An Overview of Related Literature
Eminent scholars and thinkers from the faculties of social sciences and banking have shown great interest in analyzing the various issues of indigenous and informal finance systems and recommending remedial measures for them. Social scientists approached the problem at both micro and macro levels by relating them to studies pertaining to the socio-economic conditions of people and the culture and organizations of societies. In this chapter an earnest attempt has been made to review the major studies on indigenous finance systems which are related to, in one way or the other, to the present study. It is done in five sections. Section I reviews the major studies on informal and rural credit. Section II deals with major studies related to micro finance. Section III deals with the studies relating chit finance. Section IV enquires major studies on Kurikalyanam/panampayat. Section V discusses various studies relating Islamic economics and banking and the last section deals with other related studies.

2.1 Studies related to informal and rural credit

The Study Group (1971) appointed by the Banking Commission is a major step in the analysis of informal and rural finance. They have analyzed the evolution and growth of indigenous banking. It covers the structure, the instruments of credit and the financial operations of such institutions and their relation with formal and informal money market. It also discusses the regulation, control and the future of indigenous banking systems.

In their report the study group categorized the indigenous banks into money lenders and indigenous bankers. As the term of reference of the study group was “an
evaluation of the utility of indigenous banking agencies” they confined the study to the activities of indigenous bankers only. Two characteristics have been emphasized to identify an indigenous bank namely the acceptance of deposits and the dealings in hundies. It has given light in to the various aspects of the definition of indigenous banking systems and the history of indigenous financial agencies. They say that the system of indigenous banking in India had an ancient growth dating back to Vedic times. In continuation, it discusses some of the money lending systems existed in Vedic period (2000BC-1400BC), Sudra period (700BC-200BC) and in the Mughal period. They say that the Mughal period was the period in which indigenous bankers enjoyed a preeminent position in society, being the soul source of finance to the community. When the British came to India in the 17th century, it made an adverse impact on the indigenous banking agencies. The report explains the structure, functions and methods of operation of indigenous banking agencies. In this section it gave a detailed description of different types of indigenous banking communities, of which Shikarpury shroffs or Multanies, Gujarati shroffs, Nattukotta, chettiaras and kullidaikurichy brahmines of Assam etc. are broadly discussed. Various aspects of hundi, which is the popular method of advancing loans by indigenous banks, are discussed. The report also pointed out the need for regulation and control of indigenous banking. The report correctly touched on the shortcomings of the system and provides solutions to improve the indigenous finance systems.

Kurup, Narayana T V (1976) enlightened the various issues related to rural credit of Kerala. The study was based on a survey conducted at Thiruvananthapuram taluk to
enquire about the crucial aspects of the rural credit market in Kerala. The imperative verdict of the study can be summarised as given below.

- The non institutional agencies account for an overwhelming proportion of the credit supply in Kerala.
- The average rate of interest is much higher than the average indicated by the Reserve Bank’s All India Debt and Investment Survey.
- The bulk of the institutional credit is appropriated by a relatively small proportion of households belonging to the upper stratum of families. The cost of credit is thus inversely related to the economic status of the borrower.
- The distinction between professional and non-professional moneylenders is irrelevant in practice; both cater to the same clientele, take identical types of securities and charge the same high rates of interest.
- The actual interest on a good proportion of loan transactions is concealed.

The study reveals that the rate of interest in the unorganized rural market is higher than that of in the organized market.

He quoted The All India Rural Debt and Investment (AIRDI) Survey findings that the average rate of interest on rural credit is very low in Kerala than the all India average. It found that all India average rate of interest was 10 per cent, while it was 3 per cent in rural Kerala, and the proportion of borrowing at ‘nil rate’ of interest was 65.8 per cent in Kerala and it was only 29.2 per cent at all India level. That is a high proportion of loans is reported to be interest free. The study opines that it is possible for borrowers in the rural areas of Kerala to get interest free loans to such a large extent. However the study fails to bring to light the disguised interest burden. The study hypothesized that
the actual rates of interest on loan in rural Kerala are high. To test the hypothesis a
survey was conducted at rural areas of Nemam panchayath in Thiruvananthapuram. The
survey brings to light that 67 per cent of households reported debt outstanding, and the
proportion of indebted households varies according to different occupational groups. It
expounds the various occupational groups and their ratio of indebtedness and various
factors affecting supply of and demands for credit. It also talks about correlation
between occupation and community, and between community and indebtedness, and
the proportion of indebted households is the lowest among the Other Backward
Communities and the highest among scheduled castes. The study also reveals that the
average amount of outstanding debt among cultivator household is higher, as they are
in need of credit for current production as well as for investment, and may borrow for
consumption purposes. Then the study deals with the sources of credit, which are
professional and non-professional moneylenders, traders, friends and relatives, chit
funds, cooperative credit societies and commercial banks. They have seen that even the
friends and relatives advance loans not out of love alone; they charge rates of interest as
high as any charged by other types of creditors. The non-institutional sources contribute
the lion’s share of credit. Since the implied rates of interest appear in many disguised
forms, it entirely escapes the net conventional surveys. So they investigated the real rate
of interest, which threw up interesting result that the actual rates of interest are quit
high. The study is very much expedient to divulge the encumbrances of rural indebted
households.

Platteau, J Murikkan, et. al (1980) in their study attempted to analyse the
working of rural credit market in a traditional fishing village in south Kerala, Poovar in
Thiruvananthapuram district. Poovar is a backward, fishing village where all households in one or other way depend on fishing activities. According to the estimation of the study total labour demand exceeds total labour supply by about 25 per cent. So the reason for poverty is not be traced to prolonged states of chronic unemployment but to low productivity occupation and seasonal and technical unemployment either due to roughness of the sea or absence of fish.

As far as the local credit system is concerned, a crew labour may be indebted to his employer on account of three main kinds of loans.

- The loan known as a ‘wage advance, which is taken at the time of joining and would not have to return as long as he continues there
- Loan taken later, on the understanding that it is not to be repaid except if he leaves his employer, and
- The loan taken later and has to be repaid as soon as possible or it is stipulated for a definite duration.

The study showed that almost 90 per cent of the loans are taken on first two categories. The study group observes that the loan is a strategy to influence the process of labour allocation the owner stipulates till repayment, the attachment of the labourer-borrower to his present crew and the owners maximize their crew stability and minimize the risk of underutilization of their productive assets. The labourers are free to leave the employers whenever they want provided they have previously cleared their debts, so the loan is not considered as the instrument of ‘debts­ bondage’. They quote Rudra (1978), “whether a relationship between two persons is one of an economic contract between them or one of domination and subjugation over an undefined range and
without any spelt-out terms and conditions. It is only in the latter case that concept of feudal bondage is relevant”. They also observed that all the loans taken from employers are free of interest, and the new employer comes to the help of the crew labourer by taking over his previous debt. These types of financial ties exist among those who require a large number of people for operating their gears.

The study also observes that one major credit source of Poovar is the fishermen community, which includes relatives, friends, neighbors, etc. They together account for 57 per cent of the number of loans taken during that period. Another 9 per cent of the loans granted by local shopkeepers, in cash and kind are interest free granted against pledging of the ration cards. In addition they found that 45.3 per cent of the households in Poovar turn out to have pledged their ration cards. The loan issued by institutional credit agencies and money lenders are marginal. The study then tries to analyse the purpose of loan taken, and found that the major head was for consumption expenditure and then, social expenditure like marriage. One interesting feature is that 90 per cent of the loans were granted on a mutual trust basis without even having the pledge.

The study summarized three basic propositions about the unorganized credit market of poovar :-

- There is an acute shortage of loanable funds,
- The allocation of the rationed credit among the potential borrowers brings non market mechanism into play, and
- The rationing of the credit involves discriminatory practices and is not strata-neutral.

The study explains that the main credit agency to which willing borrowers are resorting is located within the fishermen community, and about 93 per cent of the
fishermen are actually in debt. It is also found that there is no tendency to repay debts as soon as the repayment-capacity exists. The study concludes by stating that ‘it would be meaningless to isolate the credit sector from the rest of the socio-politico-economic setting in a traditional society like Poovar.

The study was carried out in 1970’s and most of the socio economic conditions might have changed. The above said credit market and structures and functions of the credit may not exist. Still the study has thrown some light into the structure of rural kerala and the financial dealings existed among various segments. It would be helpful to compare this with other financial transactions existed among other societies.

Das A Gupta and C P S Nair (1989) in their book share an assortment of concerns about the informal credit market structure and operations, the impact of government regulation on informal credit market, the impact of this on allocation, distribution and growth of the rural economy. Finally the study put forward policy suggestions to regulate informal credit markets. The study covers ‘non-institutional credit’ and informal intermediary sectors. It gives a brief guide to the types of informal credit and to participants in informal credit market in urban India. There are 10 types of informal intermediaries and lenders namely chit funds, finance corporations, hire purchase firms, nidhies, clearing agents, inter corporate brokers, textile wholesalers, aratiyars, angadias and sroffs. In the sectoral deployment of funds of intermediaries, it is observed that hire purchase firms provide finance primarily for new and used commercial vehicles and consumer durables; the handloom financiers provide working capital finance for production by handloom weavers in the unorganized sector; nidhies finance to households and small business for construction, renovation and repair of houses and
buildings for a duration of up to seven years; chit funds finance traders, self employed persons, agriculturists and consumers; shroffs finance domestic trade through hundies. It is ascertained that consumption loans form only small part of informal credit. The importance of informal credit to productive sectors is asserted as the film finance in Madras, trade credit for productive sectors, finance in the road construction, textile distribution, etc. The study reveals that informal credit is still the main source of finance for small industrial and trading units. The study also found that while large share of formal credit goes to the household asset group, more informal credit goes to asset poor and wealthy households.

The study finds that the interest of informal sectors is generally high and there are some interest free loan from friends and relatives. Informal credit is largely used for productive activities. Informal market is generally at the competitive end of spectrum of market types. Aggregate informal credit forms about 73 per cent of gross bank credit. Informal credit promotes efficiency of resource allocation. Informal credit is complementary to bank finance. Informal loan shows greater diversity and readier adaptability to borrowers than formal loans. Informal credit assessment and loan sanctioning procedures are speedier than formal procedures. To the majority of households and unorganized enterprises informal loans are the main source of borrowed fund. Informal credit is more important for working capital and capital maintenance than for financing the purchase of capital goods. Finally the study suggests that the regulation of urban informal credit should be directed at ensuring improved information about informal credit and intermediaries, and ensuring the financial probity of informal intermediaries. The study is an authentic analysis of urban informal credit
market. However, it considers only the mainstream informal credits and it is silent on other indigenous financing systems.

Ghate, Prbhu (1992) compiled a collaborative research project on informal finance across a common set of issues in five Asian countries on behalf of Asian Development Bank (ADB). The study is the result of conclusion of one earlier workshop of ADB that the understanding of financial development would remain incomplete unless systematically set out to learn more about the informal financial sector. Hence, the study begins by highlighting the importance of informal sector by stating- “Side by side with the formal financial sector there exists in most Asian countries a highly heterogeneous and dynamic informal financial system, largely hidden from view, but almost as important in aggregate terms as the formal financial system”. This study gives extensive and comprehensive information about the structure, size, types, impact and policy implications of informal sector existing in five Asian countries of India, Bangladesh, Indonesia, Phillipines and Thailand. Though the study covers almost all aspects of informal finance, it is restricted to various money lending practices in various countries. It makes an extensive analysis of major types of informal finance like group finance, intermittent lenders and regular lenders like tied credit and untied credit with their various aspects. The analysis of indigenous bankers was also limited to traditional bankers like hundies, courier services to finance trade, etc. While discussing the Indian scene, it mentions six main lender types- land lords, agricultural money lenders, professional money lenders, traders, friends and relatives. It adds that there are no landlord lenders in Kerala. It also mentions the money lending practices existing among fishing workers in Kerala, for ensuring their availability in peak season of labour
shortage. However the study doesn’t cover the interest free finance practices or finance systems like *kurikalyanam*.

### 2.2 Studies related to micro finance

Jayaraman’s study (2001) attempts to document the genesis of microfinance, programmes in Indian experience and that of other countries. As poverty is the major issue of developing nations, the study highlights the need for a focused attention to evolve suitable strategies and designing appropriate programmes, which would meet the needs of the poor. It viewed that the origin of microfinance could be traced to the co-operative movement in Germany and the cooperative Credit Societies Act of 1904. The study focusses on various anti poverty programmes, the role of apex institutions like NABARD, SIDIBI and the role of informal sector and NGOs. It also examines the experience of other countries like Bangladesh, Nepal, Philippines, Thailand, Indonesia and Latin America. The study highlighted the following factors that contributed to the success of the microfinance programmes in the country.

- organizing the poor in homogenous and cohesive groups
- inculcating the habit of thrift amongst the members of the group
- reducing the transaction cost to the borrowers and lenders
- providing timely credit
- freedom to the group to charge interest rates as per perceptions
- efficiency in recovery of loans through peer pressure, and
- stress on empowerment of women.

Bell, Christa’s (2003) study is conducted in the context of poverty and women participation rate and discrimination faced by them. The study aims to understand the
contribution of microfinance to the well being of poor women, assess the role played by microfinance in building up economic and political capacity of women, to evaluate the performance of SHGs, and study the extend of poor and women in microfinance institutions. It is based on primary and secondary data. In the theoretical and empirical analysis of microfinance, it discusses the sustainability, outreach or targeting and impact. While giving the historical overview it explains that the deficiency of finance led to the emergence of microfinance. Financial institutions such as Rotating Saving and Credit Association (ROSCA), Cooperatives, Credit Unions, etc. are the traditional agencies of micro lending. Then it follows the analysis on the experience of microfinance programmes of Bangladesh and some other countries. Discussing the Indian experience it touches the SEWA, which includes small scale venders, traders and hawkers, home based producers and agricultural labours, construction workers etc. SEWA has empowered these women and organized its own cooperative bank, insurance scheme and started several skill training courses and it provides all banking facilities to its members. It also assessed the performance of microfinance institutions in Kerala by conducting a field survey in the Samatha Vanitha Swayam Sahaya Sangam (SVSS) of Ulloor panchayat in Thiruvananthapuram district. It reveals that the beneficiary women are middle aged group and majority of them belong to backward classes who had no saving habit with other financial institutions. All SHG members save regularly and microfinance loans are given for wide range of purposes. The members of SHG could strengthen their political, democratic and economic capabilities. Though the performance of SHG is satisfactory, the enthusiasm of leaders as well as the members decline. Finally it gives suggestions to strengthen the MFIs, to arrange work related
training courses, to arrange entrepreneurial development programmes as suited to
women to appoint counseling experts, etc.

2.3 Studies related to Chit finance

Nayar, C P Somanathan and Dr. P R Brahmananda (1973) have done a pioneering
work on chit finance. They attempted to explore all the patterns and procedures of chit
finance and to examine the economic aspects of it in an empirical and analytical basis. It
considers chity or kuri as an indigenous institution and differentiates it from nidhies. Lot
chity, various state lotteries and their economic significance in the country are discussed
in detail. It examines the auction chity, its working and periodicity. The ratio between
investors and borrowers in any one chity, the asset and liabilities of foreman, the role of
commercial banks in the field of chities and the question of legislation are also
discussed.

The study illuminates that the basic principle of chity is accumulation of saving
and the people just adjust their expenditure on a priority basis and encourages the poor
to spare something for future. Chity is a ‘sacrificial saving’ as it is effected by curtailing
consumption of the most essential thing in life and the saving has an element of
compulsion with self imposed obligation which affects the saving ratio of the society.
Chity provides its members a facility for supplying credit on easy terms and it has
developed a ‘chity habit’ rather than ‘banking habit’ and it is a positive institutional
alternative. The study opines that chitty has been exploited for personal advantages of
many foremen ever since its appearance as a financial institution. Further the factors
like weakness and ignorance of the subscribers, government attitude and rapid growth
of chit funds led to the malpractices and exploitation in the fund. As a result
governments stepped in to regulate and control them and enacted various laws. Even though there was an enormous volume of legislations the study suggests revision and modification of such laws. After discussing the idea of nationalization, the study is in doubt in the success of it. They argue that “It may even kill the system because the chitty, as its evolution shows, progress mainly through individual initiative and enterprise and also due to absence of official procedure and formalities.”

Radhakrishnan S (1975) approached chit fund in another angle. The study tries to critically examine the working of chit funds and finance companies, both as a source of credit and investment. The study also examines the extent of possible abuses and reviews the present position regarding regulation of chit funds.

Varghes P P (1976) tried to analyze the role of chit funds in mobilizing small savings and its impact on economic development. The study looks in to the origin and development of chity, chit funds as NBFI mobilization and utilization of saving through chity and the activities of Kerala State Financial Enterprise (KSFE) as a public sector chity. Since chity increases the money velocity, bridges the gap between borrowers and lenders, gives high dividend to pure savers, the study observes chity as an NBFI.

After giving the performance of chity in Thrissur district the study analyses the mobilization of saving through chity generally in Kerala and particularly in Thrissur. Chity is a contractual saving and during the 10 year period, between 1966 and 1976, an amount of Rs 80 crores and Rs 14 crores are mobilized in Kerala and Thrissur respectively. The study also reveals that more than 60 per cent of persons who enrolled in chity are in the age group of below 30 years, and 67 per cent of the quantum of money comes from rural area. Thus the study proves with supportive data that in
Thrissur district chity is an important instrument in mobilizing savings. Even though it is very difficult to analyse the utilization of prize amount, the study reveals that 37 per cent of the total amount is directly utilized in the productive sector. The rest of the total amount is used to deposit in banks, to construct houses, to clear old debt and for consumer durables. The performance of KSFE is analyzed in terms of management, capital, business, staff pattern, default, profitability and mobilization of savings. The malpractices of foreman and the possibilities of cheating are also discussed in the study.

**2.4 Studies related to kurikalyanam/ panampayat**

Raju G and K Sasikumar (1995) conducted detailed survey among forty respondents from two villages in Kozhikode and Malappuram districts. The study observes that the panampayat is an easy way of raising funds to meet one’s financial needs without any collateral security, interest, and even any type of legal formalities. They opine that it is a sort of parallel financial set up which is as important as formal financial institutions. They also notice that the system has significant influence on the socio-economic and cultural fields of the societies of north Kerala. They opine that while people use the method of sale or mortgage of land or properties or borrowing from friends or banks or money lenders, Keralites especially North Keralites (Malabar region), follow an entirely different method for solving their financial stringencies, that is, panampayat. The study concludes that irrespective of its demerits, panampayat has had a significant influence on the families in North kerala as it developed like a parallel banking where they borrow, deposit and invest to overcome their financial instabilities.

V Abdulla (2001) also focuses on the different formal and informal sources of credit and modes of saving of rural masses. He mainly looks into the nature and
significance of panampayat, the utilization of this fund and its impact on investment, asset creation, social cooperation and communal harmony. The study observes that a lion’s share of people in the study area irrespective of their caste, income, job, education and social status participate in panampayat. The most preferred and availed source of credit is panampayat followed by institutional credit, and it is the main mode of saving of the area is panampayat followed by chit fund and provident fund (PF). It is found that an amount of Rs.1165000 is saved by 80 respondents through panampayat in the year 2000. Major activities like marriage, house construction and productive investments have been financed by panampayat and it helps to acquire various assets and property. A person organizes three payats in duration of ten years and most of the respondents (80 %) continue the payat. Above all it enhances the communal harmony and social cooperation

2.5 Studies related to interest free Banking

Moore, Philip (1999) divided his work in to two major parts. The First Part deals with the theoretical and historical background of Islamic finance, which is based upon the principles of profit and risk sharing and partnership between the individual and the institution. The second part is a geographic review of the various countries where Islamic financial institutions are in operation.

Various principles of Islamic finance, insurance, equity finance and project financing in the Islamic framework are verified. While highlighting the contemporary experiences of Islamic financial institutions, he has also tried to tackle the legal problems as well as the issues related to accounting and the regulation of these Islamic banks.
In the second part of his study, the author has given an aerial view of the development of Islamic banking and finance in different parts of the world. He has clearly highlighted the problems and prospects of Islamic banking and finance. The main issues identified are lack of secondary market, lack of universally accepted accounting and auditing standard and the lack of communication between the Islamic and the conventional approach. The author admits that although there are many Islamic countries which are under-banked, Islamic finance now provides the potential for growth among the non-Islamic societies and now it is the biggest emerging market in the world.

Chapra, Umer M (2001) basically, deals with three different sets of questions related to Islamic economics. Has Islam really prohibited interest? Does prohibition of interest make sense”? Are banks without interest conceivable? The author starts his discussion with a point that “it is not Islam alone which has prohibited interest rather all major religions like Judaism, Christianity and Hinduism have also done the same”. However, it can be pointed out here that there may be some kind of reservation regarding interest in other religions, but no religion unlike Islam has completely shut its door for interest. Jews allowed it to non-Jews while Christians could not resist if for long. As far as Hinduism is concerned there was never any strong injunction lest Manu would not have fixed a ceiling on interest rate. It is only Islam whose teaching and injunction regarding interest is clear and final. A brief discussion is also made on those who argue that interest is prohibited because it exploited the poor in favour of the rich and since no such situation is present today therefore prohibition stand void. Author has proved that this argument does not stand before history.
Dr. Chapra also questioned the suitability of interest, keeping in view the objectivity of humanitarian goals. He argues that living beyond means is the result of easily available credit at interest, which is the prime cause of macro economic imbalances and financial instability. To cure this, Dr. Chapra highlighted the need for an equity-based economy, which is the foundation stone of Islamic economic system. Profit and loss modes of financing are suggested as a basis for financial intermediation of Islamic economy.

Nawab, Syed Haider Naqvi (2003) discussed comprehensively the issues of growth, distributive justice and poverty reduction in the light of prevailing ground realities. Another important aspect of this work is its attempts in bridging the gap between different ethical systems. The author proceeds with the argument that the success of developed nations lies in abandoning morally enervating doctrine of predestination, innate human depravity and in freeing the mind and the soul from the excessive dogmatism to scientific enquiry. However the author accepts that unrestricted self-interest behaviour of an individual severing the right of the poor people in the wealth of the rich still remains the greatest flaw in the western economies. On the other hand, the distributive justice found in Muslim economies could be traced to its link to Islamic ethics. Overall, this book is a worthwhile shift from simple theoretical discussion to evaluating the significance of specific policies on the basis of empirical information. Prof. Khurshid Ahmad in his foreword to this book rightly remarks, “The present work represents a landmark contribution towards the evolving discipline of Islamic economics”.

Bagsiraj (2003) tried to analyse the endeavors to establish interest free financial intermediary in different countries at different times. Initially the
purpose to establish such institution was avoidance of interest and providing cost free loans to the needy. In the beginning, we find individual level efforts at different parts of the world, some in the form of Baitul Maals, Associations, cooperatives and non-banking companies. Whereas India’s contribution in the theoretical development of Islamic economics and finance is well recognized, its contribution in the practice of Islamic finance has not received much attention. This book is the first serious attempt in this direction to fill the gap. It is a comprehensive treatment on the Islamic financial institution in India.

Siddiqi, Nejatullah M. (2004) tries to prove that the interest is prohibited by Islam and explains the rationale of its prohibition. The main theme discussed in this book are the Islamic laws on the prohibition of interest and that how it is different from the bank interest for the stability, efficiency and justice are concerned. He has argued convincingly that institutions of interest are the main cause behind the macro level inequality in the economy. He showed how an Islamic financial system is able to meet the various financing needs of the consumers without involving interest. Regarding the monetary management in an Islamic economy, the author points that the Islamic instruments for monetary management impose greater financial discipline, call for transparency and oblige governments to adhere to accounting standards and less inflationary. Prof. Siddiqi has taken all financial and monetary issues that are being discussed in the Islamic banking literature, removed and clarified the doubt raised by the researches.
2.6 Studies related to other area

Kerala State Planning Board (1972), as part of the enunciation of the 20 point economic programme of government of Kerala conducted a study to reveal the extent of rural poverty and indebtedness. The basic emphasis of 20 point programme was augmenting productivity, improving the distributive system and mitigating rural poverty. Discussing the problem of rural indebtedness, the study mentions that the definition of R B I comprises all types of loans, cash and kind, short, medium and long term. In 1962 one R B I study shows that the outstanding cash indebtedness of rural households amounted to Rs.2789 crores. The corresponding figure in Kerala was estimated at Rs.62 crores, which is increased by 40 per cent in 1971; the average outstanding rural indebtedness is Rs.369 per household. The aggregate amount of outstanding rural indebtedness would fall within a range of Rs.95-100 crores. The northern region accounted about 1/3 of this total estimated rural debt. This analysis concludes that the supply of credit has not been in keeping with the relative requirements of different regions, and private sources of credit still cater to the requirements of a sizeable numbers of rural households. The analysis on the practice of money lending in rural areas reveals that sufficient information on private money lending is vague and inaccessible. The rural borrowers are small and marginal farmers, landless agricultural labourers, plantation labourers, rural artisans, small traders, tribals and fishermen. The lenders comprise of commercial banks, cooperative societies, private money lenders, traders and affluent farmers. The small traders depend mostly on indigenous banks and money lenders at exorbitant rate of interest. Various types of loans and rate of interest prevail. Daily loan is the loan meant for one day, and the rate of interest is 10-20 per
cent. Weekly loans, which are repaid weekly at a rate of 10-20 per cent. These transactions are done on the basis of mutual trust; so unless the money lender knows the bonafides of borrower, no loan is given to him. Another loan practice prevalent in the area is ‘Roll’, that is borrow Rs.80 and repay at the rate of Rs.1 for 100 on consecutive days which means 20 per cent interest. A signed document called kaicheetu is used for the transaction. The study also discusses the hundi system and chit funds.

Aravindan K P et. al (2006) on behalf of Kerala Shastra Sahitya Parishat (KSSP) observed the way and the standard of living of the Kerala society. The study throws light in to the heart of the real life standards and thoughts of Kerala. The study begins by criticizing the concept of ‘Kerala modal of development’. it analysed the achievements and crisis of the development pattern of Kerala. According to the analysis the important crises are stagnant economic growth, deteriorating fiscal condition and failures in the generation of employment opportunities.

To conclude, though various studies are conducted on indigenous and informal finance, most of them failed to recognize the financial arrangements based on human values and cooperation. The financial intermediation without the interest or an element of exploitation is out of their consideration. Though kurikalyanam and panampayat are discussed by some of the scholars they are not comprehensive in their structure, functioning and impact on the society. Hence the present study is a humble attempt to fill this gap.