

Lending on Commercial Lines

THE Report of the Ministry of Rehabilitation gives an account of the activities of the Rehabilitation Finance Administration up to November 1952 which may be summarised as follows:

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| Total applications received | 63,685 |
| Applications finally disposed of | 53,431 |
| Applications sanctioned | 10,813 |
| Amount sanctioned | Rs lakhs 8,93.29 |
| Amount paid | 514 |

The Report of the Ministry of Finance also gives some information about the Rehabilitation Finance Administration which falls under it administratively. This information is more up-to-date. According to the Finance Ministry Report, up to the first week of February 1953 the Administration sanctioned loans amounting to Rs 11.48 lakhs of which Rs 5.10 lakhs were drawn by the borrowers. The Rehabilitation Ministry maintains that the Administration is an autonomous body and functions on "commercial lines." As Government cannot be running this organisation for the purpose of making profit, it would be idle to inquire if the loans extended by this Administration are bringing adequate returns to cover the expenses incurred and leaving a wide enough margin. But since the Administration obtains its funds from the Government of India, for the rehabilitation of distressed people who have been uprooted from their hearths and homes, to assist them to establish themselves in business from which they can make a living, it may be worth while to inquire at what cost the Administration has been carrying on its task of rehabilitation. It would be useful to know, for instance, against the total amount disposed of" by the Administration so far in loans, what expenses it has incurred in running its organisation and in establishment 'barges. In neither of these reports, however, is there any mention of the expenses incurred in running the Rehabilitation Finance Administration.

The Rehabilitation Finance Administration was constituted in June 1948 by an Act of Parliament. It was started with an initial capital of Rs 10 crores advanced by the Government of India and subsequently it was decided to raise the

advances by the Central Government to Rs 14.3 crores. The amount which the Administration lent to any one party is generally between Rs 6,000 to Rs 12,000 but the average works out to much nearer the smaller figure. The period for which loan is granted used to be 10 years. But in order to minimise the hardship of borrowers, the period of the loan is now proposed to be extended from 10 to 15 years. A bill was introduced in Parliament on November 13 last to give effect to this and certain other amendments.

The Administration does not lend below Rs 5,000 and the purpose of such loans is usually to help small businessmen, mostly displaced shopkeepers, to re-establish themselves. The amount of loan is too small for the purpose for the simple reason that the initial cost of setting up a shop takes up a big chunk—in paying puggree or *slami*, to begin with. Then the borrower has to support himself and his family until he is able to earn. Thus he is left with too little working capital to run his shop or other business. The period of repayment is too short; for repayment of principal and interest commences from the third year, while the rate of interest, viz, 6 per cent per annum, is excessively high. So far realisation has not been even up to 60 per cent of amounts due as instalment of principal and interest, and loans have been progressively turning bad and even this rate of realisation may not be maintained in the future. But adequate returns or timely recovery is not the main point, since the purpose is not to advance commercial loans and the test of creditworthiness in such cases must necessarily be the ability of the borrowers to rehabilitate themselves rather than to repay the loans quickly and in full, by a certain date.

There is a bigger snag, however. It is understandable that many of the applicants do not qualify for loans, being unable to fulfil the tests laid down, but why is there such a wide difference between the amount of loan sanctioned and the amounts actually drawn? Displaced traders in a hurry to rehabilitate themselves should not normally be so slack in drawing the money to which they are entitled. Actually the difference between the two items means something quite different. It means, in short, that would-be borrowers have

further conditions to fulfil, e.g. get a guarantee from persons considered eligible by the Administration and are not able to do so in a large number of cases. That is why the actual amount drawn is not much more than half of the amount sanctioned.

Now about the cost, not of collection but of administering this loaning agency. The Administration has a Chief Administrator who is also the *ex-officio* Chairman of the Board responsible to the Government of India for sanctioning and disbursements of the loans to displaced persons throughout India. The basic pay of the Chief Administrator is Rs 3,500 per month plus allowances. There is one Deputy Administrator with a basic pay of Rs 1,800 and two assistant Chiefs on Rs 1,000 each, Inspectors in charge of each sub-branch with a basic pay of Rs 650, Superintendent of Advances basic Rs 600, Assistant Superintendents on Rs 450 and so on. At the lowest rung of the ladder are the Assistant Inspectors on a basic pay of Rs 200 who are responsible for conducting enquiries into loan applications and for the supervision, control and guidance of those to whom loans have already been advanced. Members of the Board numbering 30 are entitled to air passage for attending Board meetings and each meeting of the Board costs a large sum. To run a long story short, the total establishment expenses incurred by the Administration up to December last would be hardly less than Rs 2.5 crores. This is the cost incurred for disbursing a total loan amount of some Rs 5.4 crores. The Administration is being conducted on "commercial lines" indeed!

An Enquiry Committee has been appointed to examine and report on another agency of the Finance Ministry, viz, the Industrial Finance Corporation. None has been proposed or demanded so far, for the Rehabilitation Finance Administration. Is it not surprising that the refugees or their champions have been so long-suffering?

Balance of Payments Position

India's balance of payments position on current account with the United Kingdom for the period April to December 1952 showed, according to tentative estimates, a deficit of Rs 59.2 crores, according to a written reply given in the House of the People by the Finance Minister.