as indicated by 13.6% (27) of the respondents. Lastly the survey shows that there are other bodies which facilitate the communication between lenders and borrowers. The results from interview indicate that informal and formal financial institution workers participate in communicating the lenders and borrowers. It means that from formal financial institution workers, MFI workers, and Bank's workers and from informal, Iddir cashier can be sited as mediators of the usury.

In addition as it is indicated by participants there is a negotiation between lender and borrower before accessing loan and there is written contract/agreement which has a binding effect especially over the person who takes high interest loan or usury. In this contract lenders simply put the terms and borrowers accept it.

Most of the time, the contract does not show the amount of interest rate. According to the interviewees' response the interest is added to the principal amount of loan at early stage. For example if the borrower takes 1000 ETB as a loan to pay back after a year with 100% interest rate; the contract is signed as if he/she borrowed 2000 ETB.

To elaborate the mechanisms of practicing usury more; court cases are analyzed. In study area there is one woreda court. This woreda court has been entertaining many criminal and civil cases. The usury cases were entertained only as a civil matter; it is not liable as criminal cases by this court. According to the Court reports of 2016/2017 fiscal year 15 cases of loan contracts were entertained in Aira woreda. Among these cases when it is practically investigated by the researcher 7 of them are purely a usury case. From this 7 usury cases the researcher roughly analyzes only two cases. The court was not willingness to present the file number and final decision given on each case by judges. So for the sake of confidentiality case analysis is highlighted as follows:

In the first case ‘Mr X lend 4000 ETB with 400 ETB interest for Mr Y on 12/07/2009 E.C. to pay back after two weeks on 25/07/2009 E.C. But due to his personal problem Mr Y couldn't pay back the loan according to the agreement. The lender/ Mr X asked the borrower Mr Y to get his money back by arbitration on 21/09/2009 E.C and Mr Y also promised to increase 4000 ETB to 5200 ETB to pay for him on 27/09/2009 E.C; but also he failed to pay back on that day and lastly he promised to increase 4000 ETB to 8800 ETB but the borrower couldn't afford to pay back. Finally the lender brought a claim against Mr Y for 8800 ETB at the woreda court which is purely usury case. Mr Y defended that all the agreement is invalid contract and my responsibility is only 4000 ETB principal amount and 9% (360 ETB) interest rate. So finally the court gives decision based on Ethiopian civil code provisions.

From this case we can infer that the interest rate ranges from 10-100% which shows that there is exorbitant rate of interest or abusive usury agreement between individuals.

The second case is case in which the lender brought a statement of claim due to the non performance of the loan contract (usury) against the borrower.

The borrower received 12,000 ETB loan with 50 % interest rate in 2016 to pay back after six months 18,000 ETB and by giving the plot of land with coffee, as guarantee/collateral to the lender with the written agreement. In this case the borrower did not pay back the loan according to the agreement on due date and the claim is brought to court only to take the plot of land in kind not in cash. This shows that the lenders intention is only to get a plot of land with coffee in low price because of the borrower's inability to repay the loan which is definitely usury. In this case the interest rate is 50% which is greater than the official interest rate of the country. As it is indicated in statement of defense the borrower take loan in summer season to repay it in winter after harvesting especially coffee. But production was not as usual due to bad

weather condition and the borrower has no other option to pay back the loan it has taken from lender.

From the above two court cases we can draw that the usury contract is formed between different individuals. This usury is practiced in different mechanisms in study area. In general the justice sectors are expected to entertain the non- performance of loan contract in line with the anti-usury measures.

Collateral in Usury

Sometimes collateral is needed in usury as it does in formal loan. The participants indicate that the difference is that in usury the usurer itself identify whether the asset taken as collateral belongs to borrower or not; and mere ownership of the borrower is enough to use as collateral. But in formal loan the property should be approved by the concerned authority to be used as collateral. To know the property and assets which are used as collateral for usury in study area the respondents view were assessed and analyzed below.

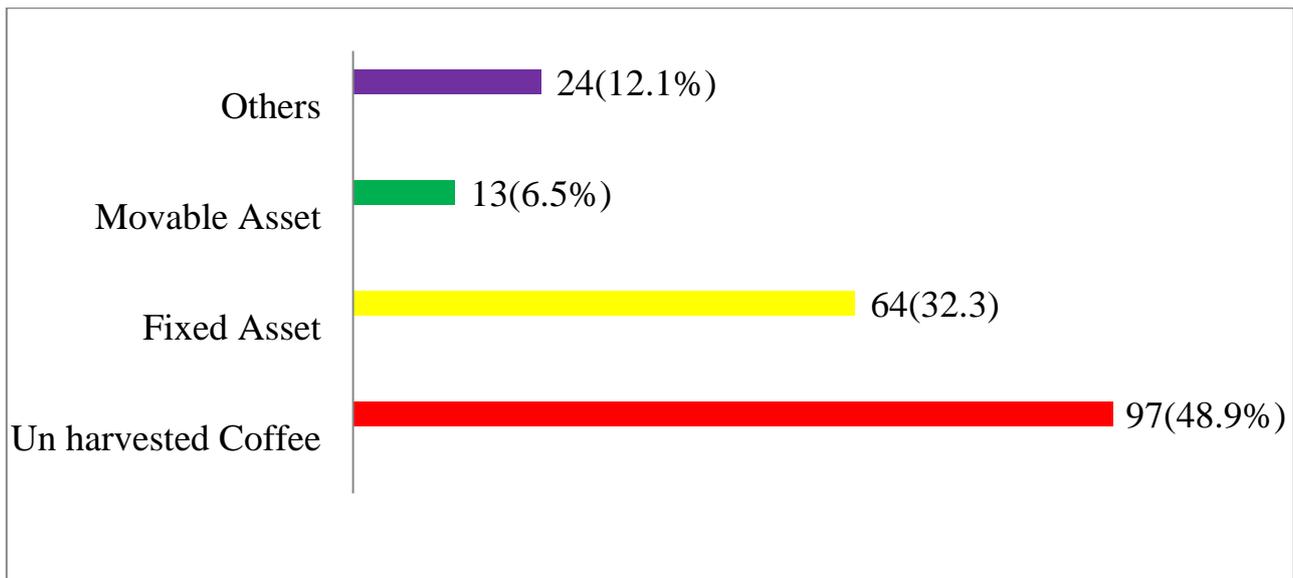


Figure 10. Collateral of Usury
Source: Field survey March, 2019

Un harvested Coffee is the dominant collateral which is used in study area; 48.9% (97) of the participants exhibit that it is used as collateral to get loan through usury. This indicates that if they failed to pay back the loan according to their agreement on due date they will be obliged to give their coffee in kind for the lenders. Again this implies that the price of coffee is determined before harvesting took place. As respondents of interview indicated, farmers are taking loan with high interest rate from traders and other rich farmers during summer season for consumption. The loan obtained through usury will be paid back in kind (coffee) with low price when the summer season off; which we call it pure usury.

Fixed assets are also used for collateral to get loan through usury. The assessment shows that there are 32.3% (64) respondents who replied that; borrowers take usury loan using fixed asset like house and farm land as collateral. Few respondents that is 6.5 % (13), explain that movable assets like car and motor cycles are taken as collateral to obtain loan through usury. Lastly 12.1% (24) of the respondents' viewed that; borrowers use other materials as collateral. The materials used as collateral are like gold (traditionally known as Raw Gold), traditional clothes and traditional equipments of agriculture like yoke as collateral.

Socio-Economic Impact of Usury

Respondents view also assessed on the socio-economic impact of usury in the community. In line with that 95% of them believe that usury has negative impact on the social and economic life of the community. The borrowers couldn't pay back the loan according to their agreement because of the abusive interest which ranges between 100%- 140% of the principal. In addition the loan is utilized for consumption and buying agricultural inputs like fertilizers which minimizes the possibility of repayment. On the other hand few participants (5%) reflected that usury has no negative impact on socio-economy of the community. They argue that, it fills the income gap of the individuals and it is the simplest way of acquiring capital. In addition they also argued that the economy is functioning as per the principles of free market and hence the government should not prohibit the practice of usury. For the idea related to the repayment of loan in kind, 20 % of the respondents agreed that when the borrower failed to pay in cash he/she give the plot of land with coffee for the lender in case where the amount of loan is high. In addition 69% of the participants' replied that the loan with high interest rate is paid back with kilo of coffee with low price in which the price is determined before the market price is known.

The other idea related to the impact of usury is that; 11% of the participants' reflected that when the farmers failed to pay back the loan with high interest, they are obliged to plough the agricultural land of individuals who gave them loan with less than the average daily wages with their oxen. The daily wages is estimated to be 15-25 ETB as solicited from interview sessions. From this practices one can generalize that usury is the 21st century's' means of exploitation.

According to the interviewees' response in many situation the materials, movable and immovable property which were given as collateral at first stage of loan is taken by the lenders with very low price. Money lenders seem to have well defined groups of people that they consider themselves close to the community. It means that these powerful lenders have specific preferences with regards to who they want to deal with. This results in a segmented credit market as well as a segmented labor market.

Although the assessment showed that very few peoples have used formal financial loan contracts in the study area, the study found that many have repeated credit relations with a specific local lender. Some peoples work for the lenders with less than the average daily wage in the harvesting season. When they are asked why they do not work for someone else instead and earn better wages; the respondents said that they benefited from being close to certain money lenders. It was obvious that these stable relationships with lenders are considered as a kind of insurance by this group of

poor people. In other words stable relationships were necessary to obtain usury from money lenders.

Most of the time the money obtained from usury is used for different purposes. Among this;

- For consumption especially in summer season.
- For agricultural credit to buy oxen, fertilizers and seeds etc
- For buying exercise book and clothes for their children.
- For wedding and for different social activities

In addition the views of the respondents were assessed in relation with the economic improvement of the individual with the money obtained through usury. Considerably majority of them (89%) expressed that they were not able to improve their life with it and they only spend the money to fulfill their temporary needs or social problem and they use it for consumption. One of the interview respondents explained the impact and seriousness of usury by comparing with cancer.

".... Usury is the same as cancer; it affects the social and economic life of the individuals step by step.... First I lost my beloved husband, next I lost my house and last I am going to lose my life....."

The above is direct quotation of respondent who lost her fixed asset (house) and her husband due to the usury. Some interview participants replied that they had lost their fixed asset for usury and Raw Gold which is dominant in the study area. There are also few peoples who are divorced due to this problem especially when the usury is paid back in kind such as house and plot of land. In general the assessment shows that usury seriously affects the economic life of the individuals. On the contrary few people have the idea that usury is a simple means through which people can acquire a capital to fill the income gap.

With regard to the attitude of the community towards the people who receive and give loan through usury; the community has positive attitude to those who take loan through usury because they practice it to survive and sustain their life and their family. The informants replied that they were not socially stigmatized and discriminated. However the community has negative attitude towards people who lends money through usury; since it acquires money in illegal and in immoral way. They are perceived as selfish, evil and greedy because they practice usury to get more and more money from the poor people by using exorbitant interest rate and by expropriating the fixed asset of the individuals who could not afford to pay back the loan.

However few people perceive that, the lenders of usury should be treated as MFI and usury should be legally permitted since the country follows free market economy. In addition borrowers are treated as normal in the community because most of the time the borrowers

are taking usury to get rid off from their economic and social problems. The lenders of usury are seen and treated as cruel and rude; by the people who do not practice usury. On the contrary usurers are feared and respected by the people who want to take loan with the high interest rate. The borrowers respect them because they do not have another alternative to take loan. Most people perceive usury as a good opportunity to meet their temporary financial needs. In addition few borrowers perceive that the rate of interest of usury is less than everyone can afford to pay it back.

The average interest rates in the kebele vary from 100 percent in Homi Suchi and up to 140 percent in Aira 02 kebele. This implies that the average interest rate varies between the kebeles, but all the mean values are above the official interest rate. This amount of interest is perceived by borrowers as it is a normal; because of lack of information about the official interest rate. So, paying back such huge amount of interest has great impact on social and economic life of the community. In general usury hinders economic development and damage investment, trade and the development and expansion of small and micro enterprises. Usury is a process through which the money will be collected into few hands of usurer people. When it is collected in to the hands of few people the money will not be used for different economic development activity. It simply kept as paper and only used to lend through usury which will result in scarcity of cash.

On other hand usury affects the social life of the community. The social life is affected, when the assets of the borrowers are expropriated by usurer; conflict will arise between family members that may lead to divorce. In addition the relatives of the borrower and the family of usurer sometimes enter into conflict after the fixed asset is expropriated by usurer which may cause serious crimes.

All the interviewee agreed that paying back the loan according to the agreement is very difficult. Because the interest rate is very high and the time of repayment is short. So they were obliged to pay the loan in kind. Among eight interviewees; two of the interviewees gave the plot of land with coffee for money lender (*Arata Abedari*) and two of the interviewee gave their farm land, one of the interviewee obliged to work agricultural works for the lender with very less daily wage. In addition two of the respondents gave the immovable property (house) for loan shark. Lastly one interviewee gave the raw gold for the lender with less than market price. Most of the time the loan obtained from usury is used for different social problems, consumption and for buying fertilizers for agriculture. Thus, usury seriously affects the economy of the individuals. Peoples who took usury lead subsistence form of life. Even though they got money by trading and other means; that money will be paid

back for the *Arata Abedari*. This means the borrowers are served as duplicator machine of lenders. They are duplicating money for the lender or loan sharks.

To magnify the socio-economic impacts of usury certain people cases are presented. In this individual case analysis; for the sake of keeping the confidentiality of the informants the investigator did not mention the names and identities of the people whose cases are analyzed. Rather the individuals are coded by numbers.

Case 1

Case 1 is analyzed by interviewing the wife of a merchant who has been practicing usury for a long period of time in the study area. As she said; her husband has been working as a daily laborer in one small coffee processing factory since 1999. During this time he got the opportunity to know different coffee traders and farmers. By depositing his daily wage he started to lend money for local coffee traders to get equal share with a borrower and he earned some amount of benefit. The coffee traders, on market days take loan from him in the morning and paying back after transaction in the afternoon. After few years; he shifted his lending activity to only lending money with high interest in the form usury for different people. According to the assessment in the study area there are two market days; which is Saturday and Wednesday. In these two days this person lends his money with 20% interest rate per week. He has been giving loan for 7-10 people and in cash for each person from 1000 to 3000 for a week. After practicing this activity for a period of time he became a trader by accumulating capital. Meanwhile he became a trader and he started to borrow money with high interest rate from rich traders. He then started to send the coffee to ECX.

He continued to borrow huge amount of money with high interest rate from many individuals to expand his business and he bought one Mid Bus for public transportation and constructed villa house. But he couldn't pay back the loan given for him by different individuals and he paid back some part of the loan by selling the mid bus. The remaining part of the usury was paid back by taking loan from CBE by using his house as mortgage/ collateral. Afterwards, to pay back the CBE's loan he continued to take usury again from different individuals. But he couldn't afford to repay the bank's loan. Lastly, by living his family alone (three children with the age 3-12 year and his Wife) he concealed or for sake from his residential area in 2014 without paying the individuals' and bank's loan and still his family doesn't know about his whereabouts. Finally the individual's house is sold with bid in 2016 by CBE with 450,000 ETB and his families are now living with no income and under serious economic condition. His wife is now leading her life by working as a daily

labor. She is forced to leave the house and rent another very cheap house. Her children forced to drop out from school due to economical problem. This specific case implies a lot about the social and economic crises that may be caused by usury.

Case 2

Case 2 is analyzed by interviewing farmer who is highly affected by usury. This man is a 52 years old and illiterate person who has 12 children from two wives. His life is dependent on agriculture. He has about 4 hectares of agricultural land. Among this land 1 hectare is covered by coffee plantations, 2 hectares are for farm land and 1 hectare is not suitable for agriculture.

According to his explanation in 2014, two of his daughters have got the chance to join higher education institution at Mekele University and Haramaya University. This person has the burden to prepare all the necessary materials for both of them including the transportation cost for the person who accompany them to the universities. The total estimated cost needed to send his daughters to the university was about 16,000 ETB. These daughters should be accompanied by other person because it is their first time to go to other places which is far apart from their families. According to him during this time he has nothing to sell to earn huge amount of money which covers his expenditure. The only option was to search for loan without any interest and he couldn't get the loan. The last option he had decided was to get loan through usury. He went to locally known trader to take loan with high interest rate and he borrowed 10,000 ETB to pay back within six months with 50% interest rate totaling 15,000 ETB.

The usury agreement is done by using half hectare of coffee farm as a mortgage or collateral. Unfortunately in that year due to the environmental condition the coffee did not give good production and the borrower couldn't pay back the loan according to their agreement and he was obliged to pay back half hectare of coffee farm for the lender in kind. So the borrower sold his coffee farm with very cheap price which is 10,000 ETB. From this case we can understand that usury directly affects the economy of the society. The farmer narrated his life experience with regret and sorrows. Because both daughters couldn't succeed their education at universities and also he expropriated his property or coffee farm by usurer.

Measures and challenges of Fighting against Usury

Usury is the situation in which the rich get richer and the poor get poorer and it is an endemic practice which causes the fluctuation of demand and supply. The participants' views were also assessed on how to eliminate or eradicate usury. The assessment discovered the fact that the community lacks awareness

regarding the illegality and negative impacts of usury and efforts towards raising awareness are very minimal.

In addition as the interviewee replied; they have not been involved in any kind of awareness creation training regarding the negative effects of usury before they are affected by it. They are practicing it as if it is a legally permissible activity. Even they have been practicing it for many years. They came to know about its bad effects and illegality only after being severely affected by it. This shows that different government institutions and NGO which mainly focuses on issues of credit and saving activities of the community did not organize any kind of community forum. The MFI (OCSSCO) which is operating in the study area gives awareness creation only on saving.

The justice sector is also involved creating awareness in the community on different crimes; while it is very much silent about usury. This indicates that to reduce and eliminate the usury practice taking awareness creation measure is the decisive solution. In rural areas the community raises the issue of collateral for MFI to get credit. The FFI always provides loan depending on the collateral or guarantee that the borrower attached to the institution. But the poor community don't possess fixed asset to use it as collateral and prefer loan through usury. This results in expansion of usury practice. Then poor farmers forwarded the idea of green card (Site plan) which shows the owner ship of land as a guarantee to give loan. In the study area using Green card of farmers as collateral to give loan is not accustomed. So to reduce the magnitude of usury using Green card as collateral is one means of eliminating it.

On the other hand participants are also reflected that the justice sectors entertain the case of high interest rate (usury) as it is a legal activity, especially the court accepts usury related cases as right and legal. It means that when the usurer brings its complaint to the court, the decision is given as the high interest rate loan (usury) is a valid contract.

But in Civil Code of Ethiopia (1960) article 2479 the interest rate issue is clearly stated. The parties should not make a loan contract which its rate of interest exceeds twelve percent per annum and where it has been agreed that the loan will bear interest but a higher rate has not been fixed in writing, the borrower shall owe interest at the rate of nine per cent per annum. Also the borrower shall also owe interest at the rate of nine per cent per annum where a rate exceeding twelve per cent per annum has been agreed in writing. This provision clearly limits the interest rate of loan. It shows that the interest rate should not be abusive and exorbitant and should not be greater than 12% percent interest rate. In addition the individuals should not make a contract to pay more interests by their free will; if they do, it will be null and void (Eth. Civ. C, 1960).

To eliminate usury the justice sectors should interpret the loan contract according to anti-usury provision of civil code of Ethiopia. In our country usury is also prohibited by criminal law. The FDRE Criminal Code of 2005 clearly stated the term usury. Especially article 712 clearly prohibits the practice of usury.

“Whoever, by exploiting a person's reduced circumstances or dependency, material difficulties, or carelessness, inexperience, weak character or mind lends him/her money at a rate exceeding the official rate; or obtains a promise or assignment of benefits in property in exchange for pecuniary or other consideration, which is in evident disproportion, shall be punishable, according to the gravity of the case, with simple imprisonment, or with rigorous imprisonment not exceeding five years, and fine. Whoever, with a similar intent, acquires a usurious claim and sets it up against or assigns it to another, shall be liable to the same punishments” (FDRE Cr.C, 2005). As it is replied by participants the big challenge for elimination of usury is the miss interpretations of these civil and criminal anti-usury provisions; by executives and judiciary organs.

In general to eliminate usury, the affected people suggest that the government should aware the community and the justice sector should follow up these loan sharks. In addition the government should facilitate ways by which the rural and urban poor communities get the credit from financial institutions by mortgaging the immovable property. The MFI should also facilitate to give credit individually for economically weak peoples.

CONCLUSION AND RECOMMENDATIONS

Summary

In this chapter; conclusion, recommendations and areas for future research are presented. The conclusion and recommendations are made based on the results of the study obtained through the questionnaire distributed to 207 respondents and interviews conducted with 8 participants who were affected with usury problem to assess the socio-economic impacts of usury. In addition it is based on individual cases and court cases presented in this study. The two main sources of data used for the study were, primary and secondary sources of data. Questionnaires and interview were used as the main instrument to collect the primary data. So the findings showed that usury strongly affects the social and economical life of the community and it needs due attention by the concerned body to eradicate it. Accordingly conclusions and recommendations are listed below.

Conclusion

The general objective of the study was to assess the socio-economic impact of usury. To attain the

research objective the data was collected from farmers, traders and peoples affected with usury. The collected data was analyzed by using mixed method approach. Based on the analysis made in the previous section the following conclusions are forwarded.

Firstly the finding confirms that usury is in fact practiced in Aira woreda. It is considered as a normal business activity and it is obtained easily within few days than formal loan securing process. Different parts of the community such as traders, farmers, government employees and NGO workers are engaged in usury activity.

Secondly a number of factors; such as accessibility of formal credit service, lack of collateral, limited income, community and family characteristics, inability to fulfill requirements of MFI, fear of risk, lack of punishment of usurers are the common reason for the cause of usury. In simple descriptive analysis the age between 26 and 40 were engaged in the practicing usury, this implies that the youth is in need of credit services.

Another constraining factor that youth have difficulty with is accessing information about salient policy and legal frameworks relevant to them. The requirements to get credit services such as collateral, guarantor, and group lending system and lack of property for collateral in some cases are some of the explanatory factors for cause of usury. The poor people prefer loan through usury; because they find it difficult to access credit from MFI. The poor especially the very poor could not form a group because others did not want them in their group; as a result most of the very poor people are marginalized to access formal credit. In addition the compulsory saving which is earlier saving requirement by the institution excludes peoples those who are unable to meet this requirement especially the very poor. The maximum repayment period has been limited to one year and it is not flexible. Moreover, the repayment time of usury loan is more or less flexible compare to formal loan. In formal loan all the group members are expected to repay at the same time. This was difficult since the ability to pay may not be uniform overtime. In addition, one has to wait until all group members have repaid. This may also affect continual access to credit which result in the preference of usury. Though, the interest rates charged by the usurers are greater than MFI; few people are positively perceived the interest rates charged by the usurer in their area due to lack of awareness that leads to borrow from private moneylenders or ‘Arata Abedari’ at higher interest rate.

Thirdly the study indicates that usury is practiced in different mechanisms. The role of brokers in highlighting only the greener side of usury which draws an attractive image of earning money from usury is also identified as an aggravated factor to expose people to usury. In addition to this, family members and

relatives are playing a significant role in facilitating the process of usury. Movable and immovable properties are used as collateral and most of the time these properties are expropriated by usurers. In some cases; when the loan is given through usury the interest rate is added to the principal loan. The findings show that the average annual interest rates on usury loans vary from 100 percent to 140 percent per annum. At this time the OCSCO providing loans in the same area charged an interest rate of 17 percent per annum. The observed interest rate gaps between formal and informal interest rates are confirmed.

Fourthly, together with the constraints observed so far the practice of usury, affects one's financial, social, physical, and psychological well-being with both short and long-term implications. Accordingly, in the short term the working poor have to work excessively for long hours to cover increasing costs of life and to pay back the usury. The cumulative over-working with low return, the human capital will go undermined and this in turn diminishes their physical capital in the long-term which lastly affects the economical and social life of the community. In addition expropriations of assets by usurers with very low price have negative impact on social and economic life of the individuals which may leads to different conflicts.

Lastly as identified by the study, there are some challenges to eliminate usury. The justice sectors are entertaining the usury cases only its civil matters and the usurers are not yet investigated and criminally liable. In addition the usury contract is treated as a valid contract by justice sectors of the study area and efforts to raise awareness of the community is very less.

Recommendations

As this study identified the usury has impact on social and economic life of the community and its' protection by the concerned body is very limited. Most of the people are practicing usury, disregarding the formal loan service operators eventually discounts the effectiveness of the local government's effort on poverty reduction and local economic development. Based on the findings of this study and the conclusions drawn above, the following issues are recommended in order to minimize the Scio-economic impacts of usury.

- The government and other concerned stakeholders should focus on supporting the awareness creation of the community on usury and other related issues. To make people more aware the risk and consequences of usury information campaign should be conducted within the communities
- As mainly the problem is related to economic issues that expose to Usury, the local administration in collaboration with civil societies needs to come up with job opportunities for citizens and arrange them with

various small scale streams by providing credits and giving training with regard to how to manage their income properly and to engage themselves in various formal sectors like micro-credit associations

- Increase the effectiveness of the law enforcement and judicial system through training implementing anti-usury measures and improving the skill of law enforcement officials in order to reduce the usury crime and improve over all socio-economic problems.
- Thus, the government should give due attention to build the capacity of MFI to access the local people to use the formal loan service.
- Anti-usury committee should be established at all level to facilitate and supervise the loan service for the community and to protect the usury practice. The anti- usury committee should deal with informal loans to make lower interest rate including the possibility of making zero interest than formal loans and enforcing the social ties to pay back the loan. This makes informal credit a prior more attractive to borrowers.
- The Farmers cooperatives in rural area and different cooperatives in urban area should create conducive environment to give loan in low interest rate for the local people.
- MFI should expand their office below woreda level. Now in study area the MFI office is only located in the center of the woreda which is the main problem for accessibility and outreach.
- The study showed that many people receive loan from formal credit institution with low interest and lend to other peoples with very high and exorbitant interest rate. So to protect this problem the business plan of the creditors (from formal) should be strictly followed by financial institutions.
- As it is mainly related to economic issues and inaccessibility of microfinance institutions that expose to practicing usury, the local administration should collaborate with concerned MFI to render loan services for very poor peoples who don't have assets to use as collateral.

Areas for Future Research

This study was only focused on socio-economic impact of Usury in the case of Aira woreda, which is found in West Wollega Zone Oromia Regional State. However, other study should be conducted to cover other places in Ethiopia. Furthermore the findings of this study focused only on socio-economic impact of usury, but political dimensions of usury is not addressed by the investigator; hence other researchers can do more on this issue by using a different methodology.

ACRONYMS AND ABBREVIATION

CBE- Commercial Bank of Ethiopia

CSA - Central Statistical Agency
DA- Development Agent
E.C - Ethiopian Calendar
ECX- Ethiopian Commodity Exchange
ETB- Ethiopian Birr
FFI- Formal Financial Institution
IFI- Informal Financial Institution
MFI- Microfinance Institution
NBE- National Bank of Ethiopia
OCSSCO- Oromia Credit Saving and Share Company
MSE- Micro and Small Enterprise
SPSS- Statistical Package for Social Science

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