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From New Delhi by Susan Maitra

The loan 'mela' phenomenon

The "loan fairs" benefit neither debtor nor creditor, but some believe that bad economics is good politics.

On June 7 Union Minister of Finance N.D. Tiwari inaugurated one of the biggest-ever loan *melas,* or "loan fairs," in India's history in Chhindwara, a backward district of the state of Madhya Pradesh. Some 50,000 peole, drawn from all 2,000 of the district's villages, were given loans of Rs. 2-3,000 (U.S. $150-230) each at concessional rates. In all, some Rs. 22 crore ($17 million) was disbursed at the day-long festival.

The newly reinstalled Congress (I) Chief Minister Arjun Singh, presently fighting for his political career in assembly elections in another district, presided over the function. Singh shared the podium with Tiwari and Kamal Nath, the Congress (I) MP from the district who organized the event.

Tiwari praised the loan *mela* as a "great step in the development journey of the country," and promised it would bring relief to the poor and downtrodden. He urged the people to use the loans for "good purposes." Arjun Singh promised that a new thermal power plant and some welfare schemes were about to be approved for the district. Kamal Nath recalled the district's 30 years of backwardness, as if to sharpen the message: It pays to have the Congress (I) in the state capital and in Delhi.

The Chhindwara loan *mela* is only the most recent of a more than ten-year-old finance ministry practice which has lately become intensely controversial. Earlier this year, the government held a loan *mela* in the state of Tripura days before the crucial state assembly elections in which Congress overthrew the Communist Party (Marxist) government. Last December, then Union Minister of State for Finance Janardan Poojary presided over a similar gala *mela* in Bangalore, the capital of opposition-ruled Karnataka.

The Bangalore *mela* brought the controversy to a head, with well-documented charges that the ruling party was misusing state power and taxpayers' money to buy votes. Most of the nearly 100,000 applicants for the *mela* were organized by "social workers" picked by Poojary himself. The social workers happened to be state Congress (I) organizers, and the application forms happened to ask questions about the applicants' voting preferences.

In January, Poojary was relieved of his post. But the fuss over politicization of the loan *melas,* like the government's assurances that proper norms and standards for bank lending will be observed, misses the point: The policy of sponsoring regular "credit camps" for mass distribution of loans to the "weaker sections" of the citizenry is *bad economics*. It points to a central weakness in overall credit policy.

India's 1969 bank nationalization came not a moment too soon. The private banks, which enjoyed a monopoly of deposits and advances, had proven their unwillingness to take responsibility for national development. As of June 1967 not more than 1% of total bank credit was extended to agriculture, though that sector contributed 50% of the GNP and involved 75% of the population! Similarly, small-scale industry, which produced 40% of aggregate industrial output, received only 6.5% of total credit.

After nationalization, bank branches multiplied rapidly and the structure of credit deployment shifted. By 1986, the priority areas accounted for nearly 44% of total bank credit, compared to 20% in 1969.

But alongside these achievements, the failure to rigorously define criteria for *productive* investment increasingly undermined the credit system. The stress on *access* to credit over and above the size, terms, and purpose of loans—a bias boosted with the rise of populist politics in the late 1970s, and epitomized in the loan *mela*—has made the problem worse.

For example, the "priority sector" for concessional lending lumps together retail traders, professionals, self-employed people, and all small industries. And the Differential Rate of Interest (DRI) scheme, the only really concessional one, gives 4% loans to the lowest castes and tribals, not for the merit of the proposed investment, but because they are low caste or tribal.

Otherwise, the lowest "concessional" rate is 10%! And the standard concessional package, like those handed out at the *mela*, is no more than Rs. 5,000 ($380). For the tribal or the marginal farmer, it adds up to too much to repay and not enough to make an actually productive investment—and thus is a net loss for the borrowers and creditor alike.

No wonder the participants in the loan *melas* do not believe they are expected to repay the loans. The report that 50% of the rural bank loans are unrecoverable is part of the same picture. The banks, for their part, are saddled with huge numbers of small accounts, whose service together with write-offs puts further pressure on operating costs—costs that are already so high as to require a 5% margin between lending and deposit rates.

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