The Banking System and Rural India

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MODERN economy may be called "bank economy". The banking system spares the individuals and tile communities the trouble of stock-piling bulky chattels and enables them to attain domestic security and transact business by means of ever-negotiable bank accounts.

For once it has been necessary to say the obvious, because banking has been the target of vicious political attack and multi-slinging from Left and Right over several decades. However, banks were functioning in the Fascist and National Socialist countries yesterday in spite of their repeated denunciation of "interest slavery". They are operating in the Communist countries today, in spite of some of the more picturesque propagandist allegations, comparing bank directors to leeches.

That politicians on the extreme Right as well as the extreme-Left ended up by adapting, instead of destroying, the hated banks, is no indication of a change of heart. They may have merely discovered that banks are indispensable for the administration of an up-to-date economic system, whatever the political complexion, racial composition or social philosophy of the government.

It is not a mere theory, but a very tangible fact that banks, as the coordinating centres and observation posts of economic activities, transcend national as well as ideological frontiers in this modern age. At the present stage of development, banks are alone capable of ushering the surplus production, — and surplus production does exist even in the poorest districts of the poorest countries — into productive investment and thus promote technical progress and human welfare. When we speak about "underdeveloped" territories, we could more accurately use the term "under-banked" territories.

The principal cause of India's economic plight is therefore the melancholy fact that eighty per cent of the country has so far remained outside the banking network. It is, in consequence, a vital problem, and not just for a certain section of the public, but for the entire nation, what can be done to extend the banking facilities to the rural areas?

There is hardly any circulation of money in the very small villages, even where the population is not exactly poor. The local labourers and craftsmen receive payments in kind, so does the village Brahmin for his religious services. Even the village bania may not be able to change one single rupee-note.

In the larger villages or smaller townships, however, there is a considerable volume of commerce, busy bazaars, even some industry. There are usually several large, comfortable and recently re-decorated houses testifying to the material well-being of the inhabitants. In such localities there must be some amount of bankable savings which could be profitably integrated into the bloodstream of the national economy.

The Barclays Bank from London had recently been very encouraging experiment with its publicity campaign in Nigeria. They used the medium of the film screen, simple language and witty cartoons. Since there are at least occasional cinema shows in the larger Indian villages also, the experience of the Barclays Bank may have some bearing on the strategem to be devis for this country. However, making people bank-conscious is only part— and the smaller part—of the problem here. The real difficulty is how to make banking services available to the well-to-do in the rural community.

The opening of branches by the large banks in the villages—even in the largest ones would not be a practical proposition for a very long time to come. A novel approach has therefore to be devised for the injection of the hidden wealth in the countryside into the veins and arteries of the nation's financial system.

The best solution, in theory at least, appears to be the establishment of a "Rural Banking Society" with the participation of India's leading banks. While direct Government association with the project might not be desirable, the official circles would have a finger in the pie through the State Bank of India in any case.

Such an agency could set up its offices in some of the prosperous rural and agricultural centres, preferably in co-operation with several leading local merchants and farmers whose presence on the board would create popular confidence. While banks, according to the natural scheme of things, usually seek to collect deposits before granting loans, in the case of rural India we may have to put the cart before the horse for the sake of long-term benefits.

Even by granting local loans with the maximum of security and making investments with the minimum of risk, the Rural Banking Society would create in the villagers the necessary goodwill towards itself and its operations. 'Green Credit' to farmers against the new crop, the financing of small fruit-bottling plants in the hilly regions, tanning works at the seaside places, land reclamation and improvement projects in the purely agricultural districts could offer a suitable outlet for short-term, comparatively safe and potentially lucrative exploratory activities.

Once the villagers are convinced that the Rural Banking Society is a helpful friend and a wise counsel, the possible initial distrust will melt and the local cash will find its way from underground hide-outs, hay-slacks and pillow cases into the savings books and current accounts. Especially if the "exploratory investments" by the Rural Banking Society prove effective in increasing the villagers' income, the borrowers of yesterday will come forward as the depositors of tomorrow. The new Society will thus gradually unify the hitherto separated economies of urban and rural India for the benefit of both.

Obviously there would not be enough funds and experienced personnel to cover the entire country with Rural Banking Societies right from the beginning. However, it would certainly be worth the while and the risk to inaugurate a small pilot project in one of the reasonably prosperous and comparatively "dacoit-proof" areas. While the government has undertaken numerous commendable schemes to utilise the vast natural resources of the sub-continent, the time has come to attempt the mobilisation of the hitherto equally untapped financial resources of India's extensive "backwoods".

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