



A Sociological Analysis of Nepalese Banking: Historical Perspective

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Abstract

In the context of Nepal, banking is basically understood to provide loan and accept deposit centering on interest. So, banking and interest are two inseparable parts. This article aims to view banking and interest from a sociological perspective. There are many sociological explanations about banking practices but they have not been adequately documented and analyzed, especially in the context of Nepal. This is the statement of the problem. Even those documents that do exist provide only provide indirect explanations on the matter. Is interest system solely economic or do there exist other non-economic factors as well? This is the research question here. This article aims to find out how sociological aspects like gender, religion, caste and special age group influence banking and interest. And finally this article finds out that interest system is uniquely tied to the aforementioned sociological aspects.

Keywords: *Banking, Interest, Sociology, Usury*

Introduction

Banking today is broadly understood by the major function like to deposit the money of other and provide loan to the people. Though bank does other more functions as subsidiary works, this institution is initially identified by its service of depositing and providing loan. In course of this, bank gives and takes the interest because the main substance to breathe for any bank is none other than taking interest. Banking is the developed institution of money lending which have a long history in form of money lending. For this the money lending was also known as usury. - Banking and money lending or usury in traditional term has become equally a kind of discourse whether such phenomena has been affected by sociological aspect. Sociological aspect here the article mean on the base of some variables like religion, gender, age, social rules like values and norms, family and kinship and finally mandatory of state.

Keister (2002) writes that research on financial markets and banking in sociology is diverse, but the streams of literature that comprise this subfield are interrelated in important ways and nearly all sociological research on money, financial markets, and banking assumes that financial relations are social relations.

Materials and Methods

Historical research approach has been used while writing this article. Historical research is the process of analyzing past ideas and occurrences to find their effects on the present. In course of preparing this article I have gone through history of banking and interest in both Western and Eastern settings. The data used in the article have been taken as secondary data from books, journals, legal documents and the internet.

Result and Discussion

Religion on Usury

The practice of usury can be traced back four thousand years and this concept has been viewed negatively on religious grounds mainly by institutions such as Hinduism, Buddhism, Judaism, Islam and Christianity (Visser & Macintosh, 1998). Therefore the system of usury has been interrelated with the sociological ground in form of religion. In a way from the evolution the interest system was not the sole part of economy.

Thus the term debt came to be in practice both in platonic as well as in material world and there were the provisions of passing on of debt of fathers to their children. A person who left his debt unpaid was said to be born as slave, servant or animal in their next life (Karki, 2050). Thus we get evidence of a triangulated relation between economic activities, loan and religion. This is found not only in the East, but in the West as well. Thus we can get the evidence such economic activities more over loan debt and interest have been triangulated to the religion. It is not only in the case of only western it is also the case of easterner.

The notion of debt and usury is found prominently in religious scriptures. The earliest record derives from Vedic text of ancient India 2,000 – 1,400 BC in which the ‘Usurer’ (Kusidin) was mentioned several times and interpreted as any lending at interest rate; detailed references to interest payment are found in the sutra text 700–100 BC as well as the Buddhism Jatakas 600–400 BC where it is viewed in demeaning manner (Siyanbola, 2013). Similarly, the practice of interest in usury is forbidden in biblical passage as well (Siyanbola, 2013). The Hebrew word for interest in ‘neshekh’ (a bite) which is exaction of interest (Siyanbola, 2013). In Exodus and Levitical texts, the word almost certainly applies only to lending to the poor and destitute while Deuteronomy prohibits all monetary benefits except in business with foreigners (Siyanbola, 2013). Christianity is found to have its own beliefs and history regarding usury. The Roman Catholic church had by the fourth century AD prohibited the taking of interest by the clergy and this rule was extended to ordinary people (Siyanbola, 2013).

“The Christian teaching on usury did not develop in a vacuum. Christianity was born in a Semitic milieu and spread rapidly through the Graeco-Roman world. Naturally, its ancestry and its environment influenced its moral thinking. The Fathers of the Church were well acquainted with the thought of others about usury. Besides many references to the clear Old Testament usury prohibition, the writings of the Fathers reflect and interact with attitudes toward interest-taking in Greece and Rome and in early rabbinical literature. It will thus be helpful to examine those strains of thought that existed side by side with the early patristic teaching and influenced it.” (Maloney, 2013, p. 79)

To sum up, people from the west were also concerned with the effect morality has on interest; so much so that all banking activities were assessed through a moral base. Usury turned from an offence against public morality to an issue of private conscience and new generation of Christian moralists began explaining usury as excessive interest (Siyabola, 2013).

Practices in Ancient West

By the end of fifth century before Christ banking was a growing concern in Athens inventory of legacies and lawsuits in the middle of the fourth century show fortune invested entire in loans (Maloney, 2013). "Loan came to be the inseparable part of economic life. "It seemed quite legitimate to most Greek citizen that the lender should share in the increased productivity his loan caused, especially when he risked his money in the process (Maloney, 2013)." Moreover, Usury or the system of interest seemed to have started coming to the time around Greek period which is traced to the 400 BC around. To be this there might be two reasons of accepting the system of usury in Greek period. One is they had validated the slavery system and the people who were slaved had taken some of the wealth from their master, that is why the slavery was in form of interest. Aristotle puts forwards his version about the usury interrelating money. "The worst form of money making is that which uses money itself as the source of accumulation: usury money is intended to be used in exchange, but not to increase at interest; it is by nature barren; through usury it breeds and this must be the most unnatural of the ways of making money." (Maloney, 2013, p. 79)

Later, in ancient Greece and during the Roman Empire, lenders based in temples used to give loans and accepted deposits and changed money. But during this period, money lending was not done for the purpose of expanding property. Hence, there is no whiff of capitalism in the lending of this era. Lending was very common in ancient Greece and taking interest was a fact of life, though never a universally approved one (Maloney, 2013).

Practices in Ancient East

Vasishtha, a well-known Hindu law-maker of that time, made a special law which forbade the higher castes of Brahmanas (priests) and Kshatriyas (warriors) from being usurers or lenders at interest. Also, in the Jatakas, usury is referred to in a demeaning manner: "hypocritical ascetics are accused of practising it (Visser & Macintosh, 1998).

At the time of Rigveda (1500 –500 BC) there were three types of debt. They are known as the debt to God, debt to the saint and debt to the ancestor. By performing sacrifices we repay our debt to God, by studying we have to our teacher and our procreations to our forefathers (Dixit, 2012). This means Man had to pay these by studying, worshiping and giving birth to the child. They believe that a man comes in this earth with the burden of debt even from the birth.

Regarding interest, different ideas can be found. Brihaspati has said there are four types of interest whereas some have said that interest is of five kinds; and of six kinds for some people (Bishnu Dharma Sutra). Narad, a saint of Hinduism, has termed 'Karita' to the interest which increases per month, 'kalika' to the interest which increase per day and he coined the term 'Kaika' for the interest over interest

(Swain, 2015). Hence, the division has been done in this case on the basis of the period of time for which the debtor intends to take loan.

Provisions regarding interest are also seen to depend on social rule. Historically, interest rates at a place have been determined as seen fit by the governing body of that place at that period. The constitution of Solon in the sixth century attempted a number of reforms. “The personal enslavement of the debtor was forbidden and some slaves freed; and although the taking of interest was not prohibited for maximum rate for it fixed, many existing debts were reduced or cancelled (Maloney, 2013). “Lending was very common in ancient Greek. Taking interest was a fact of life, though never a universally approved one (Maloney, 2013).”

Brihaspati has suggested developing the paper with eye witness by putting forward the collateral (Security) or by not taking it at the time of giving the loan. The idea that interests must be orally cleared is the idea of Bishnusutra. (Bishnu Dharma Sutra) Kautilya, Yagyabalk and Bishnu have stated that creditor of each cast has to pay the interest as per agreed before to the loan giver whatever his cast is (Khanal, 2076). The system of collateral was introduced in order to ensure the repayment of debt.

Hence, some scriptures label loan interests as being sinful; but some scriptures allow it. Hindu philosophy has even tried to systematize this notion of interest on debt.

“Manu, with the reference of ‘dhan bardak’ written by Basista, has suggested taking interest 1.8% monthly. By the provision the principle amounts is doubled in six month and 8 month. Intellectuals Yagyabalk and Byas suggested implying this law only in the case creditor has assured mortgage to the debtor over the property.” (Khanal, 2076) Per month 1.8 means it crosses up to 20 annually and we can assume that the practice of interest taking was very unjust. Moreover, it is so in the case of assuring the mortgage

In spite of this, many more eastern intellectual has not considered about right to take interest. Saint Scholar like Basista and Baudhaen have put forward their version that to take the interest is a sin greater than to kill the Brahmin (Pande, 1977). People who take the high interest go to the hell. Islamic law prohibits ‘usury’, i.e collection and payment of interest on deposits (Siyanbola, 2013). Islamic banking refers to a system of banking or banking activities that is consistent with islamic law (sharia) principles and guides by Islamic economics (Mobolaji, A. 2011) (Siyanbola, 2013). In particular, Islamic law prohibits ‘usury’ (collection and payment of interest on deposits) also called ‘Riba’ in Islamic discourse (Siyanbola, 2013).

This means the contemporary society did not wholeheartedly believe usury and interest.

Practices in Ancient Nepal

“The Lichhabis have been mentioned in numerous Buddhist-Pali canons, mainly in the books ‘Lichhabi Shastra’, ‘Ratana Sutta’ and also in the fourth chapter of the ‘Petavatthu’. It is believed that a branch of the Lichhavi clan migrated to Kathmandu after losing their political fortune in Bihar and attacked and defeated the Kirat king Gasti. They are mentioned in many places in the Buddhist Pali

canon, mainly in 'Lichhavi Sutra', Ratana Sutta and the fourth chapter of the Petavatthu. Although limited to speculations only, some historians are of the opinion that there was a monetary system at that time as well and usury is believed to have existed in its most basic forms. But it was the time when Lord Buddha and Buddhism had a great influence. And there is a philosophy in Buddhism regarding acquisition of wealth. Wealth should not be acquired by exploitation, but through effort and intelligent action; it should be acquired in a morally sound." Talking in moral ground all people of society were not permitted to perform the job of money and interest taking. In ancient times, goldsmiths, businessmen and money lenders used to perform the work of banking in every country (Chaudhari, 2016). Hence, Crowther has described the following people as ancestors of modern banks: 1) merchants, 2) money lenders 3) goldsmiths (Chaudhari, 2016). Hence, lending system developed on the basis of some specific professions. So far as banking is concerned with debt, we may go back in Nepalese history, where a merchant, namely 'Shankhadhar' is recorded (Chaudhari, 2016). He was a professional and from a specific caste. During the course of development of borrowing we further come across the 'Tanka Dhari' at the end of the century meaning 'money lenders'(Chaudhari, 2016). These clearly elaborate the relation of money lending also with special castes in Nepal in moral ground. But this association between banking and interest and some specific caste is no longer in practice; it has become extinct with institutionalization of banking.

Normally, interest rates are guided by the market. But right from the two year the matter of interest rate has become the topic of very discussion (Bhatta, 2076). Determinant of the bank interest rate is normally due to the demand and supply of means (Bhatta, 2076). In spite of this, steps were taken by the authorities to tune unbalanced interest system. Furthermore, In case of Nepal the Bank may issue directives from time to time to commercial banks and financial institutions on banking financial system, currency and credit. It shall be the duty of commercial banks and financial institutions to abide by such directives (Nepal Rastra Bank, 2058). These legal provisions on interest find their roots in religion where it was clarified that taking excess interest is morally wrong. It is an instance of control over interest system. Many economist claims that the credit affairs of the bank are operated by the market itself. Be it a matter of interest rates or a matter related to loan and deposits, the market is on the driving seat. But sometimes, this automatic market system turns out to fail drastically. And a tool to address this problem adequately should be mandatorily made by the state. Should such a moment arise, the state has to move forward on the roots of morality, social solidarity and social norms. Thus we cannot let it be isolated from the sociological aspect.

Ram Shah, king of Gorkha ascended the throne of Gorkhas in 1606 AD. He took initiative for reforms and acted accordingly. He must be remembered in the sense that he is the king who established many more rule in daily life. He fixed the rate of interest (Shrestha, 1972). In cash loans money lenders were not to charge more than 10% interest but if the loan was in kind, they were not to charge more than 25% interest (Shrestha, 1972). If the loan was not repaid for ten years, the money lender was to realise double the amount of the principal, if the loan was in cash and triple the amount of the principal, if the loan was in kind (Shrestha, 1972).

Nepal is a distinct country in the sense the socio cultural diversity of this country gives a kind of distinct ground for every aspect of life. Among those the economy and the pillars which support for economy have also its own type of characteristics and history. In a way, banking system in Nepal can be traced back to 1877 A.D. (1933 B.S.) with the existence of Tejarath Adda. However, it had been only a credit institution. It did not play the role of financial institution fully because it did not accept the deposit from the people. Adda just provided the loan to the needy people. The system was initiated by the then Prime Minister Ranodeep Singh for providing credit facilities.” (Interest is related to social responsibility) On the other side, though the ‘adda’ was basically established to provide the loan for general people it might have provided loan to the industry indirectly. This is so because Industry Council was introduced at the same time and the periphery of this credit institution was owned by state. And first Company Act 1935 was introduced and Biratnagar Jute Mill was established under Company Act. The Company Act, 1936 (1993 BS) was the first company law that came into existence in Nepal under the regime of Prime Minister Juddha Shamsar Rana. The interrelation in between the credit institution and the development of the industry seems coming to this point. Banking and credit seems to be under the duty and responsibility of the state. Development boards for industry, trade and agriculture were established at the same time. With the development industry and laws related to it opened the conceptual avenue for the loan and interest. Because as the industries were going to be opened institutional type of investment was needed. From another side, Company Act 2063 is also one of the law documents which has given sociological ground to strengthen banking. Banks can be established only in norms of public business. The job of lending was institutionalized on the base of social quality and togetherness. Provided other thing that companies which perform banking business, financial business, activities related insurance, business related to share and security, pension fund, mutual fund or any other business which is declared time to time by the authority cannot be registered as private company (Government of Nepal, 2063).

Companies which perform aforementioned businesses can be registered only as public companies. Provisions of both laws are just for show. There are other provisions in different laws in Nepal in which attempts have been made to explain banks and interest provisions on the basis of social aspects.

The establishment of Nepal Bank Limited, the first commercial bank in Nepal in 1937, was an initiation for the formal banking of Nepal. With the establishment of Nepal Bank Limited, the usury system or providing loan in taking interest institutionally began in Nepal.

The second but land-marking step in this regard was establishment of the NRB in 1956 as the central bank of Nepal under NRB Act, 1995. There were different functions and duties of this central bank but among those, one of the major duties of this bank was to regulate the interest rate and interest system to ensure that the system was fair. The establishments of Nepal Industrial Development Corporation in 2016, Rastriya Banijya Bank (RBB) in 2022 and Agricultural Development Bank in 2024 under special laws with total ownership of then His Majesty’s Government of Nepal were other developments for banking and financial services till the country adopted open and liberalized policies in the decades of the 1980s. These institutions are all government operated. This initiation from the government is done so that private institutions cannot monopolize banking and interest; it was done so that private firms would

not have open reins to do whatever they wanted. Here, an indirect reference to religion and morality, namely the notion of wrong and right, can be observed. And the operating base of all aforementioned banks in Nepal was to accept deposit and provide the loan in definite interest rate. Managing the gap between interest rates in deposit and loan, which is called the spread rate in banking language, is being done by banks in Nepal. This spread rate must be in definite gap and it should not be high. This means there is a clear foundation of social justice in banking activities. Even in talk of providing loan the state has provisioned controlling mechanisms. Commercial banks and financial institutions shall advance credit to the sectors prescribed by the Bank from time to time for a prescribed period and in the manner prescribed by the Bank (Nepal Rastra Bank, 2058). Going through some of the laws documents, reports and journals, it seems banks and the banking behavior needs to give its attention to social justice and social responsibility. Since banking sector is also a corporate sector, the study of corporate governance has become the subject matter specially to address the offensive phenomena in banking.

The institutional regime of banking in Nepal includes the central bank, Nepal Rastra Bank as the central monetary and regulatory authority of the banks and financial institutions engaged in financial transactions. The innovation of Nepal Rastra Bank appeared based on the NRB Act, 1955 with the objectives “Diversification into three primary sectors: Currency, its issue and its circulation, Development of Banking system and Mobilization of Capital for development”.

The basis for establishment of Nepal Rastra Bank, the Central Bank of the Federal Democratic Republic of Nepal, was rooted in the 1950s in an environment of dual currency in circulation - both Nepalese and Indian currencies circulating side by side as the legal tender. The exchange rate between these two currencies was highly unstable and volatile. At that time there was only one functional commercial bank. The economy was least monetized and there was a very low level of development of the domestic financial sector. Likewise, Nepal had insignificant interaction with countries beyond India and China. This process can be analyzed through the process that is state constructing. Superficially, it was economic development; but from another setting, it was rudimentary effort to make bank and credit mechanism as part of state construction.

Lending, if we talk about it institutionally in form of banking, is associated with family, kinship and the conflict created within families and among kin. In this sense, it cannot be purely technical. It is deeply rooted in society and has a very extensive sociological ground. The case of **Narayan Bahadur Karki vs Krishna Bahadur Karki** is found to be relevant here (Narayan Bahadur Karki vs Krishna Bahadur Karki, 2053). The petitioner filed petition of injunction against the decision of Agricultural Development Bank to auction collateral. When the bank published notice to auction some area of land because of a loan not being paid on time, the petitioner claimed that the land, which was a common property, had been auctioned without the petitioner’s consent. Thus the petitioner tried to stop the auction of land, which had been registered in the name of his mother. The Supreme Court ruled against the petitioner; with the reason that the loan had been taken for family purposed and hence had to be borne by the entire family. The Court allowed the lending party to recover its money through property common to the family. The Court justified its decision further on the basis that no written evidence that substantially divided said property could be found.

Conclusion

Any kind of banking activity (namely loans, lending, interests, etc.) is defined in the periphery of economic systems. But it is not rational to limit the definition of banking by saying that it is solely economic. Banking and interest practices are seen to differ with religion. There has also been influence of morality on interest rates throughout history. It is also observed, especially in Nepal, there were caste groups whose sole purpose was to provide loans at some interest. Hence, there has been sociological influence on banking and interest since ancient times. Some of these can be seen even today. Legal provisions regarding interest rates and banking are fundamentally developed on the grounds of religion and morality. Some sociological factors, however, have become non-existent. There is no unique association between caste system and banking anymore.

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