

## SHORT NOTE

# HISTORICAL ROOTS OF MICROCREDIT AND USURY: THE ROLE OF *MONTI DI PIETÀ* IN ITALY AND IN THE KINGDOM OF NAPLES IN XV–XX CENTURIES

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**Abstract:** The study investigates the role of the Monti di Pietà in Italy and in the Kingdom of Naples from the fifteenth to the twentieth century in promoting the development of contemporary microcredit. The object of the research is to run, through the archival sources and regulations promulgated by the Church, a historical analysis on the evolution of the financial instruments, modern features of the operations and microcredit institutes of the contemporary age. The letter identifies a crucial role of the Monti di Pietà in the provision of credit to the poor as a form of contrast to usury and local development. © 2018 John Wiley & Sons, Ltd.

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Usurious rates have become so standardized and socially acceptable in all third world countries that not even the borrower notices how oppressive the contract is. (Yunus, 2007)

There are usurers in every society. Unless the poor can be liberated from the bondage of the money-lender, no economic programme can arrest the steady process of alienation of *the poor*. (Yunus, 2007)

Microcredit represents a revolution in the global economic-financial framework: providing small loans, it aims to facilitate the start-up or consolidation of small businesses,

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essential for the redemption of 'non-bankable' subjects, excluded from the access to traditional credit lacking in collaterals (Gatto et al., 2016; Armendáriz & Morduch, 2010). When the access to traditional finance is denied to these subjects, often shadow loans recur. It results the need for an alternative credit system, which solves a demand diversely flowing into illegal channels, a structural phenomenon in many world economies. Both in industrialized and developing countries, usury undermines virtuous economic loops, limiting employment and decent working and living conditions, undermining the livelihood of the oppressed families. Repayment rates and practices involve frequent financial suffering for contractors (Gatto et al., 2016; Armendáriz & Morduch, 2010). The problem concerns the beneficiaries but also affects the whole community: being inhibited investments, consumptions and micro-entrepreneurial development, usury favours the stagnation of local economies. Microcredit facilitates the emergence of non-bankable subjects from poverty, operating on social inclusion, gender and youth empowerment and local community development (Agovino et al., 2018; Gatto et al., 2016).

As a microfinance service, microcredit is a response to credit market incompleteness: the failure of the banking system to guarantee access to credit to the poorest is due to information asymmetry, which implies an adverse selection of customers; these are chosen on financial parameters that are not suitable to provide clear information on their future solvency and potential moral hazard (Gatto et al., 2016; Armendáriz & Morduch, 2010). Being a phenomenon implanted in the territory, easily fitting into local dynamics, usury has a competitive advantage over the traditional financial sector. Another asset is the banking reluctance towards risky customers: this is rooted in the unwillingness to incur transaction costs, territorial analyses and insolvency risks due to the debtors' lack of guarantees, especially for small, irrelevant loans (Gatto et al., 2016; Armendáriz & Morduch, 2010).

The historical excursus that led to the contemporary microcredit institutes has ancient origins. Among the first microcredit initiatives, the work focus on Monti di Pietà, institutes that provided to the poor consumption loans to face liquidity crises, asking for emotionally valued assets in change. The Monti di Pietà born with the aim of containing the rampant recourse to usury (Archivio Storico del Banco di Napoli (ASBN), n.d.; de Rosa, 2006; Prodi, 1982). The microfinancial institutes flourished in the second half of the twentieth century, inherit the legacy of the Franciscan mission of the Monti di Pietà and initiated in Europe from the second half of the fourteenth century. The Monti di Pietà spread in Italy, were born in the mid-fifteenth century and were eventually regulated by the Papal Bull of Pope Leo X (Leo X, 1515). Though, the stigma to usury had been expressed already in the two preceding centuries by the ecumenical councils of Vienne and the second council of Lyons. It is in Italy that can be detected the roots of the primordial microcredit institutions: with the Bull *Inter Multiplices*, the X Session of the Fifth Lateran Council, May 4, 1515, it was stated the 'intent to avoid the threat of usury' and to 'come to the aid of the poor'. The Council approved the establishment of the Monti di Pietà, setting the payment of a 'modest remuneration for the sole expenses (...) and maintenance, without a gain for the Monti themselves', being institutes governed by donations made in a spirit of liberality. The Council also required for the operation the territoriality of the beneficiary of the loan, her oath as a moral guarantee and the participation of the Monti in activities that would generate political, social, religious and cultural impact for the territory, triggering a first principle of ethical finance. Finally, the Bull specified that 'this type of loan (...) must not be considered as usury' (Leo X, 1515; Archivio Storico del Banco di Napoli (ASBN),

n.d.; Muzzarelli, 2001; Prodi, 1982). Thirty years later, with the Council of Trent of 1545, the Monti will be recognized by the Church among the Istituti Pii. (Archivio Storico del Banco di Napoli; Prodi, 1982).

Despite the delay in its spread as compared to Central and Northern Italy, in the Kingdom of Naples, the role of the Monti is particularly relevant especially when considering its scope of tackling economic crises and stagnation. The Monte della Pietà of L'Aquila was the first to be established in the Kingdom of Naples, while the first microcredit institute to be founded in Naples was the Monte della Pietà of San Marcellino, following the 1539 Decree of Charles V, promulgated to combat the widespread practice of usury in the Viceroyalty (Archivio Storico del Banco di Napoli (ASBN), n.d.; Balletta, 2009; de Rosa, 2006; De Marco, 1982; Avallone, 2007). In the seventeenth century, the Monti di Pietà will be coupled with the tontine, quota collection, investment and final allocation of profits system. The Southern Italian system, based on private, non-religious initiatives, was more likely to help facing liquidity needs and to finance commercial ventures, pioneering the 20th century microcredit rationale (Archivio Storico del Banco di Napoli (ASBN), n.d.; Avallone, 2010, 2007).

Over the years, the function of the Monti has seen a decisive change in the destination of funding, constituting itself as real banks, inheriting the function of the *trapezites* (money counters) of ancient Greece (Archivio Storico del Banco di Napoli (ASBN), n.d.; Prodi, 1982; Avallone, 2007). The history of the Monti di Pietà in Italy interrupts at the beginning of the Kingdom of Italy, especially after the dissolution of the Pontifical Administration in 1871, 9 years after the mutation of the institutes in Opere Pie (Legge 753/1871, 1871). This fact underlines how profoundly has changed the objective of the credit institutions over the centuries in Italy: from the mutualistic renaissance purposes to the mere banking purposes of the contemporary age. The contrast to usury in Italy will be regulated by the law on usury (Legge 108/1996, 1996), which introduces a limit to the interest rates on financing operations beyond which they are considered usurious. For the purposes of the valuation, reference is made to the time when the interests are promised or agreed, regardless of the time of payment (Legge 24/2001, 2001).

Contemporary, in the second half of the nineteenth century, they spread more complex societies of mutual aid and cooperative nature across the model of Friedrich Raiffeisen credit unions. This was the first example of a loan aimed at investing directly in groups of people from the same village, that is, group lending: the focus of intervention shifted to entrepreneurship, displaying local economic and social benefits (Armendáriz & Morduch, 2010; Yunus, 2007; Gatto et al., 2016). This model generated the proliferation of similar institutions in Europe and in some colonies; among the other, one should mention the Bengal state of British India, in which the group lending will be implanted for a long time and, starting from 1976, will prosper due to the Grameen Bank bloom (Yunus, 2007). Group lending will become one of the constituent elements of the current microcredit model, facilitating group fulfilment systems based on trust and social capital, inclusion, active participation, training programs, management support and the network (Armendáriz & Morduch, 2010).

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