CHAPTER THREE

Indigenous Co-operative finance systems
The financial system of every economy is controlled and regulated by the monetary authorities. The lion’s share of financial structure consists of formal financial system. In most of the developing countries, the system is characterised by the co-existence and interaction between the formal and informal financial sectors. Informal financial sector is an unorganized, non-institutional and non-regulated system dealing with the traditional and rural spheres of the economy. It has emerged due to the intrinsic dualism of economic and social structures and the financial repression which inhibits the access of certain deprived sections of the society to funds. The informal financial system consists of individual money lenders such as neighbours, relatives, landlords, traders, groups of persons operating as ‘funds’ or ‘associations’ and partnership firms consisting of local brokers, pawn brokers and non-banking financial intermediaries. Some of the informal systems are indigenous in nature as it belongs naturally to particular region and confined there only or spread over to other places. One of the important features of some of the informal, indigenous systems is its operation based on human values and co-operation. The main aim of such arrangements is to help people to mobilize fund on co-operative manner. The focus of this study is to analyse the financial set ups which are indigenous and their functions. As an ideal indigenous system kurikalyanam of Malabar is selected for a detailed analysis. However a look at the related finance systems like Rotating Savings and Credit Associations (ROSCAs), Harambee, chit fund, micro finance and interest free nidhies is found relevant. Through this a comparison of these systems with kurikalyanam is made possible in the next chapter.
ROSCA has remained popular in many developing countries for over a long period of time. In fact, in some countries, such as Ethiopia, Ghana, Camaroon they have become increasingly popular among almost all sections of society. ROSCAs are essentially a group of individuals who come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. For example, a group of 100 persons may contribute Rs. 100 per week for 100 weeks. The Rs.10000 collected each week is given to one member. Thus, a member will lend money to other members through his regular weekly contributions. After having received the lump sum amount when it is his turn (i.e. to borrow from the group), he pays back the amount in regular weekly contributions. This explains the name rotating savings and credit associations' for such groups. Depending on the cycle in which a member receives his/her lump sum, members alternate between being lenders and borrowers. That is, there is a mutual give and take involved in ROSCA.

While the above description explains the principles behind ROSCA, they however vary considerably in their functioning and organization. Typical variations include:

- Members participating in a ROSCA are selected by the organizer based on ethnic lines or geographical limitations. ROSCAs are organized for members of the same ethnic background, same place of origin and same native language speaking persons.
- The amount to be contributed in each cycle is decided based on the number of participating members, the total winning amount that each member can get, and other socio-economic factors. Contributions can also be in the form of shares, thus allowing a member to have more than one share or contribution in a particular cycle.
increasing his chances of winning the lump sum, but also increasing the regular contributions he has to make.

- The frequency with which contributions have to be made in each cycle can be daily, weekly, biweekly, monthly and half-yearly, depending on the amount to be contributed. Usually, smaller the amount, shorter the cycle period.

The basis of deciding the winner of the lump sum is decided in any one of three ways:

- By consensus, the amount is usually given to a member who is in most need for finance.

- By lots, where a lottery determines who gets the lump sum in a particular cycle. Members who have received the lump sum do not participate in subsequent lotteries, but continue to make their contributions.

- By bidding, where the lump sum amount is bid for by the members during each cycle. Thus the member who wins the bid will receive the lump sum minus the bid amount; other members pay their contributions minus their share of the bid amount.

ROSCAs can be seen in almost every society around the world, and have been in existence for a considerable period of time. They are flexible and adaptable easily to rural and urban peculiarities as well as existing community patterns of grouping/organizing. This flexibility is one reason for their worldwide popularity.

The basic advantage of the ROSCA is that it offers an opportunity for members to save, and at the same time keeps such savings fairly liquid and maximizing return. It facilitates the availability of a lump sum of money, which allows for higher investment to be made earlier than accumulation of savings. Most ROSCAs are organized along
democratic lines, where operating procedures and other details are decided/agreed upon by its members. Profits (in the form of bid amounts, for example) and other returns on accumulated contributions are equally distributed among all members. Risk of default is shared by all members and therefore sets up peer pressure to ensure that all members make their contributions in time. There is a risk of mismanagement, fraud and bankruptcy by the organizer where he absconds with the accumulated contributions. Timing of the receipt of funds by a member may not necessarily coincide with his need for finance. The cyclical timing also applies to savings, where a member cannot save when he has surplus funds, but has to wait for the ROSCA meetings. The ROSCA provides a means for the utilization of surplus funds and savings of low-income households- an easy and local savings mechanism.

*Harambee* is a Kenyan tradition of community self-help events, like fund raising or community development activities. *Harambee* literally means "working together for a common purpose". *Harambee* embodies ideas of mutual assistance, joint effort, mutual social responsibility and community self-reliance. Therefore, it is an informal development strategy of the people, by the people and for the people (Akong’a, 1989). The efforts of the people, non-governmental organizations and the government come together in a co-operative endeavour to speed up development.

These events have long been important in parts of East Africa as ways to build and maintain communities. Following Kenya's independence in 1963 the first Prime Minister and later first President of Kenya Jomo Kenyatta adopted "Harambee" as a concept of pulling the country together to build a new nation. He encouraged communities to work
together to raise funds for all sorts of local projects, pledging that the government would provide their start-up costs. A continued close collaboration between the people through their self-help efforts and the government through the provision of necessary services were therefore stressed by the president Jomo Kenyatta in his speech on Independence day, 12th December, 1963 when he said that: "------but you must know that Kenyatta alone cannot give you everything. All things we must do together to develop our country, to get education for our children, to have doctors, to build roads, to improve or provide all day-to-day essentials -----" (Govt. of Kenya, 1988). He therefore reminded Kenyans that the new government would not provide free things for people but that they had to work. He exhorted people to forget the past and help one another and themselves to build a new Kenya. As a result, in Kenya today, one of our most dramatic examples of Harambee is to be seen in the nations’ self-help movement, focused on human development. Every person takes it as his/her responsibility to see each harambee project through to the fruitful end.Under this system, wealthy individuals donate large amounts of money to local Harambee drives.

*Harambee* is one aspect of fund raising but it is more than a collective method of economic development. The principles behind it are:-

- Bottom up development strategy. This means that people at the community and grassroots level participate actively in the planning and implementation of the local development projects.
- Participation is guided by the principles of collective good rather than individual gain.
The choice of the project is supposed to be guided by the felt needs of the majority instead of leaving the task to the government.

The project implementation is supposed to maximize the utilization of local resources such as labour, funds and materials which would otherwise have remained unmobilized or expensive.

The *harambee* projects are mainly locally initiated and implemented through self-help activities and women groups.

Other forms of *harambee* aimed at helping individuals have also picked up momentum. Examples are pre-wedding fund raisers, hospital bill *harambees* and those to assist youths to go for further education locally and abroad. These forms of *harambees* have in one way or another improved the quality of different people and communities in Kenya.

The *harambee* has been responsible for substantial developments in the provision of basic needs and social service facilities. It has brought about near miracles especially in the country-side. Aided by the government, *Harambee* self-help projects have been responsible for the building of over 200 schools, 40 health centres, 60 dispensaries, 260 nurseries, 42 bridges, 500 kms of rural access roads, etc throughout the country (Bailey 1993:169). These social service facilities started on *harambee* basis, whether taken over by the government for operation and maintenance or not, provide "basic needs" to a large segment of especially rural people. It will be quite in order to discuss some of the actual contributions of *harambee* towards socio-economic development in Kenya.
*Harambee* has fostered the spirit of co-operation and understanding among various communities in Kenya and brings people from different ethnic groups together. Social amenities have been established through the movement like health centres and social halls. Wealth and other resources have been re-distributed not just between the poor and the rich but also between regions. It has contributed towards government objective of self-reliance and reduced dependence on foreign aid. Government efforts in funding development projects have been supplemented through *harambee*.

Indigenous finance system has been existing in south India for more than one century, which is called ‘chit fund’. Chit fund is a typical indigenous financial institution peculiar to south India, particularly Tamilnadu and Kerala. A ‘conventional chit’ is an old indigenous financial institution involving regular periodical subscriptions by a group of persons. It is, in law, a contract between the subscribers and the foreman which provides that the subscribers shall subscribe a certain sum by periodical instalments for a definite period. Each subscriber shall, in his turn, as determined by lot or by auction or in such other agreed manner be entitled to the prize amount. There will be as many periodical installments as there are members. As there is a mutuality of interest among the small number of subscribers to each chit fund, it constitutes a convenient instrument combining savings and borrowings.

Chit funds grew when banking and credit facilities were inadequate and people in general had to rely to a large measure on indigenous sources. It was developed as a method of collecting savings in cooperative effort to advance money in lump sum or other resources in bulk to the participants, with facilities for convenient repayment.
Chits were brought into India by Portuguese missionaries and the Christian Churches played an important role in popularizing it. According to Kerala Chities Act 1975, “…Chity means a transaction, whether called chitty/kuris, by which one or more persons (hereafter called the “foreman”) enter into an agreement with a number of persons that every one of the contracting parties shall subscribe a certain amount of money or quantity of grain or other commodity, by periodical instalments for a certain definite period and that each in his turn, as determined by lot or auction or both, shall be entitled to the prize amount whether payable in cash, kind or any other article of value or in such other manners as may be provided for or in the agreement” (Govt. of Kerala, 1975).

Chit fund has satisfied the credit needs of the people and served as medium of saving for many. Two important forms of chity were ‘lot chity’ and ‘auction chity’. In lot chitty the prized subscriber for the award of prize amount at each instalment being decided by lot. In the auction chitty, the prize amount and the prize winner at each instalment are decided by open auction. A certain percentage of capital of the chity is set apart as commission for the foreman and remaining amount is kept open for bidding. The subscriber who offers the maximum discount on the chitty capital is declared successful.

The Chit fund today is no longer confined to a village or town, but is fairly widespread not only in Kerala and Tamil Nadu but even outside. It is a financial arrangement or institution based on mutual trust and confidence. People join a chit fund either to obtain easy credit or to find an avenue for the investment of their savings. The main attraction is the availability of lump sum either for expenditure or for saving.
A Chit fund, if properly managed is an excellent co-operative scheme, but in the hands of an unscrupulous person it can be the instrument of a gigantic fraud. Numbers of incidents have been reported about the cheating of foremen or others in different ways. S M Abdul Gaffar, managing director of Gemini Chit Fund Corporation was sentenced to life imprisonment for criminal breach of trust by the Singapore high court in 1973 (Pillai, 1973). The company misappropriated crores of rupees from the subscribers in different ways. Similar cases were also reported even in Kerala recently.

Microfinance emerged in the 1970s as social innovators began to offer financial services to the working poor — those who were previously considered “un-bankable” because of their lack of collateral. Once given the opportunity, not only did clients of microfinance institutions expand their businesses and increase their incomes, but their high repayment rates demonstrated that the poor are capable of transforming their own lives given the chance. Nowadays, microfinance has become one of the most sustainable and effective tools in the fight against global poverty and the access to institutional credit. The term microfinance is of recent origin and is commonly used. There is no statutory definition for microfinance. The taskforce on Supportive Policy and Regulatory Framework for microfinance has defined microfinance as, “Provision of thrift, credit and other financial services and products of very small amounts to the poor in rural, semi urban or urban areas for enabling them to raise their income levels and improve living standards.” Microfinance is a set of schemes, which provides financial services like credit, micro saving, micro insurance as well as imparting training in entrepreneurial development. Small loans are provided to groups of rural poor people, who are
organized to undertake productive enterprises, to reduce the risk of default and to disseminate valuable information to improve health, legal rights and other relevant concerns of the poor, at full cost of interest rates, without collateral, repayable in frequent instalments.

The fundamental concept is, thus, common guarantee, which was based on mutual knowledge and confidence of neighbors. Loans, short or medium term, were given for specific purposes, which had to be productive. The microfinance approach has engendered a new relationship between the banks and the poor. A relationship is based on sound business principles and enables the poor to approach banks as ‘customer’ and not as ‘beneficiaries’.

The most common microfinance product is a micro credit loan. These tiny loans are enough for hardworking micro-entrepreneurs to start or expand small businesses such as weaving baskets, raising chickens, or buying wholesale products to sell in a market. Income from these businesses provides better food, housing, health care and education for entire families, and most important, additional income provides hope for a better future.

In addition, the poor, like all of us, need a secure place to save their money and access to insurance for their homes, businesses and health. Microfinance institutions (MFIs) are now innovating to meet these needs, empowering the world’s poor to improve their own lives. Microfinance institutions exist in many forms — credit unions, commercial banks and, most often, non-governmental organizations. MFIs use social
collateral in the form of peer groups to ensure loan repayment. Borrowers take out loans in groups of five to eight individuals. If a borrower defaults on her loan, the entire group typically is penalized and sometimes barred altogether from taking further loans. This peer pressure encourages borrowers to be very selective about their peer group members and to repay loans in full and on time, resulting in the higher than 95 per cent repayment rates industry-wide. The global repayment rate for micro credit loans is higher than 95 per cent, which allows MFIs to re-lend these funds to even more clients.

By giving the world’s poor a hand up, not a handout, microfinance can help break the cycle of poverty in as little as a single generation

Micro credit loan cycles are usually shorter than traditional commercial loans, typically six months to a year with payments plus interest with weekly payments. Shorter loan cycles and weekly payments help the borrowers stay current and not become overwhelmed by large payments.

Women have become the primary target of microfinance services due to many reasons. At macro level, about 70 per cent of the world’s poor are women. Women have a higher unemployment rate than men in virtually every country and make up the majority of the informal sector of most economies. They constitute the bulk of those who need microfinance services. Targeting women has also proved to be a successful and efficient economic development tool. Research performed by the United Nations Development Programme and the World Bank indicates that gender inequalities inhibit overall economic growth and development. A recent World Bank report confirms that
societies that discriminate on the basis of gender pay the cost of greater poverty, slower economic growth, weaker governance, and a low living standard for all people.

Women usually are the primary or sole family caretakers in many developing countries. Helping them gain additional daily income improves the condition of their entire household. Putting extra income in women’s hands is often the most efficient way to affect an entire family, as women typically put their children’s needs before their own. Children are more likely to complete their education and escape the poverty trap than their parents are. Giving women access to microcredit loans therefore generates a multiplier effect that increases the impact of a microfinance institution’s activities, benefiting multiple generations.

Bangladesh has been acknowledged as a pioneer in the field of microfinance. The microfinance in that country is strong and vibrant and its outreach extents to all corners of the country. The decade 1980’s saw an unprecedented growth in the number of microfinance institutions and products all over the world. In India the microfinance movement was formally launched in 1992 with NABARD launching the pilot project for linking self help groups with banks. The Indian banking system has shown willingness and resilience to experiment and join the microfinance movement in a way that has no parallel anywhere in the world. There are no MFIs in India of the type and scale existing in Bangladesh. The banks, which are performing the role of MFIs, in addition to their role as financial institutions, are under tremendous strain to line up to the expectations, needs and demands of microfinance sector. India, consists of multi-class societies and diverse in terms of religion, caste, language, agro-economic climate and social system, a
single model or approach may not be suitable for all regions. So each category can adopt models best suited to the local conditions, and hence numerous microfinance institutions and programmes of various types and structures have emerged.

The people’s plan campaign initiated during the ninth five year plan period made stronger the women self help groups as micro level organizations. A programme known as ‘Kudumbashree’ has come up under government auspices. Many microfinance institutions and programs have been launched in Kerala by different agencies. Now in Kerala microfinance is considered as a solution to many problems faced by the poor people, especially emancipation from low economic and social status. Thus the idea of microfinance gained currency in Kerala. The major characteristics of microfinance are micro saving and microcredit. Microfinance helps poor to mobilize their meager savings which it might, overtime, grows into a major source and enhances their economic choices and opportunities.

One of the aspects of the underlying microfinance is the need for members of the group to save regularly so that the habit of thrift is inculcated among them. All the savings do not go into the common fund, only a part of it goes to common fund and the other part into their personal account. Several groups fix a lower limit of savings and some impose fines if this amount is not forthcoming. Other groups do not fix the amount but encourage the members to save and contribute to the common fund as much as they can. The common fund grows gradually over few months. Major contributing factors to this are savings and interest recovered on loans and sometimes ‘fines’ levied by the group on ‘deviant behavior’
Even though microfinance is primarily an informal financial institution, it has several linkages with formal financial institutions such as banks, local political institutions, the state and central governments. Nowadays, microfinance is considered a panacea for most of the ills in the society. Hence a number of agencies, organizations and governments have taken up the idea and popularised it. However, over time, several issues like disparity in saving, problem of default, low credit absorption of the poor and coverage of non-poor under microfinance have emerged.

Self Help Groups (SHG) are small informal associations created for enabling members to reap economic benefit out of mutual help, solidarity, and joint responsibility. The benefits include mobilization of saving and credit facilities and pursuit of group enterprise activities. NABARD involved in promoting microfinance through SHGs in 1987 and granted Rs.10 lakhs to Credit Management Group to facilitate building up a thrift fund and aiding the members to borrow from formal credit system. Then it launched a linkage programme with formal banks. The Credit and Financial Service Fund of NABARD supports banking and financial institutions to deliver credit and increase.

The ‘Interest Free Financial Institutions’ are considered as a major type of co-operative indigenous financial system in India. As no mainstream interest free banks are allowed to function in India because of existing Banking Regulation Act, groups of people who like to avoid interest from their transactions made arrangements for interest free financial transactions. Number of such establishments function all over the country. Hence, it constitutes a part of indigenous institutions. These institutions mainly give loans to poor, needy people without interest on a systematic repayment basis. The capital is mobilized by accepting donations and saving deposits. These institutions invest
a part of these deposit amounts in productive ventures and distribute the profit share to the depositors. These institutions function mainly based on charity as it provides temporary advances for emergencies and necessities. Thousands of poor people depend upon these institutions to get advances in times of their emergencies. No detailed data are available about the functions, and performance of such institutions as it is not subjected for a detailed analysis. However, according to the available statistics there are atleast 159 such institutions functioning in the country (Table.3.1). It shows that the highest number of such institutions are in Kerala, followed by Uttar pradesh, Andra Pradesh, Maharastra and Karnataka.

Table 3.1

<table>
<thead>
<tr>
<th>State</th>
<th>No.of institutions</th>
<th>Per cent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andra Pradesh</td>
<td>23</td>
<td>14</td>
</tr>
<tr>
<td>Bihar</td>
<td>5</td>
<td>3</td>
</tr>
<tr>
<td>Delhi</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Gujarat</td>
<td>7</td>
<td>4</td>
</tr>
<tr>
<td>Karnataka</td>
<td>14</td>
<td>9</td>
</tr>
<tr>
<td>Kerala</td>
<td>46</td>
<td>29</td>
</tr>
<tr>
<td>Madhyaprapads</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Maharastra</td>
<td>21</td>
<td>13</td>
</tr>
<tr>
<td>Panjab</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Rajasthan</td>
<td>3</td>
<td>2</td>
</tr>
<tr>
<td>Tamilnadu</td>
<td>9</td>
<td>6</td>
</tr>
<tr>
<td>Uttar pradesh</td>
<td>24</td>
<td>15</td>
</tr>
<tr>
<td>West Bengal</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Total</td>
<td>159</td>
<td>100</td>
</tr>
</tbody>
</table>

Source - Rahmathulla, 1999: 428
In Kerala, there are region based indigenous arrangements which are familiar in different names like ‘paraspara sahaya nidhi’ (mutual help fund) or ‘palisha rahitha nidhi’ (interest free fund). There is a coordination committee to coordinate, guide and supervise these institutions, by name Interest-Free Establishments Co-ordination Committee (INFECC). According to the official records presently there are 225 establishments registered in INFECC. The total capital of all these institutions accounts for Rs.3,18,75,887. Of which Rs.83 Lakhs have been invested in business ventures which yields a profit of Rs.11.5 lakhs. An amount of Rs.2.35 crore was utilized to provide temporary loan for small scale business purposes, treatments and cultivation. Other short run loans are also provided to individuals for various purposes on personal or asset guarantee. As per the experience of INFECC, all beneficiaries have been refunding such loans as a whole or instalments within a period of six months.

Though the number of institutions registered in INFECC is 225, there are many such unregistered institutions functioning in Kerala. These indigenous institutions play a crucial role in the socio-economic life of Kerala. The role, performance and impact of such institutions in the society and economy are not looked into.

From time immemorial people had made arrangements to share their resources among the needy. Kurikalyanam of Malabar is one such arrangement which was born, brought up and flourished there. The coming chapter is a humble effort to understand the nature, significance and impact of Kurikalyanam which was one of the major solutions of bygone societies to meet their financial necessities. The present plight of Kerala society necessitates a revival of such an interest free financial arrangement for the betterment of our society and country.