



## 'PANAPPAYATTU' AND 'CHIT FUNDS': AGENCIES OF MICROFINANCE IN KERALA

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**Abstract:** *Panappayattu* and *Chit funds* are two well established fund raising economic practices existed in Kerala from 19<sup>th</sup> Century onwards. These are the earlier versions of Rotating Credit fund system and efficient agencies for Micro finance. Micro credit and Micro savings are two important functions of these two. *Panappayattu* existed in Northern parts of Kerala especially in Malabar areas and *Chit funds* are the common practice in Trichur and Thiruvalla districts. This paper discusses the question, how the existing social custom transformed into an economic institution? An anthropological approach is needed for finding an answer to this question. The economy, society and culture of a locality are influenced by these two practices and a lot of transformations took place in the region.

**Key Words:** *Panappayattu*, *Chit funds*, *Micro savings*, *Micro credit*, *Crowd-funding*.

### Introduction

'Panappayattu' is a peculiar type of crowd-funding which helps the entrepreneurs to find money for starting new business or any other purposes. This practice existed in Northern parts of Kerala, especially in Calicut and Kannur districts as a rural economic custom from nineteenth century onward still today. Tirur in Malappuram district is famous for running panappayattu as a usual economic practise to raise funds for the poor in their needy situation. Though times have changed, Panappayattu still remains as a solid example of mutual trust. 'Panapayattu' involves reciprocal exchange of money among North Kerala villagers on occasions such as marriage etc. If someone defaults on repayment, it is considered as a betrayal of trust. 'Panapayattu Network' helped lower-income groups-agricultural workers, carpenters, masons, to survive, educate and marry their children, though they are poor and used to get work one or two days in a week. It is interesting to note the transformation of 'Panapayattu Network' would give us some idea of the cultural geography, economics and politics of the area. Panappayattu Network is a voluntary and co-operative endeavour. The anthropologist Marcel Mauss, in his famous exploration of the gift in "primitive" and archaic societies, showed that the

essential aspect of the exchange of presents involved the establishment of a social tie that bound the parties together above and beyond any material value of the objects exchanged. He argued that these intangible mutual "debts" constituted the social fabric.

Kerala is famous for running Chit funds or Kuri companies efficiently as an economic institution. The elder generation comments "even the winds of Trichur have the smell of Kuri Companies (Chit funds)". Trichur is the abode of chit funds and banks from nineteenth century onwards. There are more than fifteen kuri companies exist in the Trichurwaraj round itself. It is interesting to know that, the heart of Trichur city is surrounded by chit fund companies. Chit funds positively affect the day today life of the poor and downtrodden people to improve their fate. It also helped the middle class merchants and businessmen to run their daily business with the finance accumulated through chit funds. Banks in Trichur also have its humble origin from chit funds. Three scheduled banks of Kerala have its headquarters in Trichur. Field study conducted to collect primary data through interviews by using structured and unstructured questionnaire. Secondary data collected from books, journals and pamphlets. Tertiary data is

also used in the present paper. Qualitative survey helped to investigate the facts behind these financial customs. Analytical and descriptive methodology is applied in this paper to discuss about the functions of these economic institutions.

### **Panappayattu**

Panappayattu is a network of money exchange which can be seen in some parts of Calicut and Kannur districts of North Malabar. In Calicut and around these places, it is known as 'Kuri Kalyanam', in places like Thalasserry and Vadakara, it is known as 'Sadiru' and especially some places in Koylandi Taluk and Vadakara Taluk, it is named as 'Panampayattu'.

The panappayattu system has a societal stance which provides a platform for social gathering, irrespective of caste, class and creed. It makes the entire members of the society to engage in some sort of social interaction with each other through this gift-giving activity. To have gift-giving relationship with one another indicates some sort of close relationship with each other, as any economic relation often provides a base for a close and durable social relationship among persons. In a multicultural society like Kerala the social institutions like panappayattu have greater significance as it cuts cross religious and political boundaries in bringing people to a common public space. Moreover, it also reveals the group solidarity among the members of the society, i.e., through gift-giving each other.

Micro credit and micro saving are always done through panappayattu in a different way. Panappayattus are usually conducted today, to meet wedding-expenses, house construction and buying off land, etc. Some people also conduct the panappayattu to pay off the debts to banks or money lenders. This is the clear example for micro credit. At the same time, a minority of well-to-do villagers conducts panappayattu at regular intervals of four or five years to get back the money they had given earlier. For them, this system functions as a network which maintains a series of reciprocal relations. To retain the ties with others, they attend all the

Panappayattus invited by others and contribute to them. Through this, they got the chance to micro saving. The announcement notice will be pasted prior to the event. The practice also helps to cement social relations. It is a link that connects different people. The person only needs to repay the exact amount that he borrowed. Some of them repay not only the borrowed amount, but also twice or more than twice the amount that they borrowed. Everything is registered in the Panappayattu book. The 'Panappayattu' book has itself chapters of a very curious history. The book has records of seven or eight-decade-long 'Panappayattu'. The letter dated 1921 from Purameri kovilakom calling for Panappayattu is an example. Are cord book or 'payattu kanakku' is being kept for maintaining a correct account of the money transactions involved in the payattu. Each kutti has are cord book, in which he would register the money, which has been received from the persons on the occasion of his payattu, and also the money, which has given to his kutti's on the occasion of their payattu. When dispute arise with regard to money transaction, the book will be put to verification. The term 'actual amount' is used to refer to the amount which had given to a kutti when he conducted the payattu. 'Additional amount' means the extra amount/aid received from a kutti at the time of the payattu. Total amount means the sum total of the actual amount and additional amount. Panappayattu is the sacred remnant of a century-old custom of financial transaction, which is transparent and smooth.

Panappayattu is conducted in village areas as 'gramotsav' (festival of the village). The venue of the panappayattu is usually a *chayapeedika* (teashop) or sometimes even the household of the person who is conducting the payattu (short form of Panappayattu). The place where panappayattu is being conducted can be easily identifiable because a palm-tree frond has been tied on the top of the tea shop, clubs or community hall which is also decorated by date-palm tree leaves. To overcome obstacles in life, Hindus who conduct payattu play records of the songs dedicated to Lord Vinayaka, Muslims do play records of

Mappila Pattu (Mappila Pattu songs are found in literature form of Arabi Malayalam, a combination of Arabic and Malayalam) and communists mainly play records of revolutionary songs. But if the payattu is conducted in association with a marriage ceremony, it is usually performed at the house of the person who conducts payattu. There are certain conveniences in arranging payattu in a shop or in a payattu hall. The most important thing is its accessibility. Sometimes a person has to attend more than one payattu in a day, and it is very easy for him to go to payattu hall or a shop, where payattu is being conducted, give the money and go back. Another thing is with regard to the expense, as payattu is usually associated with some kind of a food. If one arranges his payattu in the house, one has to arrange a better meal, which is more expensive. But if he arranges it in a shop or in a payattu hall, he can limit the expense in a tea or tea with some snacks.

In rural areas of Malabar, Panappayattu is a money gift based on mutual trust. Through his book, 'The Gift', Marcel Mauss could establish the fact that gift as a human practice becomes an important institution in primitive society. Neither did he deny the fact that modern society firmly based on market exchanges nor did he mentions that primitive society was controlled by the gift practices. Although institutions are made up of human practice, the structure of society influences upon these practices. Gift enable us to think in terms of how human nature is closely connected with the material reality or else, how material world influences the perceptions of human mind. Gift enable us to think in terms of how human nature is closely connected with the material reality or else, how material world influences the perceptions of human mind. Money, modernity's motor pulls the gift as an institution.

Emile Durkheim claimed in his 'On Morality and Society' was that the 'moral consciousness' or the 'moral conscience' of people is the building blocks of society. Political science and economics cannot alone understand the institutions that propel the 'moral consciousness' without which Durkheim

explains, society might not have been existed. Gift is an institution depended on the moral consciousness in society. It is counter to the understanding of what we think in terms of individual satisfaction as the motto being preached by capitalism. The architecture of gift, Mauss claims, 'to give, receive and return' have not meant only for individual satisfaction but inclined to human sharing which satisfies the individuals who gives and receives as part of collectivity. This experience of give and receive integrate human being through sharing create emotional bond, Mauss identified it as 'human solidarity'. Although for Mauss, neither could have this solidarity always been equal nor just. The forms of human solidarity, more or less, are shaped by the structure of society.

In the Gift, it seemed that Mauss tried to answer one question seriously, why one should be obligated to the gift one receives from a person? His answer to the question was somewhat indefinite as he suggested that the gift was occurred in response to 'hau' the spirit of the gift which entailed in the various gift practices he analysed. In various gift practices Mapula, Kula and Potlatch, 'hau' the spirit of the gift insist a person to give back for what one receives. Though his study was a comparative one, he try to found out a universal reason attributed to it as it surmounts to the reason provided by the utilitarian market principles that individual interest as the underlying mechanism for all the human exchanges. Following which, various scholars who had attempted to study gift practices reinvented this dichotomy entailed in Mauss' Gift.

Resource pooling aspect is the most important feature of panappayattu. When a person met with a financial crisis, such as marriage, house building, disease, etc., he send an invitation letter to a certain number of persons to whom he has payattu relations (kutti relation) or likes to make payattu relations, stating that "I am going to conduct a payattu on a particular day at a particular place, and Invite you to the same". The venue of the payattu is also mentioned in the invitation. If the payattu is conducted along with the marriage ceremony the

matter is mentioned in the marriage invitation. The invitation is usually sent before a month or at least a week prior to the date of the payattu, so that the kutti can save money in advance. The invited persons (kutti) will arrive at the venue of the payattu on the specified day, and handover the amount to the person, who is conducting the payattu. If he met with some inconvenience he will send the amount through another one. At most care should be taken to pay the amount on or before the day of the payattu, the failure of which would be taken as a 'prestige' issue.

A lot of lapses could be found in returning the amount at the occasion of panapayattu day itself. Usually, the amount which he must have to pay will be returned next day or next to next day. If it is not returned, we are forced to ask the person about the inconveniences about it. In case, it is forgotten by any other reason, the person who would apologise for not attending/returning the amount and would inform when he would make the return. If someone is not paid the amount due in his name after the repeated requests, normally we would not ask him about it and his name would be removed from the 'payattu kanakku'. Those who make the gap in returning the amount in panapayattu will be unwelcomed and being treated with disrespect. Now-a-days, there are many people who make lapses in returning the amount. In earlier days, if anyone did not make the amount, by the end of the event those who are left in the venue come together and lit a lantern (made of dried coconut leaf is called 'choot' in colloquial Malayalam.) and visit the person's house to ask why he is committed such serious omission. Though, he forgot or any other reason for not returning the amount is considered as a serious mistake and the person who would be treated as an irresponsible person with contempt.

The activities involved in the panapayattu can be called as reciprocity as it is a type of 'gift-giving' among families. Karl Polanyi and his associates suggested that economic activities have fallen into three main patterns of exchange, viz., reciprocate, redistributive and exchange. In reciprocity activity

the 'goods or services are given because it is traditional to do so; the only principle of calculation is the loose principle that the giving and receiving of goods or services should balance out among the exchanging parties in the long run'. Sahlins stated that the '(reciprocity) is inclined towards the generalized pole by close kinship, toward the negative extreme in proportion to kinship distance'. Thus, one can also assume that the kuttis in panapayattu relationship that has been identified by the Yunxiang Yan in his work 'Flow of Gifts'. This relationship can be described by Shu-ming Liang who has suggested that Chinese society was neither individual-based nor group based, but relation-based and as further cited by Yan 'the focus is not fixed on any particular individual, but on the relations between individuals who are engaged in social exchange with each other'.

Micro credit and micro savings are the two important economic functions in micro finance. Panapayattu functioned as an efficient agency for micro finance in the Northern parts of Kerala. The social custom existed from the nineteenth century now transformed into an economic institution which is well established and well-practised.

### **Chit Funds**

"Chitty" means a transaction, whether called Chit or Kuri, by which one or more persons, hereinafter called the "Foreman" or "Foremen", 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, shall be entitled to the prize amount, whether payable in cash, kind or any other article of value or in such other manners that may be provided for in the agreement.

The antiquity of chitty/ kuri is borne out by references made to it by William Logan in his Manual of Malabar district. Often the etymology of a term suggests the background of its origin. 'Chit' means a written note and 'kurippu' is its synonym. The principles normally adopted in the determination of a

prize winner in a chitty/kuri are the drawing of lots: the names of the subscribers are written on separate small chits and the lucky one is picked up from among them at random. The drawing of lots gradually waned in popularity for it often failed to cater to the requirements of the subscribers interested in credit facilities. Such transactions were done by the resources raised periodically which were released on the basis of priority determined by luck and needs, as the case may be came to be called the chitty/kuri.

According to William Logan, the word 'Changathikkuri' derived from Sanskrit word 'changati' (convoy, guard, companion, friend) and Dravidian word 'kuri' (lot, share, lottery, club). It may be constructed to mean a season of friendship, a periodical association, the lodge of friendship, a society of friends. It was a meeting formerly very common in Malabar among the natives, and still partially kept up, for the purpose of conversation, of discussing any particular subject, of enquiring into the conduct of any individual. It is not, it appears, confined to people of the same caste, but the association was often composed of Nayers, Tiyars and Mappilas. Besides promoting social intercourse, it has a tendency to prudential consequences. It induces economy. Where there are a variety of castes in the society, the entertainer gives to those who are not of his own caste a certain quantity of rice and allows them to dress it by their own people. It is supported by the subscription of the members in the following manner. Suppose there are 25 members, that each contributes 4 fanams monthly, making a total stock for each month of 100 fanams; that the society is limited to 25 months duration, and every member is obliged to give an entertainment to the party once in the course of this period at his own house. It does not come to the members in regular turn, but is decided by lot, that is, every member places with his subscription a ticket with his name into the deposit, and a ticket is drawn every month by some indifferent person, and the person whose name appears on the ticket drawn gives the

entertainment and is entitled to the amount in deposit for the month.

Dr. M. A. Oommen explains the origin of banking in Kerala among the Christian community in Thiruvalla in Travancore and Trichur in Cochin. The Christian centres developed banking and commercial agriculture in those days. The early institutions were of unit banking type. The banks were located mostly in villages receiving deposits from small savers and giving credit to small peasants and traders. Advances were unsecured or secured by land.

Generally, the foreman enrolls a number of persons as subscribers and starts the chitty/kuri. The terms and conditions of the kuri are drawn out in the form of an agreement (*variola*) and duly registered according to the provisions of the law. In every kuri, there shall be a fixed number of members. Every member has to pay a fixed amount at regular intervals in time. The number of tickets in a chit series equals the number of instalments. So, every member is assured of the opportunity to get the prize. Every member is bond to pay his periodical subscription till the termination of the kuri, the number of instalments being equal to the number of members in a series, so that each one can get the prize once by turn. For the last subscriber, there is no auction or draw; he gets the prize after deducting the foreman's commission and without having to furnish any security.

Forona Church Kuries Irinjalakkuda, Dharmapooshanam Co., Irinjalakkuda, Damien Subsidies, Kshemavilasam Co., Dharmodayam, Oriental Kuries, Lourde Church Thrissur, Bharathakshemam, Popular kuries, Mar Apprem kuries, Trichur Kuri Syndicate, Assyrian Charities are most important pioneers of kuri companies in Trichur.

Kuri companies mobilized the small savings from all sections of the society and provided loans to the needy in their necessity. It was a relief to the ordinary people of Trichur during that period. Even the female members also became subscribers and economic empowerment later led to women empowerment in Trichur. The teachers,

businessmen, farmers, Daily wage earners, coolies, etc. benefitted out of this kuri companies. Chit fund, an indigenous financial institution in India that has been caters to the financial needs of rural households for time immemorial. It efficiently worked as the financial inclusion tool in India, especially in Kerala. Kerala State Financial Enterprise Ltd .and other registered Chit funds or kuri companies approached the lower and the middle strata of the society to become members or subscribers through various kinds of financial packages which is more beneficiary to them.

Chit fund is a traditional micro-saving cum borrowing product. It involves participants pooling their money into a common fund on a monthly basis. Withdrawals are made in lump-sum by a single member selected through a bidding process every month. Every member of the group is entitled to the pooled money only once during the cycle of the scheme, post which the group is dissolved. Despite the growth in financial savings products, chit funds continue to attract a lot of investors across all socio-economic classes. The main reason why chit funds continue to remain popular is because participants have access to their future savings today. In other words, a chit fund investor can access his to-be-saved funds in the present, when in dire need

Chit Funds are of different categories, which come under the broad heading, 'Chit Finance'. In Kerala they include the public sector Chit Company (The Kerala State Financial Enterprises Ltd.), Co-operatives, Private Chits and those in the informal sector. KSFE played a dominant role in the micro finance sector in Kerala by providing a variety of services to common people such as chitty, chitty loan, consumer or vehicle loan, reliable customer loan, gold loan, fixed deposit, housing finance, car loan, vidhadanam loan etc. The Non-Banking Financial Intermediaries' ability to purvey funds depends to a large extent on the resources they can mobilise. Miscellaneous Non-Banking Companies or Chit Funds being a category of Non-Banking Financial Intermediaries, contribute significantly to the value of financial markets in India. Non-Banking

Financial Companies have emerged as an integral part of the Indian financial system. NBFC is a generic term, which includes a host of different types of institutions performing various types of financial services'

### Conclusion

Panappayattu and chit funds are the two agencies which mobilise small accounts from a crowd to a large capital for the economic development of Kerala. The ordinary people benefitted out of these two and they played their own role for the economic well-being of a society. Both these economic customs acted as civilizing agencies in rural areas and led to gradual urbanisation of a region. Through different types of loans and programmes, KSFE led to financial inclusion in Kerala. Poor families of Northern Kerala depended upon members of their society through panappayattu to share their economic burden in necessity. Through the agencies of micro finance, the money accumulated from sufficient area and provided to deficit areas. From generation to generation, we can witness the changes in the structure of the economic activities. Micro finance put forth revolution in the economy of a country. Through ages, we can see the process of the transformation of social custom to an economic institution. Even today, we depend upon these economic practices in rural areas in our daily life.

Arjun Appadurai's theory of five scapes in global culture is relevant in this study. Appadurai proposes five factors that contribute to the global exchange of ideas and information. He labels these five dimensions "-scapes," which are fluid and constantly shifting, just as cultures are. Within each of these scapes however, exists multiple realities, as an idea or image changes its context depending on the spectator. The first three scapes, ethnoscape, technoscape, and finanscape, are all closely intertwined and shift in relation to each other, never alone. Ethnoscape refers to the migration of people across cultures and borders, presenting the world and its many communities as fluid and mobile instead of static. Techno scapes bring about new types on cultural

interactions and exchanges through the power of technology, which can now happen at unprecedented speeds. Technology, of course, is very close tied with the economy, which is constantly in flux and, despite our best efforts to manipulate, is wildly unpredictable (financescapes). The cultural scape will create changes in finance scape also. It brought noteworthy socio-cultural and economic transformations in Kerala.

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