# Credit Flows to the Handloom Sector, Policies and Practices: An Exploratory Study

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The All India Artisans and Craftworkers Welfare Association (AIACA) aims to serve as an apex body that brings together a wide range of actors in the handicraft and handloom sectors to work together towards ensuring market-led growth of these sectors and to help ensure a better standard of living for artisans and craftworkers. This study is part of a series of research papers and case studies commissioned by AIACA to explore constraints to the growth of the handloom and handicraft-based livelihoods and to suggest policy and programmatic recommendations to tackle them.

# Acknowledgements

I am thankful to AIACA for giving me this opportunity to explore this important theme that impacts the livelihood of a large number of people in rural and urban India. I had several illuminating discussions with Adarsh Kumar, the Executive Director of AIACA during the conduct of this study. AIACA facilitated field visits to Andhra Pradesh and Orissa in collaboration with Dastkar Andhra, Hyderabad, Office of the Development Commissioner Handlooms, New Delhi and the Commissioner and Directorate of Textiles, Government of Orissa. These field visits provided me with the opportunity to interact with several functionaries in over ten weavers' cooperative societies. In addition to these visits to the cooperatives, meetings with bank officials, weaver families, officers of the textile department, master weavers and other stakeholders associated with the handloom promotion activities were undertaken. I found the meetings with functionaries of Dastkar Andhra, officers in the textiles department of Government of Orissa and Andhra Pradesh and the senior management of NABARD in Hyderabad, Bhubaneshwar and Mumbai as also the Development Commissioner, Handlooms in New Delhi extremely helpful. All of them were supportive in responding to my queries and providing necessary information. A large number of individuals, all of whom I cannot mention here, also shared their experiences during the field visits. I am thankful to all of them for the cooperation and facilities they extended to me while I was conducting this study.

Undertaking any research in the handloom sector is a challenging task. An attempt is made in this report to highlight some of the major gaps in credit flows to the sector. I hope that this report triggers a debate amongst policy makers in the textile ministry and financial institutions and prompts them to improve credit flows to handloom weavers.

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# List of Abbreviations



| | |
|---|---|
| ACC | Artisan Credit Card |
| APCO | Andhra Pradesh State Handlooms Weavers Marketing Cooperative Society |
| DA | Dastkar Andhra |
| DCCB | District Central Cooperative Bank |
| DDM | District Development Manager (NABARD) |
| GLC | Ground Level Credit |
| HC | Handloom Census (Report of 2004) |
| KCC | Kisan Credit Card |
| MFI | Micro Finance Institution |
| NABARD | National Bank for Agriculture and Rural Development |
| NCAER | National Council for Applied Economic Research |
| NDR | Net Disposable Resources |
| NFS | Non Farm Sector |
| OPS | Other Priority Sector |
| PHWCPSS | Pulugurtha Handloom Weavers Cooperative Production and Sale Society Limited (a WCS in Andhra Pradesh) |
| PLPC | Potential Linked Plan for Credit |
| RRB | Regional Rural Bank |
| SCB | State Cooperative Bank |
| SCC | Swarojgar Credit Card |
| SHG | Self Help Group |
| SML | Share Microfin Ltd |
| WCS | Weavers' Cooperative Society (also referred as Primary WCS-PWCS) |
| WSG | Weavers' Self Help Group |

# Voices Heard during the Field Visits

*"The handloom sector is surviving today not because of the government or the textile department or the cooperatives. It is because of master weavers!"-* ***A researcher on handlooms***

*"In a village, for the poor weavers,[the] master weaver and God are the only source of succour."-****A bank official***

*"You are asking me why I didn't take a loan from the bank. They ask hundred and one questions. (Pointing to the loom in her house) one of them asked, how many threads are there in one loom and what is the weight of the loom and so on. Am I expected to know all these answers? It is better not to approach them. I take yarn from a master weaver, return the produced cloth and collect my wages. There is no headache in that interaction." -* ***A woman from a weaver family during a conversation in her home.***

*"I started my career as a field officer in this bank branch. I worked for 6 years as a field officer. Recently, after 18 years of service in different regions, I have returned as a Branch Manager to this branch. I see the same situation around. Nothing has changed for the weavers."-* ***Branch Manager of a Public Sector Bank in Yemmiganur in Kurnool District, Rayalseema region of Andhra Pradesh***

*"Recently, I was approached by the Chairman of this Municipal Council. He belongs to the weaver's community. The Chairman handed me a list of 18 persons whom he wanted my bank to issue artisan credit cards. I am working on this list. I called all of them one by one to our bank for a personal interview. I talked to each one of them, made my own assessment. Now, we will process these applications further."-* ***Branch Manager of a Public Sector Bank in a town in Andhra Pradesh.***

*"I am a Branch Manager in this bank for the last three years. The day I came to this branch, I invited the officials of the weavers' cooperative to do business with my branch. But they said they couldn't do it. Isn't it a strange situation that when they can walk into my branch within a minute, they have to transact with a district central cooperative bank which is twenty kilometers away from this village? Please do something about this anomaly."-* ***Branch Manager of a rural branch of a Public Sector Bank in Andhra Pradesh village***.

*"I don't take any government grant or subsidy. The moment I do that, I will have ten officers visiting me every month."-* ***An entrepreneur dealing in handloom products***

*"Norms are like getting pass marks. One must get 30% in the examination. Therefore, there cannot be differentiated eligibility norms for cash credit for societies performing well and other societies.... One time settlement is accepting the reality. What is the use of recording receivables year after year when one knows that it is not going to come.... Let there be credit flow first, card (credit card) will come later!"-* ***A senior manager in NABARD****.*

*"The entire situation has to be looked de novo. The existing refinance mechanism has become dysfunctional. We need to consider only two criteria; the handloom weavers should get timely, adequate and hassle free credit at reasonable rate of interest. And the banks must get their money back. We should not be tied down by the institutional constraints."-* ***A senior manager in NABARD****.*

*"If farmers in Andhra Pradesh reached out for pesticide, weavers are reaching out for poison dye to end their woes. The state government admits 45 weavers have committed suicide in the last one year. But according to independent surveys, the actual figures put the number of such deaths at over 200."*

*"Just in Siripuram village of Nalgonda district with hardly 1000 families, there have been six weaver suicide deaths in the last one year." -* ***News report on www.ndtv.com by Uma Sudhir, February 25, 2006, Nalgonda, Andhra Pradesh***

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# Executive Summary



1. The issue of credit flows to the handloom sector is closely linked to the working capital management of the handloom business. This, in turn, is directly related to the overall health and business performance of the handloom sector as a whole. Various aspects such as marketing, design, technology, skill upgradation etc determine the performance of this sector. While acknowledging the fact that credit is a necessary but not the only input for the growth of the industry, this report has focused on the issue of credit flows to the handloom sector.

2. The entire spectrum of policy interventions for credit delivery is centered around cooperative institutions consisting of weavers cooperatives as recipients of credit and the cooperative banking system as providers of credit services. Here, the National Bank for Agriculture and Rural Development (NABARD) plays the crucial policy making role. NABARD estimates that only 20 to 25% weavers operate within the cooperative fold and that this number is also on the decline. This implies that, by the very nature of the intervention, over 75% of the weavers today are left out of the formal financial delivery mechanism.

3. As a result of institutional preference, there were no significant policies in the past to provide credit to weavers and stakeholders outside the cooperative sector. Only recently has NABARD started to respond to other stakeholders.

4. Assessment made in this study and independent data from NABARD clearly show a consistent declining trend in the institutional credit as well as the absorption capacity to avail of institutional refinance. Over the last seven years, credit flows (utilisation) has declined from Rs 586 crores in 1998-99 to a level of Rs163 crores in 2004-05. A worrisome feature of this decline has been the growing gap between the cash credit limits sanctioned by NABARD and the actual amounts utilised by the State Cooperative Banks (SCBs). In 1998-99, the overall utilisation by SCBs was 78% of the sanctioned limits, but this gap increased to 47% in 2004-2005, clearly indicating that in spite of higher available CC limits, the cooperative system is not able to utilise it. In one district cooperative bank, of the sanctioned credit limit of over Rs 3 crores to the Weavers Cooperative Societies (WCSs) for the current year, the withdrawals were just Rs 5 lakhs. There are WCSs who have even stopped using CC limits.

5. This study attempted to make a preliminary estimate for the demand for credit. Taking into consideration various assumptions in terms of the number of looms in working condition, type of weaving and the number of days a weaver is engaged, the demand for short-term credit ranges from Rs 2,000 to Rs 5,000 crores.

6. According to a NABARD report, the short-term credit requirement of the WCSs alone is around Rs 3,000 crores. Assuming that another 75% weavers are not within the cooperative fold, the potential demand for short-term credit is Rs 15,000 crores.

7. It is time to accept and acknowledge the fact that the formal institutional credit delivery mechanism, focusing only on lending through the cooperatives of handloom weavers in the country, has become dysfunctional and in many places more or less defunct.

8. One of the important reasons for the failure of the formal institutional credit delivery mechanism has been the precarious financial position of the District Central Cooperative Banks (DCCBs) and the SCBs entrusted to extend credit facilities to the WCSs. While the number of SCBs incurring losses is only 4 against the remaining 27 that are profit-making, for the DCCBs, the situation is not the same. Of the 365 DCCBs in the country, in 2003-2004, 102 were in losses and remaining 263 in profit. The losses were Rs 758 crores. According to NABARD data, accumulated interest and total loans outstanding with all the WCSs and their apex cooperative structures of 30 states is Rs 1,008 crores at the end of 2004-2005.

9. The "One Time Settlement Process" initiated in states (for instance in Orissa) to cleanse the balance sheets of the WCSs has not progressed further.. In Orissa, the process is stalled due to difference of opinions between SCB and the DCCBs regarding who should bear what percent of loss (in terms of writing off the outstanding interest etc).

10. Unfortunately, this failure has not gained as much urgency in policy discussions as compared to, for example, the ongoing engagement of the Government, NABARD and banks with agricultural credit and ways and means of doubling it in a three-year time frame.

11. It was observed during the field visits that the elaborate process of setting limits on working capital and eligibility norms by NABARD are not responsive to the ground realities. The WCSs found this process cumbersome and time consuming. In the current financial year, a well-performing society in the state of Orissa could withdraw its first cash credit requirement almost seven months into the financial year.

12. Such a process also needs to build in more transparency. Information on credit applications by WCSs and the corresponding sanctioned amounts, as well as the time period elapsed between application and sanction, should be available in the

public domain and be easily accessible to independent researchers, industry associations and organisations working in the handloom sector.

13. The eligibility norms of NABARD for short term financing of WCSs do not differentiate between a cooperative that is performing well and one that is making losses. The "one size fits all" credit norms and eligibility criteria have been reduced to a mere exercise in paper work. They are not in a position to capture and respond to the ground reality that is complex and diverse. As a result, some of the WCSs that are performing well or those who have a potential to turn around would be forced to abandon institutional credit and work outside the cooperative banking arrangement.

14. Well-performing WCSs have got stuck with inefficient DCCBs though the policy guidelines of NABARD suggest and recommend that they could approach commercial banks for their financial requirements. In practice, this is rarely done.

15. It is felt that the commercial banks are not generally interested in lending to the handloom sector and the DCCBs are doing it more out of compulsion than as a business proposition.

16. The reasons for the dysfunctional credit delivery mechanism are many and this report does not intend to go into all those reasons. It would be tempting to pinpoint village level weaver cooperatives as the cause of the failure of the credit delivery mechanism for "not doing their own business right" and hence not being creditworthy. However, it is equally important to acknowledge the role of development and facilitating agencies such as banks, marketing/ development machinery in the state government and the central government and apex cooperative marketing societies to this crisis. It is important to highlight the inefficient role of the apex marketing cooperative societies that have consistently delayed or not even fulfilled their financial commitments to the primary cooperative societies.

17. The handloom cooperative societies have been choked in terms of their receivables outstanding with the state governments and with the central government schemes. Overdue amounts for market development assistance or interest rebates have been pending for more than five to six years. These delays have affected the working capital management and the overall financial health of the cooperative and negatively impacted their ability to avail cash credit limits from DCCBs.

18. Weavers outside the cooperative fold do not seem to have any access to working capital except those linked to master weavers/traders. Data is hard to obtain in terms of how many such traders and master weavers (intermediaries) exist and of those, how many have availed of finance from the formal financial system.

19. The Artisan Credit Cards (ACC) introduced in 2003 offer a potential credit delivery channel to reach a

large number of weavers within and outside the cooperative fold. In principle, its design also offers the potential to reach weavers who have been stuck with a non-performing cooperative structure at the village level.

20. However, the promotion of the ACCs has been extremely slow. The number of ACC cards issued compared to the targets set by the textile departments and/or the bankers in each state indicate that there is a long way to go before the targets are reached. The bankers seem to be less enthusiastic about the ACC though they could build on the accumulated experiences of a similar instrument, namely the Kisan Credit Card. The awareness among the weavers about the ACC also seems to be low.

21. NABARD in 2005 has introduced guidelines for banks to experiment with Self-Help Groups (SHGs) of weavers. The experience in SHG promotion methodology shows that it takes at least one year for the group to develop a healthy group dynamic in addition to regular savings. The group then becomes credit worthy. While this is a welcome measure from the perspective of the next three to five years, it might not accelerate credit flow in the short term.

22. We did not get sufficient information from many NGOs / Microfinance Institutions (MFIs) to show that they could be a potential alternative channel to accelerate credit flows to the weavers and their societies.

23. In the current policy discussions, the entire discourse and hence policy measures are centered around cash credit / working capital limits for the weavers (purchase of yarn and marketing support etc). There seems to be an implicit assumption that long term credit requirements of the weavers in terms of replacement of loom, additional loom etc do not exist and if they do, the weavers will take care of such credit needs on their own.

24. It might be useful to pragmatically and efficiently map the current status of credit flows through a Situation Assessment Survey (SAS): After the census of 1995, there is no official publication on the status of handloom industry in India. There is an urgent need for the concerned Ministries and Departments (Textiles Ministry: Development Commissioner of Handlooms; and the Ministry of Finance) together with apex financial institutions (NABARD) to map the status of the handloom industry with reference to the financial aspects of the sector. This SAS could be similar to the SAS carried out by the National Sample Survey Organisation (NSSO) in 2003 of farmers. The results of that SAS had generated extensive discussions on the status of the Indian agriculture. It is time that a similar comprehensive exercise is undertaken focusing on the handlooms industry and its financial dimensions for the weavers.

25. NABARD together with the Development Commissioner of Handlooms need to think *de novo* as to what kind of credit policies are needed for the handloom sector.

This should mean reviewing the existing credit delivery mechanisms and exploring all possible alternate mechanisms without any institutional bias for cooperatives. The annual ritual of framing policies and sanctioning limits has ceased to add any significant value to the well being of the cooperatives.

26. Such a policy also needs to assess comparative merits and demerits of offering refinance facilities through the cooperative banking mechanism that does not work efficiently in reality. Policies need to encourage and promote more and more lending by the commercial banks and new stakeholders such as MFIs or NGO-MFIs.

27. Such a policy needs to be sensitive to the diversity amongst cooperatives across the country in terms of their financial health. A flexible and differentiated credit policy for well performing, potentially viable and dysfunctional cooperatives need to be prepared. NABARD has rich experience in setting such differentiated credit limits for diverse crops in different agro climatic regions of the country.

28. A well performing cooperative tied to a loss making district cooperative bank should be encouraged to work with alternate financial institutions, namely commercial banks.

29. Each year, the District Development Managers (DDMs) of NABARD prepare a document that is called the Potential Linked Credit Plan. This is prepared in consultation with all the stakeholders including the banks, the Government and civil society organizations in a particular district. It contains the credit estimates for both the farm (agriculture) and the non-farm sector. It is important to strengthen this process especially in the hundred handloom clusters where the Government is implementing the Cluster Development Programme. The credit needs of the selected clusters need to be thoroughly analysed to prepare an action plan to respond to these needs.

30. NABARD could be assigned direct responsibility and accompanying authority to implement cluster development initiatives in thirty to forty districts as a pilot project. In the past, NABARD has successfully implemented water-shed development programmes that involve civil society, banks and government functionaries. It has facilitated and developed a significant network of over 3,000 NGOs and bank branches all over the country while scaling up the SHG Bank-Linkage programme in the last decade. This expertise at the district and the regional offices of NABARD needs to be properly utilised.

31. In regions where there are weaver clusters and functioning alternate financial institutions such as MFIs, these alternate institutions could be a potential delivery mechanism. However, this alternative does not absolve the responsibility of the formal institutions to respond to the credit needs of the weavers.

32. NABARD has gained significant

experience in popularising the Kisan Credit Card Scheme. This experience needs to be utilised in promoting the ACCs. Commercial banks and the branches of the Regional Rural Banks (RRBS) need to be further motivated to upscale this effort. ACCs offers significant potential to enhance access to credit for weavers that needs to be tapped.

33. Self Help Groups (SHGs) and concepts such as joint liability groups of artisans need to be experimented upon. These might take a longer time frame to show results, but it is worth investing in developing these potential alternate mechanisms.

34. NABARD needs to set for itself and other cooperative banks clear and stringent standards in terms of timely announcements of the current fiscal policy and the time frame for its implementation. In no case should this policy be announced after half the year is already over.

35. **To sum up,** there is an urgent need to bring the status and health of the handloom sector (and credit flows to the sector) back on the national policy agenda. Given the complex context and the role of multiple stakeholders contributing to its functioning, it is necessary to acknowledge that any partial or piecemeal orientation would not help in identifying and instituting corrective actions. A serious engagement of all stakeholders is immediately needed.

# 1 Introduction



## Background and Objectives

This research study attempted to look at the discrepancy between the policies and the actual reality of credit flows to the handloom sector. The study was undertaken with the assumption that a number of studies have already looked at the handloom sector either from the point of view of marketing of handloom products and the technology upgradation of looms and the weavers working on them. While there is no denying the fact that the handloom sector offers a complex web of interactions between various stakeholders and different dimensions, credit flows to the handloom sector was rarely the focus of an elaborate study. This study therefore is done with a view to map the policies and the realities of the credit flow mechanism as observed during field interactions. Specifically, the objectives for this study were:

- Compile statistics on NABARD's lending to the handloom sector over the past ten years.
- List and critically analyze the procedure followed by NABARD in sanctioning credit to cooperatives.
- Interview selected handloom cooperatives and weavers outside the cooperative fold to include their perspective on the efficiency and appropriateness of the credit sanctioning mechanism, and the problems they face in accessing the required credit.
- Estimate credit demand for the handloom cooperatives and quantify the mismatch between supply and demand of credit to the entire sector.
- Suggest recommendations to improve access to credit for weavers both within and outside the cooperative fold.

The Research Brief prepared for this study is presented at the end of this report in *Annexure 1*.

## Methodology of the Study

The macro level data was obtained from the policy announcements and documents of the Planning Commission and other published information of the Government of India and NABARD. The data on the handloom sector was sourced from the results of the second handloom census. (*Annexure 2*) To understand the ground reality, field visits to Andhra Pradesh and Orissa were made in the month of December 2005 and February 2006 respectively. In these field visits, extensive discussions were held with the functionaries of all the stakeholders irrespective of hierarchy (*Annexure 3*). Discussions were held with the primary WCSs in the states of Andhra Pradesh and Orissa, the officials of the district and the state cooperative banks, the officials of the textile department, the managers of commercial and RRBs, the DDMs and senior managers of NABARD in Hyderabad and Bhubaneshwar. We also had detailed discussions at the end of the field visit with policy makers in NABARD in Mumbai and the Development Commissioner of Handlooms in New Delhi. We had extensive consultations with the representatives of Dastkar Andhra and the All India Artisans and Craftworkers welfare Association (AIACA) to understand their perception of the issues involved in credit flows to the sector. During the field visit, interactions with master weavers, private traders and entrepreneurs were also conducted.

The report is presented in five chapters with this as the first introductory chapter. The second chapter presents an overview of the handloom sector. The third chapter describes the credit delivery mechanisms and the way the institutional policies and practices guide credit flows to the sector. In Chapter 4, observations on these practices as derived from the interactions with the weaver cooperative societies and banks in Orissa and Andhra Pradesh are presented. In the last chapter, we present conclusions and recommendations arising out of this study.

# 2 Credit Flows to the Handloom Sector

## Information from published documents

This chapter draws heavily from three published documents. The first one is the Compendium of Textile Statistics (2002) published by the office of the Textile Commissioner, Ministry of Textiles, Government of India; Mumbai. This document provides comprehensive information on the textile industry in the country. This publication also has data on the handloom sector though the focus is on the textile sector as a whole. The second document is the Joint Census of Handlooms and Powerlooms 1995-96. The Joint Census was published in November 2004 by the National Council of Applied Economic Research (NCAER) in two separate volumes, the first dealing with handlooms and the latter with the powerloom sector data. The third document is a report of the Planning Commission (Report on Growth and Prospects of the Handloom Industry 2001).

The first census of handloom weavers was conducted in 1987-1988 covering 27 States and Union Territories. It was commissioned by the Office of the Development Commissioner (Handlooms). The same office in August/September 1995 launched the second census of handlooms and the first one for powerlooms. While NCAER was appointed as the nodal consultant on behalf of the Government of India, the personnel of the respective state governments under the overall supervision and quality control checks of NCAER carried out data collection in different states. The following details are presented from the second census report published by NCAER in November 2004 henceforth referred to as the Handloom Census report 2004 (HC).

## Handloom Census of 1995 (HC)

The HC classified the sector in two broad categories, the first as **Handloom Household** and the other as **Handloom Non-Household**. Any household that had a member operating a loom for at least 7 days during the past year (of the census data collection) was included in the category Handloom Household. Handloom Households were further sub-divided into two sub-categories: Those operating a loom within the physical premises of the household were classified as **with loom household**. Those operating looms outside the house were classified as **without loom household.**

Similar criteria were used in identifying the Handloom Non-Household category. Those working for cooperative societies or other weaving establishments were classified as **Handloom Non-Household** sector. The Handloom Household and the Handloom Non-

The data also suggests that the sector employs the most vulnerable segments of the Indian population from rural areas namely scheduled castes, schedules tribes and other backward class communities.

Household together constituted the handloom sector for which this HC gathered information.

It is evident from the HC that the handloom sector occupies a significant place in the national economy in terms of its potential for providing employment to a large number of households in the rural areas, next only to agriculture. The data also suggests that the sector employs the most vulnerable segments of the Indian population from rural areas namely scheduled castes, schedules tribes and other backward class communities. The handloom sector also provides substantial "backward and forward employment linkages" in terms of number of persons engaged in either preparatory activity/pre-weaving tasks or post weaving operations. The HC data shows that the handloom sector is central to those engaged in it as they derive close to half of their annual income from their weaving activity. This activity also provides round the year employment, as evident from the number of days it engages weavers. It is therefore important that progressive and appropriate pro-poor policies are designed and implemented for the sector that employs over one crore persons from rural India. It should be noted that the HC data is from 1995 and it is very likely that the liberalisation of the Indian economy during this time period has brought significant changes in the handloom sector since then. However, that does not undermine the crucial role played by this sector in the Indian rural economy.

Earnings from weaving accounted for more than 50% of total monthly income for 35.37% of the households.

## Highlights of the Handlooms Sector

The following are the highlights of the handlooms sector as pointed out in the HC:

- There are **2.52 million households** engaged in handloom and related activities. This number includes both part time and full time activities.
- There are 17,530 non-household units in handlooms.
- Of the 2.52 million households, **2.40 million households possessed looms**, the remaining 0.12 millions are loomless households.
- Of the 2.52 million households, a total of **2.19 million** households were **from rural areas.**
- The household units accounted for a total of **3.29 million looms** of which **2.99 million were in working order** (90.96%) and the remaining 0.30 million found to be in idle condition.
- **The total population** engaged in the handlooms sector is **12.80 million.**
- Of the above total population, 25.50% belong to the Scheduled tribe (ST), another 10.76% the scheduled caste (SCs) and 42% are from other backward castes (OBCs).
- The HC reported that there are **3.47 million weavers** of which 1.65 million (47.57%) are full time weavers and the remaining work part time.
- In addition to the above number, there were **1.73 million persons** engaged in **preparatory work** for weaving.
- The weaver households were found to work for an average of **197 days** in a year.
- Earnings from weaving accounted for **more than 50% of total**

**monthly** income **for 35.37%** of the households.

## The Compendium of Textile Statistics (2002)

The office of the Textile Commissioner, Ministry of Textiles, Government of India, Mumbai, publishes this document. It provides comprehensive information on the textile industry in the country. Out of 275 pages and of the fifteen sections in the publication, khadi, handlooms and powerlooms are covered in just one section (section XII) consisting of 5 pages. (pages 223 to 227). The data in this compendium on handlooms is based on the first census of handlooms (1987-88) and hence outdated. This data is presented here just to show a quick comparison of the changes that have taken place in the sector though the main thrust of this research study **is not** on the sector's overall functioning but that on **credit flows** to it. The 1987-88 data indicates a total of 38,91,000 looms in both urban and rural India. Of the 38.91 lakhs looms, 36.12 lakhs (92.83%) are working and 2.79 lakhs (7.17%) are idle. Total labour engaged in weaving is as under:

| | *(in thousand)* |
|---|---|
| In full time weaving | 2242.90 |
| In part time weaving | 21.32.90 |
| In preparatory work full time | 1095.50 |
| In preparatory work part time | 1061.90 |
| **Total** | **6533.20** |

**Source :** Table 149 state-wise labour engaged in handloom weaving Compendium of Textile Statistics 2002 (page 226)

## Report of the Planning Commission

The recent report of the Planning Commission (Report on Growth and Prospects of the Handloom Industry 2001) elaborated the following four unique characteristics of the handloom sector.

- It is extremely diversified in nature, in terms of product and relations of production.
- It is capable of great flexibility in processes, products and geographical shifts.
- It is decentralized, located both in rural and urban centres.
- It is largely home-based, with labour inputs from the entire family.

The above observations of the Planning Commission are important as it recognises the inherently complex and diverse characteristics of the handloom sector. Unfortunately, as we explain later, the credit policies relating to the handloom sector are centralised, top down and uniform for the entire sector.

We quote extensively from the above-mentioned report:

There is no such thing as 'the' weaver (this being a hypothetical construct) but rather, a diversity of conditions that characterize weavers and weaving. This point is often strongly made in the course of criticizing macro policy perspectives that, in effect, iron out this diversity. However, while it is imperative to keep this diversity in view, demonstrating such heterogeneity empirically is only a first step. It is also necessary to go further and suggest that appropriate institutional supports be devised in such a way as to match this diversity, which may often be region-specific.

A clear understanding of the specific

features of the handloom industry, along with an identification of its most pressing needs is a preliminary necessity. Some of the essential characteristics of the handloom industry are as follows:

1) It is extremely diversified in nature, in terms of product and relations of production. From weaving coarse cloth for local needs to producing a range of medium and fine fabrics for a larger (usually urban) market, the varieties of cloth produced on handlooms are indeed vast. Each region is known for a specific product that is unique in design and style. What is woven (the product) is, however, inseparable from the question of where and how it is woven. The last is not a reference to technology, but to the very structure of production itself, viz., to how production is organized. These modes and relations of production are again very diverse. There are independent weavers, weavers organized into co-operatives and those working under master weavers. While a few areas may be characterized by one clear-cut mode of production, a combination of types and a multiplicity of relationships of production are usually found elsewhere.

2) It is capable of great flexibility in processes, products and geographical shifts. Alterations in the production process and innovations in product are fairly easily achieved. Unlike land resources that root an individual to a given place, a weaver is limited only by his skill and, being mobile, could shift from one production base to another.

3) It is decentralized, located both in rural and urban centres. Handloom weaving as an economic activity predates modern industrialization. Within the village economy that obtained in the past, weavers catered primarily to local needs and were one of the service castes. Thus every village, or every cluster of villages, would have a number of weaving families. Running parallel to this was also market-oriented production, located largely in weaving centres near port towns, where master traders organized weaving for export. Sometimes, these were organized as karkhanas, or weaving 'factories', but by and large, unlike the highly centralized mill sector, handloom weaving today continues to be dispersed and decentralized in nature.

4) It is largely home-based, with labour inputs from the entire family. The second sense in which the handloom industry is decentralized is that it is largely household-based. While weaving sheds do exist occasionally, more widespread is the weaver weaving at home, drawing on the labour of all the family members. In each stage of the production process, whether it is pre-loom processing, weaving or furnishing – every member of the household has a clear role to play. In many ways, it is similar to the subsistence agricultural household that engages in the self-exploitation of labour in order to remain at the subsistence level.

A proper understanding of these fundamental characteristics of the handloom industry is indispensable for policy formulations and creation of supportive institutional infrastructures. This household-based industry, with its low capital and energy requirements and its ability to provide livelihoods to a large number of people, has immense economic potential. What is required is a systematic identification of the heterogeneous nature of its needs and problems and the designing of suitably flexible inputs that would tackle these issues. Most of the steps taken to tackle such needs as credit, raw material and marketing have had a centralized structure that has been unable to reach out to the inherently decentralized nature of the industry. The development of support systems that would match the characteristics of the industry is urgently needed today."

To sum up, there is no updated data on the state of the handloom sector in 2006 except the one available from the 1995 census. A pragmatic and efficient mapping of the current status of credit flows might enable the design of more appropriate policy interventions. A Situation Assessment Survey (SAS) similar to the one carried out by the National Sample Survey Organisation (NSSO) in 2003 of farmers might be one possibility. The results of this SAS have generated extensive discussions on the status of the Indian agriculture. It is high time that a similar comprehensive exercise is undertaken focusing on the business of handlooms and the financial dimensions of this business from the viewpoint of weavers.

## Credit Flows to the Handloom Sector: The Supply Side

According to the information available on the NABARD website (www.nabard.org) and their internal report, short term credit limits sanctioned to the SCBs for the handloom sector are given in Table 2.1.

It is evident from this data that credit flows have been declining over the years (see Chart 2.2). This is a clear indication that the handloom sector is not receiving the kind of attention that it deserves from the formal financial system. Another worrisome feature of this consistent decline is the growing gap between the cash credit limits sanctioned

To sum up, there is no updated data on the state of the handloom sector in 2006 except the one available from the 1995 census.

**Table 2.1: Short term Credit Sanctioned to and Utilised by SCBs**

*Rupees in Crores*

| Year | Sanction (1) | Utilisation (2) | Percentage (1/2) |
|---|---|---|---|
| 1998-99 | 752.84 | 586.44 | 78 |
| 1999-00 | 786.52 | 574.44 | 73 |
| 2000-01 | 686.29 | 555.59 | 81 |
| 2001-02 | 683.52 | 489.07 | 71 |
| 2002-03 | 550.93 | 347.85 | 63 |
| 2003-04 | 520.60 | 309.79 | 59 |
| 2004-05 | 349.89 | 163.14 | 47 |

**Chart 2.2:** Credit Sanctioned and Utilised by SCBs (Rs. in Crores)

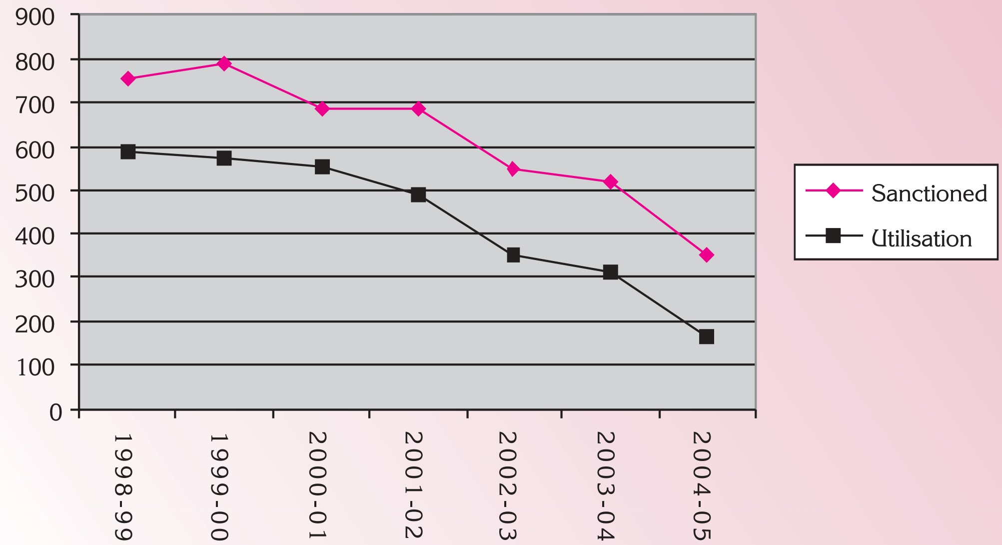
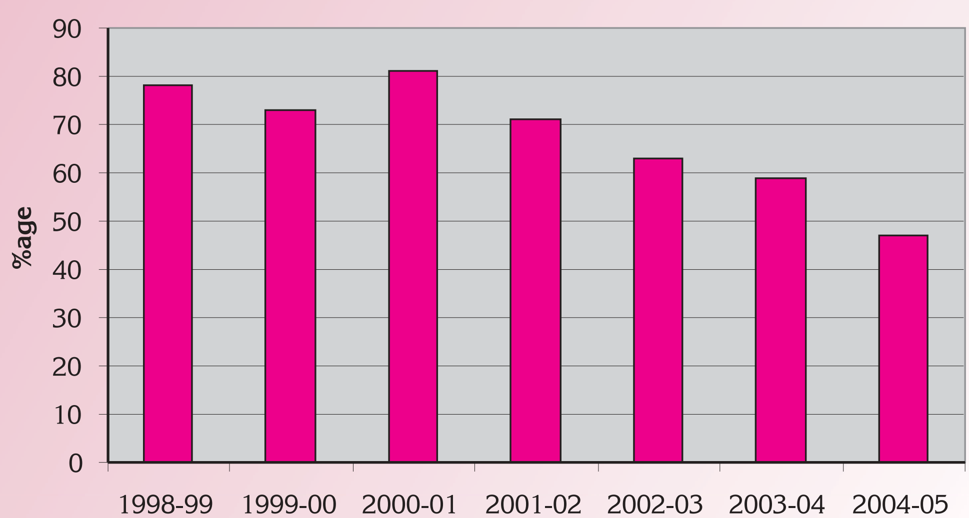



**Chart 2.3:** Ratio of Credit Santioned to Credit Actually Utlised




by NABARD and the one that are utilised by SCBs (see Chart 2.3). In 1998-99, while the overall utilisation by SCBs was 78% of the sanctioned limits, this gap has increased to 47% in 2004-2005, clearly indicating that in spite of higher CC limits available, the cooperative system is not able to utilize it.

The same trend is repeated at the state level. For example, in Andhra Pradesh, the credit limit sanctioned by NABARD has come down to approximately Rs 30 crores in 2004-2005 from Rs 50 crores five years back. In Orissa, the SCB has availed a credit limit of only Rs 13 crores from NABARD in 2005-2006.

The NABARD refinance mechanism, in principle, is a strategy to bridge resource gaps for the states and the DCCBs. It may be argued that the actual credit flows are much more than what has been offered as refinance support by NABARD, thus assuming that the state and the DCCBs would extend credit to the weaver cooperatives from their "own" resources in addition to the funds received from NABARD for refinance. Anybody familiar with the financial and organisational health of the cooperative banking sector in general and that of DCCBs in particular would find it difficult to believe in this argument unless it is supported with proper data. The data on the health of the cooperative banks is discussed in the latest annual report of NABARD. While the numbers of SCBs incurring losses are only 4 compared to the 27 that are making a profit, for the DCCBs, the situation is not the same. Of the 365 DCCBs in the country, in 2003-2004, 102 were incurring losses and remaining 263 in profit. The losses were Rs 758 crores.

The NABARD data stated above takes into account the refinance support to the cooperative sector only. Thereby, it does not report i) the credit flows through the commercial banking system and ii) the credit flows to those who are outside the cooperative structure. This would mean it is not possible to capture data in terms of credit needs of master weavers, traders etc. In fact, this data at a national scale on the number of these intermediaries is hard to obtain, though in the field visits, we could obtain some estimates from the local functionaries on the number of such intermediaries in the handloom sector.

NABARD and other developmental institutions are silent on the "long term" credit needs of the handloom sector. The entire discourse is focused on "short term" credit requirements for buying of yarn, marketing of finished products etc. The long term credit requirements for modernising or replacing of the looms, increasing the number of handlooms and other capital expenditures are not factored into the discussions on credit flows to the sector.

The above numbers need to be interpreted with caution. As pointed out in the latter part of this report, **sanctioning of a credit limit does not necessarily mean availing of the same**. In other words, it is quite possible that in spite of formal sanctioning of a working capital limit, the primary weaver cooperative societies are not in a position to use that limit in terms of withdrawal of funds for ongoing business purposes. Thus the credit limits sanctioned remain on "paper" without the weavers benefiting from it.

While the numbers of SCBs incurring losses are only 4 compared to the 27 that are making a profit, for the DCCBs, the situation is not the same. Of the 365 DCCBs in the country, in 2003-2004, 102 were in losses and remaining 263 in profit.

## Demand for Credit: Some Preliminary Estimates

In the following paragraphs, we present preliminary estimates on the potential credit requirements of the handloom sector based on the data presented earlier. Such estimates, though preliminary in nature, would indicate the demand as against the supply interventions of NABARD discussed in the earlier paragraphs. We base these estimates on three sets of information. According to the HS:

- The household units accounted for a total of **3.29 million looms** of which **2.99 million were in working order** (90.96%) and the remaining 0.30 million found to be in idle condition.

- The weaver households were found to work for an average of **197 days** in a year.

The NABARD guidelines for short term credit limits has fixed the following norms (see Table 2.4) for working capital for looms. These are for WCSs less than two years old.

**Table 2.4: Per loom scale of finance for 2004-2005**

| Variety of cloth | Scale of finance |
|---|---|
| Low variety of cloth | Rs 15,000 |
| Special variety cotton | Rs 24,000 |
| Silk | Rs 35,000 |
| Polyester | Rs 22,000 |

Based on these norms, Table 2.5 explores some different scenarios estimating demand for short term credit in the handloom sector.

The estimates in Table 2.5 are based on the assumption that all weavers work on looms that are involved in the weaving of low variety of cotton only. In reality, there are a large number of weavers in silk weaving. The scenarios are presented just to highlight the demand potential in comparison to the available supply from the formal financial institutions. These figures need to be contrasted with the NABARD data that shows that the credit limits sanctioned were Rs 350 crores for the year 2004-2005.

## Estimate by NABARD

A recent document of NABARD estimated that the working capital requirement of about 20,000 WCSs all over the country is approximately Rs 3,255.76 crores. This report also highlighted that these WCSs have accumulated losses of Rs 194.53 crores.

**Table 2.5: Demand for Short-term Credit: Some Scenarios**

| 1. NABARD norms for per loom scale of finance for Low variety of cloth at Rs 15,000 per loom | 2. Assumption about No of looms in operation as per HS data of 1995 | 3. Assumption about no of working days | 4. Estimated demand for short term credit (1x2x3) |
|---|---|---|---|
| Rs 15,000 | 2.99 million | Full year | **Rs 4,485 crores** |
| Rs 15,000 | 1.40 million (assuming that number of looms have reduced by half over the last ten years) | Full year | **Rs 2,100 crores** |
| Rs 15,000 | 1.40 million | Half year (assuming that weavers do not perceive this as a full time vocation providing adequate income and hence weave only for half the year) | **Rs 1,050 crores** |
| Rs 15,000 | 1.40 millions | One-fourth year | **Rs 525 crores** |

If one were to add the number of weavers **not covered** by the institutional credit delivery mechanism, another Rs 9,000 crores would need to be added to this number. This effectively means that there is a potential demand for Rs 15,000 crores of which only about 300 crores is met as of now. This again is under the assumption that the SCBs and the DCCBs add 50% of their own resources to the NABARD utilised limits of Rs 163 crores in 2004-2005.

The Report of the Planning Commission made the following observations on the credit needs of the handloom sector:

*"Credit needs : The credit facilities currently available to weavers are far from adequate. Even those made available through co-operatives rarely reach the sections for whom it is intended. This is because master weavers control a number of co-operatives and tend to corner a substantial proportion of institutional credit. As indicated earlier, the majority of weavers are to be found outside the co-operative fold, weaving usually for master weavers or on their own. The credit needs of this sector have remained unaddressed. The existing situation is one where the local master weaver provides consumption loans and/or advances, which, over time, render the weaver completely indebted to the master weaver."*

## Sources of Finance

The HC of 2004 has just two tables providing information regarding the financial aspects of the handloom sector. Table 22 in Part II of the HC report presented information on the sources of finance for the purchase of inputs. These tables give an indirect signal towards different types of financing mechanisms and the relative dominance of some of these compared to formal financial institutions. A majority of the weavers depend on their own sources of finance for the purchase of inputs. The cooperative structure is used by less than 10% of the weavers.

Information from these Tables are reproduced in Table 2.6.

A majority of the weavers depend on their own sources of finance for the purchase of inputs. The cooperative structure is used by less than 10% of the weavers.

**Table 2.6: Purchase of Inputs and Sources of Finance for Household Handloom Units**

| Source of Finance | Proportion of Household Units |
|---|---|
| Own | 83% |
| Cooperatives | 9% |
| Commercial banks | 1% |
| Others | 11% |

**Source:** Table 22, Part II Handloom Census report 2004 page 125

# 3 Credit Delivery Mechanisms: Institutional Policies and Practices

## Credit Delivery Mechanisms

The literature on the handloom sector has classified weavers into those within the Cooperative Society fold and those outside it. For weavers who are members of a Primary WCS in a village, the design of the WCS assumes that their own institution (the cooperative) would take responsibility for providing them work by supplying yarn/other inputs on credit and also buy the finished products from them against agreed wage rates. This operation therefore assumes that the WCS would manage its business and financial operations, including the optimal management of working capital, for the maximum benefit of its members. An important source of working capital in this setup is the cash credit facility provided by the DCCB. It is quite possible that some weavers and even members of the cooperative society might also be working "outside the cooperative" for a trader or a master weaver for a certain duration. It is assumed that the cooperative would not support those weavers who are "outside" their membership.

Traditionally, in most of the literature on the handlooms, the master weaver and the trader is depicted as a "villain" engaged in the worst form of exploitative practices. It is depicted that the poor weavers suffer at the hands of the entrepreneur who nevertheless connects the weavers to markets and takes risks in terms of variations in the price of raw materials, finished products and the changing tastes and fashions in the market place. As a corollary to this perception about the role of the master weavers, the only acceptable form of credit delivery mechanism is through the WCSs. There is no formal policy intervention in terms of providing credit through master weavers.

The other delivery mechanisms are only of a very recent origin. Thus, the following credit delivery mechanisms are in place:

- Cash credit limits to WCSs through the DCCBs and SCBs under the policy framework of NABARD accompanied with refinance support.
- Artisan Credit Cards (ACCs) for weavers issued by branches of commercial, cooperative and regional rural banks under the development schemes of NABARD.
- Finance to Self Help Groups (SHGs) of weavers similar to SHGs under the guidelines of NABARD.
- Individual lending to weavers by branches of commercial and regional rural banks.
- Lending to master weavers and traders by branches of commercial and regional rural banks.

- Lending by master weavers to weavers not covered or functioning as members of a cooperative society for yarn as also other consumption purposes.
- Advances for raw material purchases and wages. Individual and group lending to weavers by Micro Finance Institutions and other NGO-MFIs

NABARD as an apex financial institution sets policy guidelines that direct the flow of credit through the state and the district cooperative banking system ultimately aimed at the members of the WCSs. The Production Credit Department (PCD) in NABARD's head office in Mumbai prepares and communicates these policy guidelines. Two other departments in NABARD are involved in the promotional aspects of the handloom sector. The Development Policy Department Non-farm Sector (DPD NFS) and the Micro Credit Innovation Department (MCID) design interventions and pilot projects that have the potential for subsequent scaling up. However, the amount spent on promotional efforts for the handloom sector in 2004-2005 was Rs 10 lakhs involving about 10 institutions all over the country. Given this small amount, the impact and efficacy of the promotional efforts is suspect.

Table 3.3 presents the mapping of alternate credit delivery mechanisms in the handloom sector.

In the following paragraphs, we explore the design and the efficacy of the various mechanisms mentioned in the above matrix. However, most of the discussion is focused around the institutional mechanism that is through the Cooperative Credit Institutions (NABARD to SCB to DCCBs to WCS). This is partly because the other mechanisms

**Table 3.1: Credit Delivery Mechanisms in the Handloom Sector**

| | Old/existing credit delivery mechanisms | New/alternate credit delivery mechanisms |
|---|---|---|
| **Through institutional intermediation and hence INDIRECT** | ❖ WCSs in villages through DCCBs (in interaction with State cooperative banks and the NABARD refinance support) support) | ❖ SHGs of weaver families (Facilitation through bank branches) since 2005 |
| **To weavers/their families DIRECT** | ❖ Lending by master weavers and traders to weavers as advance for yarn, wages and other expenses | ❖ Artisan Credit Cards since 2003 (also termed as Swarojgar Credit Cards [SCC])<br>❖ Micro Finance Institutions and other NGOs<br>❖ Commercial banks and RRBs' lending schemes for master weavers and traders |

are very recent and not much information is available regarding their centrality to the overall credit flow to the handlooms.

## Credit Flows to the Primary Weavers' Cooperative Societies

### The Application and Approval Process

This channel is essentially for WCSs linked to DCCBs. The credit flow is designed to take place in interaction with State Cooperative Banks and the NABARD refinance support, routed to the WCSs through the apex bank and the DCCBs.

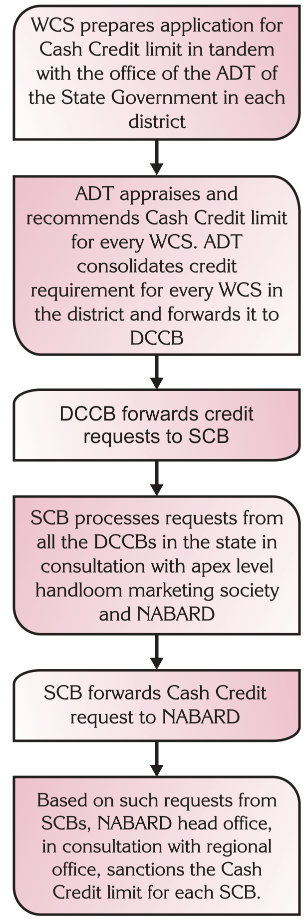
1. WCSs prepare the application for the cash credit limit in tandem with the office of the Assistant Director of Textiles (ADT) of the State Government in each district. Ideally, this should be done in the month of January every year for the new financial year beginning April.

2. The ADTs are expected to appraise and recommend a particular CC limit for each and every WCS. They consolidate the credit requirements of every WCS in the district and forward it to the DCCB.

3. The SCB receives these requests from all the DCCBs and processes these requests for the entire State in consultation with the apex level handlooms marketing society and NABARD.

4. After receiving the CC limit requirement from all the SCBs, NABARD's head office along with its regional offices, sanctions the limits to each SCB. These limits are communicated to the WCSs back through the multiple steps followed for approval.

**Chart 3.2: Process of Application and Approval of Cash Credit to WCSs**




5. In the above process, it is expected that NABARD refinance support will be for about 50% of the total requirement of funds, and the remaining 50% would be contributed by SCBs and DCCBs through their "own" resources.

### Interest Rate for the CC

According to the information available on the NABARD website (www.nabard.org), refinance support in the form of a consolidated limit to SCBs, on behalf of eligible DCCBs, for financing the working capital requirements of the Primary Weavers'

Cooperative Societies (PWCS) for the production and marketing of cloth is offered at **6%** interest per annum. Similarly, the refinance support to SCBs for financing procurement and marketing of cloth and trading in yarn by Apex/ Regional Weavers' Cooperative Societies is at 6.25%. For refinance support to Scheduled Commercial Banks for financing working capital requirements of Primary Handloom Weavers' Cooperative Societies (PHWCS), the interest rate is fixed at 6.25% p.a. The interest rate charged by the DCCB to the WCS is at **11 to 12%.** Thus the cost of intermediation in the three tier structure is 6%.

### The Process of Sanctioning of Cash Credit Limits

- NABARD sanctions a credit limit to the Apex Cooperative Banks on behalf of the DCCBs.
- DCCBs in turn sanction credit limits to the primary level WCSs in their respective districts. The SCB lends to the DCCB at 8.5%; DCCB to societies at 11% with 2.5% interest subsidy from the state government.
- The working capital is for meeting requirements for both production and marketing of handlooms.
- For any primary level cooperative society functioning for more than two years, NABARD applies three broad guidelines/norms. These are **production norms, remittance norms and Net Disposable Resources (NDR) norms**.
- A production norm envisages that a society is able to rotate the working capital at least twice during the year.
- The remittance norm binds a society to remit at least 60 to 70% of the sales proceeds in the cash credit account maintained with the DCCB.
- The NDR norm reflects the financial health of the cooperative. In other words, a society is expected to have a positive net worth. If the NDR is 10, the credit limit is offered for a factor of 9 i.e. 90.

NABARD has finalised the per loom scale of finance for the activation of old looms and financing of new looms in consultation with the 'State Level Technical Committee' taking into account the rise in the cost of warp, dyes and chemicals and wages in production of cloth. These are mentioned in the earlier part of this report.

### Time Period Elapsed from Application to Sanctioning of the Credit Limit

It is anticipated that the process for CC limits for the next financial year should commence in December-January of the previous financial year. Ideally, the new CC limit should be approved at the commencement of the new financial year, that is April of every year. The above process is to be repeated **every year** by each cooperative across the country. There is no automatic renewal at the end of the year. NABARD officers in Andhra Pradesh mentioned that bankers have been given instructions to renew credit limits automatically, but that this does not happen in practice. Bankers in the branches argued that since the business and therefore the balance sheet of the business of the cooperative changes every year (scale of business, profitability), automatic renewal for cash credit limits is not possible.

In reality, the process of sanctioning of a credit limit could take from 3 to 6 months...

In reality, the process of sanctioning of a credit limit could take from 3 to 6 months according to the officials of the primary level cooperative societies visited in the field. A senior Sanction Accountant with a primary WCS stated that the application initiated by their society in January was approved with a certain credit limit in June. In another society, the first withdrawal from the CC limit was made in November; a full seven months after the financial year had started.

## Artisan Credit Cards (ACC)

Based on the positive experiences generated in the implementation of the Kisan Credit Card scheme, the Government of India introduced the Swarojgar Credit Card Scheme on 15 August 2003 and the Artisan Credit Card Scheme on 19 December 2003.

### The Design of the Kisan Credit Card and Artisan Credit Card

The Union Finance Minister in his Budget Speech for 1998-99 announced that NABARD would formulate a Model Scheme for issue of KCC to farmers on the basis of their holdings for uniform adoption by the banks so that the farmers may use it for purchase of agricultural inputs such as seeds, fertilizers, pesticides, etc. and draw cash for their other production needs. As a sequel to this, NABARD, in consultation with RBI and major banks, formulated a Model Scheme for issue of KCCs which was circulated among banks in August 1998. It was envisaged that by 31 March, 2004 all eligible agricultural borrowers would be covered under the KCC scheme. Commercial banks, RRBs and cooperative banks in all States and UTs implement the scheme. The KCC scheme aimed at adequate and timely support from the banking system to the farmers for their cultivation needs including purchasing inputs in a flexible and cost effective manner. The scheme would primarily cater to farmers who are eligible for sanction of production credit for cultivation purposes. The beneficiary is issued a credit card / passbook, which also serves as the identity card. The credit extended under the KCC scheme is in the nature of revolving cash credit and allows any number of withdrawals and repayments within the limit. The KCC is normally valid for 3 years subject to an annual review.

### Features of the Artisan Credit Card

Similar to the KCC, the objective of the ACC was to meet the investment, working capital and a part of the consumption needs of artisans and micro-entrepreneurs in a flexible, cost effective and hassle free manner. A major difference between the KCC and the ACC was that while farmers in general had some experience of interacting with the local banking system for their credit needs, for many weavers, this was the first point of contact with a formal banking outlet. In case of the KCC, the farmers had some collateral to show the bank (though the design of the KCC did not specify a collateral!), in the case of artisans, except the loom and the work shed or their home, there was nothing that the bank would consider as an asset before making a commitment for lending.

The NABARD brochure provides the following details:

**SCC Scheme aims at providing adequate and timely credit ie.**

**working capital/ or block capital or both to persons belonging to small artisans, handloom weavers, service sector, fishermen, self employed persons, rickshaw owners, other micro-entrepreneurs, etc. from the banking system in a flexible, hassle free and cost effective manner. The facility may also include a reasonable component for consumption needs.**

### Participating banks

*The Scheme is to be implemented by all Commercial Banks, RRBs, State Cooperative Banks/ DCCBs/PACS, SCARDBs/PCARDBs and Scheduled Primary Cooperative Banks.*

### Nature of financial accommodation

*The credit facility extended under the Scheme is in the nature of a composite loan including term loan /revolving cash credit. The borrower can avail the credit facility as per his/her requirements i.e. either term loan or working capital loan or a combination of both.*

### Quantum of limit

*The normal limit under the scheme is Rs. 25,000 per borrower. However, in deserving cases, banks may consider even higher limits. The initial investment in fixed assets and/or working capital requirement/ recurring expenditure of the borrower are to be taken as the base for fixing the limit. The total limit would have a relationship with the projected net earning and the repayment capacity of the borrower.*

According to the information on the NABARD website, "as on March 2005, 161 RRBs, 35 Commercial Banks and 71 Co-operative Banks introduced the scheme and issued **1.795 lakh** cards involving credit limits of Rs.532.53 crore. The progress in issue of cards under the scheme has not been satisfactory."

There is no data on the number of ACCs made available to weavers nationally. However, the Andhra Pradesh State Focus Paper of NABARD provides some information on the status of implementation in Andhra Pradesh.

For instance, the State Level Bankers Committee in consultation with NABARD fixed ambitious targets for the banking sector under the SCC scheme. Similarly, in Orissa, the target for the SCC in 2004-2005 was fixed at 10,000 by the Director of Textiles and 13,500 by the State Level Bankers Committee. The Directorate of Textiles reduced the target to 5,100 for 2006-2007.

## SHG Bank-Linkage Programme and Self Help Group of Weavers

The SHG Bank-Linkage Programme in India is the largest and fastest growing micro finance programme in the world today. As of March 2005, more than 1.6 million SHGs accessed credit from banks. The SHG Bank-Linkage Programme has managed to involve the participation of diverse stakeholders consisting of 48 Commercial banks, 196 Regional Rural Banks and 316 Cooperative Banks. It has partnered with over 3,000 NGOs from different parts of India. Looking at the success in linking informal groups to the formal financial system, NABARD introduced a pilot scheme in 2005 wherein SHGs of weavers were to be promoted and they

...NABARD introduced a pilot scheme in 2005 wherein SHGs of weavers were to be promoted and they would later be given bank credit for undertaking weaving activities.

would later be given bank credit for undertaking weaving activities. However, it should be noted that the scheme was formulated only in 2005 and it is too early to evaluate its value to weavers. However, this strategy will need substantial investments over a long period of time to be successful. considering the investments made in the up-scaling of the SHG Bank-Linkage Programme over a period of 13 years starting 1993. In the SHG Bank-Linkage programme, there were also a lot of capacity building and training efforts designed to sensitise all the stakeholders.

## Micro Finance Institutions and other NGO-MFIs

Emergence of MFIs is a recent phenomenon. It is estimated that there are about 800 MFIS and NGO-MFIs providing financial services to the rural poor. Of the 800 MFIs, about 100 MFIs have a client base of over 10,000. There are no clear estimates on the outreach and loan outstanding of all the MFIs though one newspaper report mentioned this to be 8%. It can be assumed that some of these MFIs have provided financial services to handloom weavers. This might especially be a possibility where the MFIs are operating in the weaving cluster and has necessary mechanisms to reach the handloom weavers.

Following example illustrates how a MFI could be a potential delivery mechanism provided it has the required vision and appropriate resources to do so.

*"In BASIX and through our local area bank Krishna Bhima Samrudhi Bank (KBS), we have been lending to individual weavers. Overall, I would say that we have about 1200 customers with each having got a loan from us in the range of Rs. 8000 to Rs. 15000/-. We do this lending as a non-farm activity and our objective is to promote and support NFS through a number of promotional measures including credit. I would say that in our experience, this is a "healthy" portfolio and unlike other sectors, we did not face any substantial NPAs on this part of the portfolio. Recently we are working with a private wholesaler in sarees, in three clusters of Anantapur District. Our plan is to establish direct contact with the weavers and link them to this wholesaler. We are also into discussions with the Exim Bank."*

Excerpts from phone conversation with
Mr. Ramana, Senior Vice President,
BASIX, Hyderabad

Share Microfin Limited (SML) is another large MFI operating in Andhra Pradesh and several other states. However, they do not have any portfolio of loans towards weavers, weaver cooperatives or master weavers.

There is no data available on the number of weavers covered by such MFIs, although anecdotal evidence suggests that an insignificant number of weavers are reached through this delivery mechanism in the current scenario.

## Commercial Banks and RRBs' Lending to Individual Weavers, Master Weavers and Traders

It might be hypothesised that commercial banks and branches of the regional rural banks have an active portfolio for weaving and other weaving related activities. However, there is no information available on how much that portfolio is and how it is performing. All the commercial banks have to collect and share information regarding their priority sector lending, stipulated at 40%. Lending to artisans and weavers is classified as a part of the priority sector lending but what percentage constitutes the weaving sector within that 40%, is not classified.

## Assessment of the Credit Flow Mechanisms by Financial Institutions and Other Studies

The document **Andhra Pradesh State Focus Paper** prepared by NABARD presents an elaborate discussion on the reality of the credit flow to the non-farm sector in general and the handloom weaving sector in particular. Excerpts from this report are presented below:

### *Ground Level Credit Flow*

*The Ground Level Credit (GLC) flow to the priority sector as on 31 March 2004 by the banking system in the state was Rs. 17,937 crore. This forms 22.42 percent of total GLC flow of Rs. 80,000 crore for priority sector in the country.*

*During the year 2003-04, NABARD provided refinance of Rs. 607.30 crore under investment credit. Purpose-wise, micro finance was the major activity for which NABARD refinance of Rs. 310.40 crore (51.11 percent) was made available. This was followed by Non Farm Sector (17.93 percent), Farm Mechanisation (7.9 percent) and Minor Irrigation (4.97 percent). The share of cooperatives in availing of refinance from NABARD has been declining and from 69 percent in 1996-97 it declined to 11.95 percent during the 2003-04, as Cooperative Banks not complying with Section 11 (1) of the B R Act (AACS) are ineligible to avail refinance from NABARD which has resulted in the decline in their share.*

### *Problems Faced by the Handloom Sector*

*Some of the major constraints faced by the handloom sector are:*

- **Weak Cooperative Structure :** *Of the 869 Primary Handloom Cooperative Societies in the State only 589 Cooperative Societies are working and the balance 280 societies (32%) are dormant. The operations of the majority of the Weavers Societies are unviable on account of low level of active looms and multiplicity of societies within the same area. The societies have not attuned themselves to improve their designs and produce market savvy products. Lack of adequate supervisory machinery by DCCBs as per the norms of Government of India has resulted in poor management of credit by the Primary Societies.*
- **High Prices and Inadequacy of Inputs :** *High price of hank yarn, inadequate availability of inputs like standardized dyes and chemicals in small packs.*
- **Marketing :** *Marketing is a major problem faced by the sector. The sector is not able to cope up with the varying taste of the consumers [and] technological changes. Andhra Pradesh State Handloom Weavers Cooperative Society (APCO) is not able to purchase the entire production of the weavers. As such, the weavers have to depend on the master weavers,*

*traders, middlemen etc. for marketing as well as credit support.*

- **Inadequate Institutional Credit :** *Lack of adequate and timely institutional credit is one of the major factors affecting the growth of the handloom industry. The credit needs of the majority of the weavers outside the cooperative fold remain unaddressed. Due to accumulation of losses, many of the societies are having negative / inadequate Net Disposable Resources making them ineligible for sanction of working capital from higher cooperative tiers. Some of the good working societies are unable to get working capital due to the weak financial health of the intermediary cooperative tier, the District Central Cooperative Banks[DCCB]. The Commercial Banks are not coming forward to finance the handloom weavers cooperative societies in the districts where DCCBs are weak.*

- *The progress in issue of cards under the Swarojgar credit card scheme has not been satisfactory. The Controlling Offices of the Banks may issue instructions to their branches to issue the cards under the scheme to meet the credit needs of the small enterprise sector.*

**Targets for Credit Card Schemes**

| Name of the Scheme | Target 2003-2004 | 2004-2005 |
|---|---|---|
| *Swarojgar Credit Card* | *50,000* **(883)** | *75,000* |
| *Artisan Credit Card* | *30,000* **(1,603)** | *30,000* |

*Figures in the bracket indicate the actual number of cards issued.*

## Availability of Credit

- *It is observed that though the Ground Level Credit flow to the NFS and OPS has been increasing over the years, credit flow to cottage industries, khadi and village industries, artisans and tiny industries in rural areas is not upto the stipulated level of 40% of the total credit to small scale industries as per RBI stipulation. As rural enterprises are engines for growth of employment opportunities, there is a need for greater focus by the banking sector to meet the needs of this sector. The Banking Sector may make use of the Swarojgar Credit Card Scheme and Artisan Credit Card Scheme for meeting the credit needs in a hassle free, flexible manner.*

- *Handloom sector occupies a prominent place in the economy next only to agriculture. Banks may consider providing adequate investment and working capital to the weaver-entrepreneurs through the artisan credit cards. Banks may also extend working capital to the good working capital to the good working Weavers Cooperative Societies where the District Central Cooperative Banks are weak.*

In another publication titled “Traditional Industry in the New Market Economy” the authors argued that the reality in the state of Andhra Pradesh was that credit limits were on the decline since 1995. This study outlined the inconsistencies in the number of looms and the overall credit sanctioned in a particular region. We quote from that report:

*"The development programmes are intended to assist handloom production by offering assistance for credit and in marketing and improving productivity through better training and technologies. NABARD provides cash credit assistance at concessional rates of interest to primary cooperatives towards their working capital requirements through the State Cooperative Bank. It also provides credit assistance to APCO. The credit limits sanctioned under this scheme rose from Rs. 5,663.81 lakh in 1989-90 to Rs. 11,439.45 lakh in 1994-95, but fell to Rs.9,105.40 lakh in 1995-96. The share of the primary cooperatives fell suddenly in comparison to the share of APCO in 1995-96."*

*"The allocations across districts is highly skewed and does not reflect either the share of the district in handloom output or loomage in the total figures for the state. Cuddapah district in 1993-94 got 20 percent of the total credit and 27 per cent in 1994-95 (GOAP 1996:36). Yet it accounts for only 14 per cent of the total looms, 11 per cent of the looms under cooperative coverage and 18 per cent of the output (1992-93) (Table 4.2 and 4.3 from this publication). Such disproportionate allocations indicate that securing these funds is a political process. The evaluation study commissioned by NABARD notes that Cuddapah has been receiving the highest financial support among all the districts, though most of the societies are not physically active. It also points out that the district administration has failed to conduct a loom verification survey 'due to social and political pressures' (IRMA 1995:35)".*

*"The real process of getting credit sanctions seems to flout the norms fixed by NABARD. Though, according to prescribed norms, credit requirements should be assessed based on the production and marketing activities of the cooperative societies, these are not followed in practice. The district-level Assistant Director of Handlooms channels the applications from societies for credit to the Cooperative Central Bank, which then endorses the same to the Director of Handlooms. This is then recommended to the State Cooperative Bank and finally sanctioned by NABARD".*

*Thus, in practice, the credit sanctions are virtually decided at the district level by the official of the Directorate and it is clear that there is no verification of the real credit requirements of the societies. This leaves a lot of scope for manipulation and explains how some districts are able to get such a disproportionate share of the cash credit disbursed in the state. For individual societies which do not have much political strength, getting the credit released involves payments to several officials at the district level, so that what they ultimately receive is inadequate for their working capital needs. The cooperative societies also point out that they are unable to repay the credit received from NABARD because APCO owes them such huge amounts. Thus a vicious circle is created, which ultimately results in the contraction of funds for the handloom sector.*

*Market Development Assistance (MDA), as the name indicates, is a scheme meant to assist the apex society as well*

"The allocations across districts is highly skewed and does not reflect either the share of the district in handloom output or loomage in the total figures for the state."

"Thus, in practice, the credit sanctions are virtually decided at the district level by the official of the Directorate and it is clear that there is no verification of the real credit requirements of the societies."

*as the primary societies to develop their marketing. Till 1995, the primary societies used to receive 15 per cent of the cash credit sanctioned as MDA. The built-in bias here is that this would then reflect the skewed allocations made under cash credit assistance.*

*The problem in the effective operation of both schemes is the lack of political will on the part of the government to identify non-functioning and bogus cooperative societies. Perhaps in recognition of this, the government has introduced a new system by which societies can get as MDA 8-10 per cent of their sales (depending on the total sales) which are not effected through APCO, but through exhibitions or other channels organized by the government."*

## Why are the Primary Handloom Weavers' Cooperative Societies not getting Adequate Credit?

According to NABARD officials in Andhra Pradesh, the main reasons for inadequate credit flow to the handloom sector are weak primary level cooperatives and loss making (DCCBs) who are actually supposed to meet the credit requirements of the sector. In Andhra Pradesh, of the **22** DCCBs, **10** are incurring losses, attracting provisions of section 11 of the Banking Act. By an unfortunate coincidence, the DCCBs of Cuddapah, Karimnagar, Mehboobnagar and Anantapur, all of which have major handloom clusters in their area of operations, are making losses.

Table 3.3 presents the different scenarios discussed above.

Unfortunately, our perception is that today most of the WCSs fall in either quadrant III or IV. Those in II have very limited chances of meeting their credit requirements from the loss making DCCBs. There may be hardly 5 to 10% WCSs in the first quadrant. NABARD refinance norms are uniform across all the states without taking any cognizance of these four different situations. In fact, WCSs in each one of the above quadrants need potentially different credit

**Table 3.3: Potential for Enhanced Credit Flow through DCCBs**

| | | Financial Health of the DCCB | |
|---|---|---|---|
| | | Sound (profit making) | Loss making |
| Financial Health of the Primary Weavers' Cooperative | Sound | I<br>Growth opportunities for higher volume of business hence potential for enhanced credit flow, a win-win situation | II<br>Hindrance for the WCS to access credit when alternatives to DCCB do not exist. Potential for enhanced credit but demand of WCS not fulfilled. |
| | Loss making | III<br>Potential exists if possibilities of a turnaround for the primary cooperative are explored and worked out. | IV<br>A difficult situation, enhanced credit flow probably not possible and sustainable in such a scenario. |

and management inputs. Observations made in the Planning Commission Study clearly point out the decentralised and heterogeneous characteristics of the handloom sector. On the contrary, the credit policy is centralised, top down and uniform for all the cooperatives.

## The Process of Credit Planning and Sanctioning

The district is the cutting edge in all development interventions. The success or the failures of most of the schemes is to a large extent determined by the efficiency and the effectiveness in the planning, execution and coordination among implementing agencies in the district. In the earlier paragraphs, we described how the WCSs and the DCCBs interact and prepare the CC limits for the WCSs in a particular district. One major weakness of this mechanism is that it excludes those weavers who are outside the cooperative fold. This mechanism also leaves out the commercial banks and the regional rural banks that otherwise might be interested in working with the handloom sector.

There is a parallel mechanism that is anchored by the DDM of NABARD in almost every district called Potential Linked Credit Planning (PLPC). The PLPC is a document that is prepared every year by NABARD in consultation with all the stakeholders including the banks, the Government and the civil society in a particular district. The PLPC contains credit estimates for both the farm (agriculture) and the non farm sector. Inputs of the PLPCs of all the districts in a state are then collated and integrated into a State level plan.

It is important to strengthen this process especially in 100 clusters where the Government is implementing cluster development programme. The credit needs of the selected clusters need to be thoroughly analysed with a view to prepare an action plan to respond to these needs. Extending this logic, another possibility is a collaboration between the officials of the Textile departments in these cluster districts with NABARD.

NABARD might be assigned direct responsibility and accompanying authority to implement cluster development initiatives in say 30 to 40 districts as a pilot project. In the past, NABARD has successfully worked with State Governments of Gujarat, Maharashtra and Karnataka in implementing water shed development and horticulture development programmes that involve civil society, banks and the government functionaries. It has facilitated and developed a significant network of over 3,000 NGOs and bank branches all over the country in the process of upgrading the SHG Bank-Linkage Programme in the last decade. This expertise at the district and the regional offices of NABARD needs to be capitalized upon.

## Short term and Long term Credit Needs of the Sector

In the current policy discussions, the entire discourse and hence policy measures are centered around cash credit/working capital limits for the weavers (purchase of yarns and marketing support etc). The concerns of all the financial institutions are reflected in providing short-term credit for the weavers in terms of CC limits or through other mechanisms. There seems to be

One major weakness of this mechanism is that it excludes those weavers who are outside the cooperative fold.

There seems to be an implicit assumption that either the long term credit requirements of the weavers... do not exist or if they do, it will be taken care of by the weavers themselves.

an implicit assumption that either the long term credit requirements of the weavers in terms of replacement of loom, additional loom etc do not exist or if they do, it will be taken care of by the weavers themselves. In the recent budget, the Finance Minister announced a Technology Upgradation Fund (TUF) type scheme for the handloom sector that will provide interest subsidy on term loans. Interestingly, no budgetary provisions were made to back this announcement. The WCSs' experience of interest subsidies and many other schemes of the central and the state government have been discussed in the next chapter. All WCSs met during our field visits have experienced enormous delays in availing the benefits of the designated scheme. The delays in releasing the payments have been for over five years in most cases.

# 4 The Credit Delivery Practices: Observations from Orissa and Andhra Pradesh

In this chapter we present our observations based on the field visits that were made to the states of Orissa and Andhra Pradesh. We present the practices as seen in the field, during our interactions with various stakeholders.

## The Practice of Availing Cash Credit Limits as Experienced by Weaver Cooperatives

The time taken for NABARD to formulate a policy in Mumbai, to the dissemination of this information to the State Cooperative Bank in Orissa and finally to the sanction and withdrawal of cash credit limit in a primary weavers cooperative society in Orissa was **seven months** in 2005-2006.

In Orissa, we gathered information on the way policy guidelines and information related to the policies gets communicated to the WCSs. The information presented below is self evident as it clearly shows that the process involved in policy formulation and its implementation is painfully slow and time consuming. The resultant delays hamper the functioning of even well-performing cooperatives who are starved of working capital credit.

The process for sanctioning of the cash credit limit for the **year 2005-2006** and the time involved in that process is mentioned in Table 4.1.

For well-performing cooperative societies such as Choudeswari WCS, delayed sanctioning of cash credit is clearly a major obstacle to the potential growth of their business. In addition to delayed credit, these societies are also choked by substantial outstanding payments that deprive them of working capital limits. The financial situation of this cooperative society is presented in Table 4.2.

The time taken for NABARD to formulate a policy in Mumbai, to the dissemination of this information to the SCB in Orissa and finally to the sanction and withdrawal of cash credit limit in a primary WCS in Orissa was **seven months** in 2005-2006.

**Table 4.1: The Process for Sanctioning of the Cash Credit Limit Observed in the Field**

| Process in Practice | Time of Information | Observations of the Researcher |
|---|---|---|
| Circular (letter) from Production Credit Department (PCD) of NABARD (Mumbai) to State Cooperative Banks on working capital requirements of the WCSs, this letter also mentions the need to promote self help groups of weavers. | Circular dated **4th June 2005.** | The financial year has already commenced in April 2005, a full two months before the policy announcement!! |
| Letter from the Orissa State Cooperative Bank to 13 DCCBs sanctioning the credit limit of Rs 59.21 crores for 2005-2006. | Letter dated **23rd May 2005.** | It is not clear how the State Cooperative Bank has already sanctioned credit limits without information on the policy outline from NABARD.<br>One possibility is that this limit would be accessible only after eligibility norms are verified as per the circular. |
| Sanction letter from the Berhampur DCCB in Orissa to the Choudeswari Silk WCS ltd. | Sanction letters dated **August 2 and August 31st 2005,** the latter asking the cooperative to fulfill certain conditions—the limit sanctioned is **Rs 15.57 lakhs** | Five months into the financial year and the society is yet to operate and use its cash credit limit |
| First withdrawal of **Rs 4 lakhs** by the WCS. | **November 2005** as observed in the field interaction in the pass book of the society. | The WCS has been compelled to manage with its own resources in the absence of any cash credit limit from he cooperative banking system for 7 months.<br>In such a situation, what is the sanctity of a policy of cash credit that starves and chokes even a well-performing cooperative? |
| Another Circular (letter) from Production Credit Department (PCD) of NABARD (Mumbai) referring to June 2005 circular asking SCBs the status of the formation of self employed weavers' groups in DCCBs, with a format to be collected from DCCBS on number of such groups financed and the amount financed. | **January 2, 2006** | NABARD's expectation that the DCCBs would form self employed weavers' groups in less than six months and that they would be ready for absorbing credit is ambitious, lacks appreciation of field realities and indicates more of a bureaucratic orientation to the entire process of cash credit for weavers. |

**Table 4.2: Choudeswari WCS at a Glance**

| | |
|---|---|
| ❖ Date of Establishment | 1.9.1980 |
| ❖ Membership | 77 |
| ❖ Nature of Weaving | Silk weaving |
| ❖ Location of the WCS | Berhampur, a business township with rented showroom in the market place |
| ❖ Production | ❖ 2002-03 Rs 21.99 lakhs<br>❖ 2003-04 Rs 26.03 lakhs<br>❖ 2004-05 Rs 27.98 lakhs<br>❖ Up to Jan 2006 Rs 22.70 lakhs |
| ❖ Sales | ❖ 2002-03 Rs 29.17 lakhs<br>❖ 2003-04 Rs 23.64 lakhs<br>❖ 2004-05 Rs 30.86 lakhs<br>❖ Up to Jan 2006 Rs 16.36 lakhs |
| ❖ Profits | Gross profit over Rs 2.5 lakhs in 2002-03 and Rs 3 lakhs in 2003-04,net profit over Rs 25,000 in both the years, audit for 2004-05 being undertaken |
| ❖ Outstanding as on January 2006 with the state and central government under Marketing assistance and market development schemes as also Apex marketing organisation "Boyanika" | ❖ Over Rs 12 lakhs |
| ❖ Cash credit limit | ❖ **Applied for Rs 15.57 lakhs for 2005-06, limit utilised (withdrawn) Rs 4 lakhs in November 2006** |

**Source:** Data from WCS in the field interactions

It is clear from the above financial information that for a well-performing society such as Choudeswari, there was no cash credit limit available from the banking system for almost half of the year. As a consequence of this delay and inaction on the part of the DCCB, the weavers cooperative is forced to either reduce its business volume, which means lower wages for its weaver members, or procure yarn and other raw materials from private suppliers at terms that may not be favourable to them.

Officials in this cooperative referred to the paperwork they need to complete every month in order to get the release of the cash credit for the next month. Elaborate statements running into seven pages and containing details of stocks sold, yarn outstanding with members along with the valuation of these need to be submitted to the officials to be in a position to draw the cash credit limits for every month. Such a process simply resulted in loss of time for the executives of the cooperative which could be otherwise used on marketing or other related business activities. There are two other functioning cooperatives in the same locality of Berhampur. Both are bigger in size and profit making societies. Interestingly, they do not have any cash credit limit with the DCCB and instead use their accumulated funds to run the business. These societies had actively planned to get out of their dependence on the DCCB.

## Starving for Working Capital Limits: Example from a well-performing WCS in Andhra Pradesh

WCSs functioning in Andhra Pradesh have also experienced a similar situation as presented in Table 4.3, culling detailed financial information from a WCS in Pulugurtha in East Godavari district of Andhra Pradesh. Even for this successful primary cooperative with a positive track record (except for two years in 1999 and 2000), credit flow from the formal financial system has not adequately backed its growth. This society has even displayed all the financial information on the notice board for all its members, thereby setting an example in transparency in governance.

## Observations on the Financial Information of PHWCPSS

### On the Overall Financial Situation

- The society's financial information is probably representative of a typical

Table 4.3 : The Pulugurtha Handloom Weavers Cooperative Production and Sale Society Limited Pulugurtha Mandal :Anaparthi East Godavari Dist.

| Year | No.of Members | Members' Share Capital | Production achieved | Sales | | | Cash credit sanctioned | Interest paid on cash credit | Net profit | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | APCO | Own sales | Total | | | | |
| 1991-92 | 423+1 | 166,970 | 3,659,245 | 3,591,806 | 455,989 | 4,047,795 | 2,077,000 | | 77,918 | |
| 1992-93 | 507+1 | 339,760 | 5,297,378 | 4,929,605 | 872,736 | 5,802,341 | 2,373,000 | | 112,008 | |
| 1993-94 | 527+1 | 437,910 | 5,964,375 | 4,864,052 | 1,182,130 | 6,046,182 | 2,667,000 | | 80,732 | |
| 1994-95 | 527+1 | 441,490 | 6,144,454 | 4,341,384 | 1,549,306 | 5,890,690 | 3,235,000 | | 51,169 | |
| 1995-96 | 527+1 | 515,910 | 5,332,579 | 2,650,529 | 3,813,869 | 6,464,398 | 3,799,000 | | 31,594 | |
| 1996-97 | 531+1 | 521,670 | 5,425,049 | 2,501,097 | 3,036,818 | 5,537,915 | 4,550,000 | 348,975 | 24,576 | |
| 1997-98 | 281+1 | 312,885 | 5,237,934 | 3,063,378 | 2,409,132 | 5,472,510 | 3,756,000 | 309,329 | 2,868 | |
| 1998-99 | 429+1 | 461,165 | 5,035,379 | 3,898,674 | 2,493,000 | 6,391,674 | 3,756,000 | 308,251 | 2,063 | |
| 1999-2000 | 429+1 | 531,355 | 5,469,247 | 3,612,064 | 2,548,780 | 6,160,844 | 3,766,000 | 279,494 | 394 | |
| 2000-01 | 429+1 | 532,605 | 2,874,414 | 213,420 | 3,383,409 | 3,596,829 | 3,389,000 | 454,022 | (407,907) | loss |
| 2001-02 | 364+1 | 475,545 | 4,847,180 | 1,454,656 | 3,953,174 | 5,407,830 | 3,196,000 | 237,139 | 232,891 | |
| 2002-03 | 366+1 | 485,215 | 5,625,895 | 2,302,461 | 4,251,635 | 6,554,096 | 3,196,000 | 241,630 | 172,158 | |
| 2003-04 | 392+1 | 515,275 | 6,725,595 | 1,579,024 | 5,860,788 | 7,439,812 | 3,392,000 | 232,202 | 299,207 | |
| 2004-05 | 399+1 | 534,365 | 8,167,205 | 2,068,044 | 7,934,912 | 100,02,956 | 3,759,000 | 189,713 | 425,264 | |

journey of a primary weavers' cooperative over a period of the last 15 years.

- During the early 90's, the PHWCPSS started with a profit, went into losses in 2000-2001 as a result of the crisis in APCO, the apex marketing cooperative of Andhra Pradesh. After two years, it turned around its performance to post net profits.

## On Cash Credit and Volume of Business

- The cash credit sanctioned (not withdrawn) for PHWCPSS over a 15 year period has increased by **about 85%** (Rs. 20.77 lakhs to Rs. 37.59 lakhs) whereas the business of PHWCPSS **has increased by over 150%** (sales from Rs. 40.47 lakhs to Rs. 100.02 lakhs) in the same time period and production has multiplied over two times (Rs. 36.59 to Rs. 81.67 lakhs).
- The above percentage (85% and 150%) clearly show that even for a profitable and successful primary cooperative with a positive track record (except for two years in 1999 and 2000), credit flows from the formal financial system **has not adequately backed** the growth. One would have expected larger credit limits and enhanced debt infusion in a profitable business.
- The PHWCPSS has managed to fund its growth through its own funds comprising of retained profits, members' deposits and other reserves created over a period of time. The members' share capital has increased four times (Rs. 1.66 to Rs. 5.34 lakhs) while the membership has marginally declined (424 to 400 members).
- A relevant question is that if the formal banking system does not adequately support the growth of even a well-functioning primary cooperative society, what would be the fate of those cooperatives that are not so successful or are struggling to perform?

## On the Marketing Efforts of PHWCPSS and Links with APCO

- PHWCPSS's journey is remarkable as it completely overhauled its marketing mix from a near total dependence on APCO in 1991-92 (Rs. 35.91 lakhs out of Rs. 40.47 lakhs i.e. about 80%) to a situation in 2004-2005 where APCO was just 20% of its market (Rs. 20.68 lakhs out of Rs.100.02 lakhs). The remaining 80% sales were through PHWCPSS's own efforts.
- Another remarkable aspect of the 80% sales figures in 2004-2005 was that the sales were generated through the "local" market and not through exhibitions or exports.
- The sales data in 2000-2001 clearly show how the performance (or rather lack of it) of the apex cooperative was instrumental in ruining the financial health of this cooperative. One would expect a similar situation faced by other weaver cooperatives. The data presented in Table 4.4 shows how the resources of the WCS have got locked up in government departments which are not honouring their payment commitments.

**Table 4.4: Locked up Resources – Example of PHWCPSS, Pulugurtha, Andhra Pradesh**

- The audited balance sheet of PHWCPSS for 2004-05 records the following figures:

| Assets | as on 31.03.2005 in Rs. | as on 31.03.2004 In Rs. |
|---|---|---|
| Sl. No.29 Discount due from government (on exhibition, sales) | 6,02,259 | 4,02,447 |
| Sl. No. 59 Adjustment Heads due to | 14,93,057 | 17,96,362 |
| Sl. No. 60 Discount due from government in respect of Deendayal Scheme | 3,76,240 | 3,24,354 |
| | **About 24 lakhs** | **About 25 lakhs** |
| **Sl. No. 59 explained** | | |
| i) Outstanding from Dastkar Andhra | 5,50,000 | |
| ii) Outstanding from APCO | 5,50,000 | |
| iii) Interest subsidy from the state government | 4,00,000 | |

- One way of interpreting the above information is that while on one hand, the PHWCPSS is paying interest to the DCCB on the cash credit availed (about Rs. 30 lakhs), on the other hand, it has to bear additional interest costs on account of inefficiencies of APCO and the State Government in not releasing the subsidies and discounts due to PHWCPSS on time. The locked up resources are significant from the point of view of PHWCPSS.
- During the field interactions, people associated with this cooperative stated that in the past, it took more than 3 years for APCO to pay money to the societies. The 3% interest subsidy for 2001 was released by the state government in 2005. In such a situation, who is to be blamed for the financial ill-health of the societies? The master weaver is usually portrayed as a blatant exploiter but in this situation the state and the central government do not seem to be doing better in honouring their payment commitments.

The above examples of Choudeswari WCS and Pulugurtha WCS from Andhra Pradesh are exceptions. **Our assessment is that most of the WCSs are not in a position to avail any cash credit limit as a result of their own financial situation.** Their balance sheet and financial situation does not make them eligible as per prescribed norms of NABARD and hence they do not get their WCC through the DCCBs.

In Bramhagiri Thana WCS in Khurda district, the WCS has no transaction in the CC account with the bank since 31.3.2001 (see Table 4.5). The WCS has made neither any deposits in the CC account nor made any withdrawals. It continues its business without any cash credit using the sale proceeds. This WCS did not have a printed pass book of the CC transactions and it had advanced its own CC limits to two neighbouring cooperatives and shows that as an outstanding in its balance sheet. Being a WCS functioning for a long time, its members had accumulated over Rs 5 lakhs kept in a separate saving pass book called SBD II also called saving and thrift fund. The members in principle can take loans against this money as it is their own money but the cooperative is not able to utilise this resource as the guidelines of the cooperative department say that this fund cannot be used for working capital purpose. However, some of the officials mentioned that while this was the rule applied for the members, in some DCCBs the bank officials have used this thrift fund and adjusted that against the overdue interest in the CC accounts of loss making WCSs.

**Table 4.5: Bramhagiri Thana WCS at a Glance**

| | |
|---|---|
| Date of establishment | 26.9.1945 |
| Membership | 105 |
| No. of working looms | 15 (declined from 68) |
| Nature of weaving | Sarees, bed sheets and other items |
| Location | Bramhagiri Thana is a small village about 25 kms from Khurda. The WCS is affiliated to the Puri Nimapara DCCB at Puri. |
| Production | 2001-02 Rs 8.37 lakhs<br>2002-03 Rs 3.64 lakhs<br>2003-04 Rs 2.63 lakhs<br>2004-05 Rs 2.27 lakhs |
| Sales | 2001-02 Rs 7.61 lakhs<br>2002-03 Rs 4.02 lakhs<br>2003-04 Rs 3.08 lakhs<br>2004-05 Rs 1.52 lakhs<br>Closing stock as on 31.1.2006 Rs 2.86 lakhs |
| Outstanding as on January 2006 with the State and Central Government under Market Assistance and Market Development Schemes as also Apex Marketing Organisation "Boyanika" | Over Rs 5.4 lakhs |
| Cash credit limit | ❖ No transaction in the CC account with the bank since 31.3.2001<br>❖ It had a CC outstanding of Rs 6.77 lakhs as on 31.3.2001. With interest added to that, the same has been at Rs 11.57 lakhs as on March 2005. |

**Source:** Data from WCS in the field interactions

Hinjilicut WCS (see Table 4.6) is in the constituency of the present Chief Minister of Orissa. However the financial state of the WCS shows the darker side of the credit flows to the handloom sector.

In Radhakanta Dev WCS in Khurda district, the WCS's performance has declined over a period of last four years, in the process the WCS has an outstanding of Rs 77 lakhs. In this

**Table 4.6: Hinjilicut WCS at a Glance**

| | |
|---|---|
| Date of establishment | 1.5.1942 |
| Membership | 275 |
| No. of working looms | 30 |
| Nature of weaving | Sarees, bed sheets and other items |
| Location | Hinjilicut, a small township about 40 kms from Berhampur, the WCS owns a two storied building in the market place. The building is used as office cum showroom. |
| Production | 2002-03 Rs 2.15 lakhs<br>2003-04 Rs 3.45 lakhs<br>2004-05 Rs 4.86 lakhs<br>Up to Jan 2006 Rs 4.60 lakhs |
| Sales | 2002-03 Rs 2.14 lakhs<br>2003-04 Rs 3.95 lakhs<br>2004-05 Rs 4.88 lakhs<br>❖ Up to Jan 2006 Rs 2.39 lakhs<br>❖ Closing stock as on 31.1.2006 Rs 6.28 lakhs |
| Outstanding as on January 2006 with the State and Central Government under Market Assistance and Market Development Schemes as also Apex Marketing Organisation "Boyanika" | Over Rs 6 lakhs |
| Cash credit limit | ❖ 2003-04 Sanctioned NIL<br>❖ 2004-05 Sanctioned Rs 2.00 lakhs, withdrawals NIL and deposits into CC account NIL<br>❖ 2005-2006 Sanctioned Rs 4.00 lakhs, withdrawals NIL and deposits into CC account NIL. The WCS has yet to execute the necessary papers and agreements to avail the CC limit. |

**Source:** Data from WCS in the field interactions

scenario, the DCCB sanctioning a credit limit of Rs 80 lakhs does not make any sense as the WCS is incapable of making any withdrawals that would help it to run the business (see Table 4.7).

## Credit Flow as seen from the Viewpoint of the DCCBs

In the design of the credit flow to the handloom sector, the DCCBs are to play a key role. They are the first financial contact point for the WCSs in villages.

**Table 4.7: Radhakanta Dev WCS at a Glance**

| | |
|---|---|
| Date of establishment | 15.4.1986 |
| Membership | 157 (declined from 255 in 2002-2003) |
| No. of working looms | 55 (declined from 175 in 2002-2003) |
| Nature of weaving | Sarees, bed sheets and other items |
| Location | Bajpur is a small village about 15 kms from Khurda, the district headquarter |
| Production | 2002-03 Rs 23.05 lakhs<br>2003-04 Rs 6.87 lakhs<br>2004-05 Rs 11.35 lakhs<br>Up to Jan 2006 Rs 14.27 lakhs |
| Sales | 2002-03 Rs 23.12 lakhs<br>2003-04 Rs 8.34 lakhs<br>2004-05 Rs 11.48 lakhs<br>❖ Up to Jan 2006 Rs 13.91 lakhs<br>❖ Closing stock as on 31.1.2006 Rs 4.52 lakhs |
| Outstanding as on January 2006 with the State and Central Government under Market Assistance and Market Development Schemes as also Apex Marketing Organisation "Boyanika" | Over Rs 27.00 lakhs |
| Cash credit limit | ❖ 2002-03 Sanctioned Rs 70.00 lakhs, withdrawal Rs 13.85 lakhs<br>❖ 2003-04 Sanctioned Rs 70.00 lakhs, withdrawals Rs 7.13 lakhs<br>❖ 2004-05 Sanctioned Rs 70.00 lakhs, withdrawals 7.96 lakhs<br>❖ 2005-2006 Sanctioned Rs 80.00 lakhs, withdrawals Rs 6.70 lakhs<br>❖ **The CC outstanding as on date is Rs 77.96 lakhs comprising of principal amount Rs 27.17 and the interest outstanding of Rs 50.79 lakhs!** |

**Source:** Data from WCS in the field interactions

We present our observations based on the interactions in the field with two banks and practices observed on the credit limits sanctioned by these DCCBs.

## Impressive Credit Flow on Paper but the Reality is Different

### Example of the Khurda DCCB (Orissa)

The circular of 6th February 2006 from this bank informs the secretaries of 35 WCSs that NABARD had sanctioned Rs 250.91 lakhs of short-term credit for the year 2005-2006. The circular further informs that they need to execute the bond and the agreement to be in a position to use the limits. This correspondence took place in February 2006 when the financial year is about to end in March 2006. This circular again has a detailed list of 35 WCS in the district. Against each name, the CC outstanding limits proposed by the DCCB for 2005-2006 and limit sanctioned by NABARD for 2005-2006 are mentioned. As per this circular, there is a total limit sanctioned by NABARD for **Rs 250 lakhs** against the limit of Rs 484.40 lakhs proposed in the DCCB calculations. This figure appears very impressive in terms of the volume and the details given except that of the **35 WCS listed, only 5 are in functional** as per the information shared by the officers of the textiles department during interactions in the field visit! Of the 250 lakhs limit sanctioned, **only 5 WCSs** have withdrawn a total of **Rs 3 lakhs** up to February 2006. Thus, while the statistics quoted by NABARD and the DCCBs might suggest that the credit flow to the handloom sector is happening, the ground reality is that it is happening only on paper.

Examples of the Berhampur and Aska DCCBs illustrate this point further.

- Between the two cooperative banks, there are 38 WCSs, 21 under the Aska district cooperative bank (**A**) and 17 under the Berhampur district central bank.(**B**) (see Table 4.8)
- There are 2,955 looms with 5,124 weavers involved in weaving.
- In addition to the 38 functioning WCSs, 42 WCSs are under liquidation.

The figures for the last four years indicate a declining trend in usage of CC limits though the sanctions on paper have increased. Also, the outstanding of the WCSs towards the two district banks are on the rise while their business is more or less stagnant. It seems that the cooperatives have preferred to work with their own money (sale receipts) and continue operations without using any credit facility with the district banks as the NABARD norms stipulate that at least 70% of the sale proceeds must be deposited in the CC account. The declining trend in deposits, the stable trend in the production and sales and the increasing trend in the outstanding is an indication that reasonably well performing cooperatives prefer not to use the working capital limits that have been provided to them. The NABARD norms make it mandatory and the DCCB officials insist that all the sale proceeds must first be deposited in the CC account by the WCSs. The WCS officials maintained that given their past experiences with the DCCB functioning, they could not withdraw any money once it was deposited in the bank since the bank was allocating all receipts towards recovering its outstanding interests and principals, thereby leaving

**Table 4.8: Cash Credit Transactions and Business in Two District Cooperative Banks**

*(Figures Rs in Lakhs)*

| | 2002-03 | 2003-04 | 2004-05 | 2005-Dec 2006 |
|---|---|---|---|---|
| **Limits sanctioned** | | | | |
| A | 167.08 | 144.96 | 135.96 | 183.80 |
| B | 61.02 | 61.29 | 57.18 | 63.16 |
| **Withdrawals from CC account by WCSs** | | | | |
| A | 41.43 | 37.66 | 41.83 | 28.51 |
| B | 50.09 | 47.00 | 30.21 | 6.31 |
| **Deposits in CC account** | | | | |
| A | 19.68 | 16.78 | 28.19 | 15.97 |
| B | 46.44 | 36.34 | 22.72 | 6.94 |
| **CC Outstanding** | | | | |
| A | 172.99 | 192.60 | 185.72 | 197.93 |
| B | 115.09 | 125.61 | 94.97 | 95.77 |
| **Production and Sale in the WCSs under A and B District Cooperative Banks** | | | | |
| **Production** | | | | |
| A | 123.18 | 137.21 | 179.30 | 90.72 |
| B | 153.19 | 166.52 | 197.39 | 136.83 |
| **Sale** | | | | |
| A | 128.85 | 151.73 | 192.82 | 81.46 |
| B | 160.45 | 181.40 | 206.38 | 98.43 |

**Source:** Textiles department field staff

no choice for the WCS but to avoid using the CC account.

## The Role of the Textile Department Officials and the District Cooperative Bank

During the field visits to Andhra Pradesh and Orissa, we had several interactions with the field level officers of the Textiles and Handlooms departments from the state governments. We observed that in some situations the WCSs were being treated as a "proxy" in the administrative and the financial transactions between the district cooperative bank on one hand and the textiles department on the other. To Illustrate, a circular of the Assistant Director of Textiles Berhampur informed the district cooperative bank that it was depositing Market Development Assistance money received from the central and state government share in the CC accounts of the WCSs in its territory. The letter of 10th November 2005 informing the secretaries of the societies stated the following….

> *" The Marketing Incentive claim (central share) for the year 2000-2001 of your society has been*

> *received from the Govt. and* **disposed** *of as detailed in the annexure attached here with. Hence you are instructed to give correct entry in the cash book of your society and make up to date balance…"*

We found the textile department making payments to NHDC on behalf of the WCSs under the misapprehension that the WCSs were getting better quality products at cheaper prices from the NHDC. In all these instances, we observed that the role of the WCSs had become that of a mere spectator in the hands of the government functionaries and the banks. This points towards the larger issue of cooperative reforms, the role of the textile department, the cooperative department and that of the central and state governments, its so called promotional schemes and the performace role, if any, for the village level cooperatives. Boxes 4.9 and 4.10 presented here point to the scale and the outreach of this machinery and unfortunately simultaneous decline of the WCSs.

**Box 4.9: The Handloom Development Officials in AP**

Example from East Godavari District of Andhra Pradesh

- East Godavari District has 53 primary weavers cooperatives of which 43 societies are functioning.
- According to the officials of the handlooms department in this district, the 53 cooperatives can be roughly classified according to their performance in the following order:

| | |
|---|---|
| Performing well | 5 |
| Performance is average | 10 |
| Performance less than average | 10 |
| Loss making | 18 |
| | **43** |

- The district has one Assistant Director of Textiles (ADT Handlooms) based at Kakinada. He supervises the following staff.

| | |
|---|---|
| Development Officers | 3 |
| Additional Development Officers (5 on the field plus 4 in office) | 9 |
| | **12** |

- The above number does not include clerical and other support staff.

**Box 4.10: The Handloom Development officials in Orissa**

Example from the Khurda District of Orissa

- In Orissa, there are 30 revenue districts and 15 Assistant directors of textiles for these 30 districts.
- Khurda district has 35 primary weavers cooperatives. Twenty-five of these societies are functioning. The remaining 10 are dormant.
- There are about 3,000 looms in the district about 1,800 under the cooperative fold and the rest outside it. Of the 1,800 looms in the cooperative fold, 1,000 are active and the remaining are partially functioning as per the officials of the district.
- The district has one Assistant Director of Textiles (ADT Handlooms) based at Khurda supervising a field staff of 16.

## Banks and Artisan Credit Cards

We made an attempt to assess the response of bankers to the ACCs in both the states. Following is the summary of our observations.

- The Berhampur DCCB (Orissa) has not issued any credit card to the weavers so far. The official of the Textile department stated that he had submitted to the bank a list of 100 eligible weavers as potential ACC holders.

- The branch officer of the Regional rural bank in Bajpur (Orissa) has issued 8 ACCs against a list of 40 eligible weavers, whose names were recommended by the officer form the textile department.
- In Yemmiganur in Andhra Pradesh, the local bank branch received applications from the Chairman of the Municipal Council. The manager of this branch invited all the applicants for a sort of interview through which he wanted to screen those weavers who would then be issued the ACCs.
- One branch of the State Bank of India in East Godavari district of Andhra Pradesh issued about 40 cards. Interestingly, all these were members of the successful cooperative that we visited. The WCS supported the application process and in consultation with the WCS officials, the bank branch issued the ACCs.
- In Orissa, the state level bankers committee has halved the targets for the ACC from 10,000 to 5,000 for the current year as a result of substantially low achievement of the targets in the past.
- The spirit of the ACC is the limit sanctioned for working capital and the flexibility in terms of repaying the loan. We observed that in most of the banks that we visited, the artisan withdrew the entire amount of the sanctioned limit. Similar examples are available in the Kisan Credit Card usage where the banks (and the farmers) use the card **more as a term loan** (one time disbursement) **rather than educating the client to use it as a limit** thereby defeating the very concept of a "credit card and the available limit" to be used as and when needed for business operations.
- From the ACC passbooks, it was observed that the loan repayment was taking place probably according to the convenience of the borrowers with different amounts of installment. A recent evaluation report of the NCAER on the Kisan Credit Card provides important insights into the potentials and the weaknesses in the implementation of the KCC. These learnings need to be taken into consideration while emphasisng the spread of the ACCs.
- We perceive that officers in the branches of the public sector banks as well as the regional rural banks were more inclined and willing to see ACCs as a potential lending mechanism. However, we did not experience similar kind of enthusiasm and even awareness about the ACCs among the officials of the DCCBs and their branches in the regions we visited in Orissa and Andhra Pradesh.
- One reason cited for the slow response to the ACC was due to the fact that this was the first contact for many artisans with the banking system whereas in the case of the KCC, both the farmers and the bank branches were already in an ongoing lending relationship. One functionary of the textile department felt that the reason for low enthusiasm and even

reluctance from the bank staff to promote the ACCs was due to its design. Since it was clearly a “loan product” without any subsidy, bankers found it not very profitable for them.

### Banks and Self Help Group of Weavers

It is too early to judge this pilot initiative of NABARD with reference to the enhanced credit delivery. The scheme was formulated and communicated by NABARD in mid 2005. It will take at least two to three years of consistent promotional work and accompanying enthusiasm among large number of bankers at the grassroots level to show any significant results. It seems to have the potential to reach weavers not currently linked to WCSs or weavers who are actively involved in weaving but have no option to avail credit because their cooperative is not performing well. Such an effort would also need substantial inputs in capacity building, training and networking among a large number of stakeholders including the branch network of DCCBs if a scale similar to the SHG outreach is to be achieved.

# 5 Conclusions and Recommendations



This research study attempted to look at the policies and practices of credit flows to the handlooms sector. Extensive discussions were held with different stakeholders from the village level WCSs in Andhra Pradesh and Orissa to the policy makers in NABARD. Based on these interactions, we present the following conclusions.

## Conclusions

1. The issue of credit flows to the handloom sector is closely linked to the working capital management of the handloom business that in turn is directly related to the overall health and business performance of the handloom sector.

2. The entire spectrum of policy interventions for credit delivery is centered around the cooperative form of institutions consisting of weavers cooperatives as recipients of credit and the cooperative banking system as providers of credit services with NABARD playing the policy making role. NABARD estimates that only 20 to 25% weavers operate within the cooperative fold and this number is also on the decline.

3. This study and data from NABARD clearly shows a declining trend in the institutional credit over time as also the absorption capacity for the institutional refinance mechanism. Over the last seven years, the credit flow (utilisation) has declined from a level of Rs 586 crores in 1998-99 to a level of Rs163 crores in 2004-05. A worrisome feature of this decline has been the growing gap between the limit sanctioned and actually utilised by SCBs. In 1998-99, while the overall utilisation by SCBs was Rs 586 crores as against the sanctioned limit of Rs 752 crores (78%), in the later years, this gap has been increasing, 47% in 2004-2005, clearly indicating that in spite of higher limits available, the cooperative system is not able to utilise this limit.

4. As a result of institutional preferences, there were no significant policies in the past to deliver credit to those weavers and stakeholders outside the cooperative sector. Only recently, NABARD has started to respond to other stakeholders. Effectively, it means that over the years, a majority of the weavers have been left out of the formal institutional system of lending.

5. It is time to acknowledge the fact that the formal institutional credit delivery mechanism focused only on lending through the cooperatives of handloom weavers in the country has become dysfunctional and in

many places become more or less defunct.

6. One of the important reasons for the failure of the formal institutional credit delivery mechanism has been the precarious financial position of the district and the state cooperative banks entrusted to extend credit facilities to the WCSs. According to NABARD data, accumulated interests and total loans outstanding with all the WCS and their apex cooperative structures of 30 states is Rs 1,008 crores at the end of 2004-2005.

7. The "One Time settlement process" initiated in states (for instance in Orissa) to cleanse the balance sheets of the WCSs has not progressed further. In Orissa, the process is almost stalled as a result of difference of opinions within SCB and the DCCBs as to who should bear what percent of loss (in terms of writing off the outstanding interests etc).

8. Unfortunately, this failure is not on the radar of policy discussions compared to ,for example, the ongoing engagement of the Government, banks and NABARD on the topic of doubling agricultural credit in a three-year time frame.

9. It was observed in the field visits that the elaborate process of setting working capital limits and eligibility norms by NABARD was not sensitive and responsive to the ground realities. The WCS found this process cumbersome and time consuming. In the current financial year, a well performing society in the state of Orissa needed almost seven months to withdraw its first cash credit requirement following this process.

10. The eligibility norms of NABARD for short term financing of weavers cooperatives do not differentiate between a well performing and a loss making cooperative. The "one size fits all" credit norms and eligibility criteria have become just routine paper work. It is not in a position to capture and respond to the ground reality that is complex and diverse. As a result, well performing WCSs or those who have a potential to turn around might be forced to abandon the institutional credit and work outside the cooperative banking arrangement.

11. Well performing WCSs have got stuck with inefficient DCCBs though the policy guidelines of NABARD suggest and recommend that they could cede to the commercial banks for their financial requirements. In practice, this is rarely done. The officers of the textile department do not seem to encourage this trend even if the potential exists.

12. There is also a perception that the commercial banks are not interested in lending to the handloom sector and the DCCBs are doing it more out of compulsion rather than looking at it as a business proposition.

13. Our field visits in the two states of Andhra Pradesh and Orissa confirmed that the credit flow to the primary WCSs is under extreme pressure. Over the last five years, it is on a decreasing trend and if this continues there will not be any credit flow to the handloom sector in the next few years. There are WCSs who

have stopped using CC limits and transacting with DCCBs.

14. The reasons for the dysfunctional credit delivery mechanism are many fold and this report does not intend to go into those reasons. It would be tempting to associate the failure of the credit delivery mechanism with village level weaver cooperatives "not doing their business right" and hence identify them as non-creditworthy. However, it is equally important to acknowledge the contributing factors to this crisis in terms of the role of the facilitating and development agencies such as the banks, the marketing/ development machinery in the state government or the central government as also the apex cooperative marketing societies. It is important to highlight the inefficient role of the apex marketing cooperative societies that have consistently delayed in fulfilling their financial commitments to the primary cooperative societies.

15. The handloom cooperative societies have been choked in terms of their outstanding with the state governments and with the central government schemes. In some cooperatives that we visited, the overdue amount for market development assistance or interest rebates have been pending for more than five to six years. These delays have adversely affected the working capital management and the overall financial health of the cooperative, which in turn negatively impacted their ability to avail CC limits from DCCBs.

16. Weavers outside the cooperative fold do not seem to have any access to working capital except those linked to master weavers/traders. Data is hard to obtain in terms of how many such traders and master weavers (intermediaries) are there in the sector and of these how many have availed finance from the formal financial system. In the field visits, we did meet some of these intermediaries who were financed by the commercial banks. Based on this limited evidence, there is a possibility that some of the master weavers and traders are financed by commercial banks. The quantum and scale of this financing is not reported separately and is hence difficult to track.

17. The ACCs introduced in 2003 offer a potential credit delivery channel to a large number of weavers within and outside the cooperative fold. In principle, its design also offers possibilities to reach weavers who have been stuck with a non-performing cooperative structure at the village level.

18. However, the promotion of the ACCs has been extremely slow. The number of ACC cards issued compared to the targets set up by the textile departments and/or the bankers in each state indicate that there is a long way to go before these targets are reached. If this is not accelerated, a potential opportunity will be lost.

19. The bankers seem to be less enthusiastic about the ACC though they could build on the accumulated experiences of a similar instrument namely the Kisan Credit Card.

20. The awareness among the weavers about the ACC seems to be low and

The awareness among the weavers about the ACC seems to be low and there is a need to make conscious efforts to promote this awareness.

there is a need to make conscious efforts to promote this awareness.

21. NABARD has recently introduced guidelines for banks to experiment with SHGs of weavers. This is with a view to channelise credit to the weavers groups. It is too early to evaluate this mechanism as there are not many groups formed yet. While appreciating the spirit behind these guidelines, it is important to learn from the experiences of the SHG movement. The experience in SHG promotion methodology shows that it takes at least one year for the group to develop a healthy group dynamics in addition to regular savings. The group then becomes credit worthy. Hence, though this is a welcome measure from a medium term perspective over the next three to five years, it might not accelerate credit flow in the short term.

22. We did not get sufficient information from NGOs-MFIs to show that they could be a potential alternative channel to accelerate credit flow to the weavers and their societies.

23. In the current policy discussions, the entire discourse and hence policy measures are centered around cash credit/working capital limits for the weavers (purchase of yarns and marketing support etc). There seems to be an implicit assumption that either the long term credit requirements of the weavers in terms of replacement of loom, additional loom etc do not exist or if they do, they will be taken care of by the weavers themselves.

24. To sum up, there is an urgent need to bring the discussion on the status and health of the handloom sector (and the credit flow as one part of it) back on the national policy agenda. Given the complex context of the handloom sector and the role of multiple stakeholders in its functioning, it is necessary to acknowledge that any partial or piecemeal orientation would neither lead to a correct diagnosis of the situation nor help in identifying possibilities of corrective actions. Serious engagement amongst all stakeholders is essential.

## Recommendations

We present the following recommendations based on the discussions so far.

1. After the census of 1995, there is no official publication on the status of the handloom industry in India. There is an urgent need for the concerned Ministries together with the apex financial institution (NABARD) **to map the status of the handloom industry with reference to the financial aspects of the sector**. A Situation Assessment Survey (SAS) similar to the SAS carried out by the National Sample Survey Organisation (NSSO) of the agricultural sector in 2003 could be carried out. The SAS for the agricultural sector covered five aspects namely indebtedness of farmer households, access to modern technology for farming, some aspects of farming, consumption expenditure of households and income expenditure and productive assets of the farmer households. The results of this SAS have generated extensive discussions on the status of the Indian agriculture. It is high time that a

similar comprehensive exercise is undertaken focusing on the business of handlooms and the financial dimensions of this business from the viewpoint of those engaged in it, namely the weavers.

2. There is **a need to clearly distinguish between credit flows as mentioned in the policy documents** and in the books of the higher tiers such as the state and the district central cooperative banks and the **actual withdrawal** made by the weavers cooperative societies at the grassroots. In one district cooperative bank, of the sanctioned credit limit of over Rs 3 crores for the current year, the withdrawals were just Rs 5 lakhs.

3. Such a process also needs to build in **more transparency**. The information on credit limit sanctioned vis-a-vis applied by the WCSs and the DCCBs should be in the public domain and be **easily accessible to independent researchers, industry associations and organisations** working in the handloom sector.

4. NABARD, together with the Development Commissioner of Handlooms, needs to think *de novo* as to what kind of credit policies are needed for the handloom sector. This should mean **reviewing the existing credit delivery mechanisms** and **exploring all possible alternate mechanisms without any institutional bias** for cooperatives. The annual ritual of framing policies and sanctioning limits has ceased to add any significant value to the well being of the cooperatives.

5. Such a policy also needs to think in terms of comparative merits and demerits of offering refinance facilities through the cooperative banking mechanism that does not work efficiently in reality. These policies also need **to encourage and promote more lending by the commercial banks.**

6. Such a policy needs to be sensitive to the diversity in terms of the financial health of the cooperatives across the country. **A flexible and differentiated credit policy for well performing, potentially viable and dysfunctional cooperatives** need to be prepared. This policy should also reflect the financial health of the state and the DCCBs and inability of some of these to make any additional commitments to the handloom sector. Such a policy, for instance, should offer incentives for showing better financial results.

7. There are many **procedural aspects** that could be simplified in the short term. One example of this is the documentation that is required every month by the WCS. Automatic renewal is also another possibility.

8. NABARD needs to set for itself and other cooperative banks **a clear and stringent standard** in terms of announcements of the policy for the financial year and the implementation **time frame**.

9. A well performing cooperative tied to a loss making district cooperative bank should be encouraged to explore other sources of funding including connecting with commercial banks. Commercial Banks need to be encouraged to

NABARD needs to set for itself and other cooperative banks **a clear and stringent standard** in terms of announcements of the policy for the financial year and the implementation **time frame**.

provide working capital credit limits to the well performing Primary Weavers Cooperative Societies. In the past, NABARD guidelines have endorsed this approach. These need to be shared and disseminated again widely so as **to motivate well-performing societies to seek finances from banks and interested commercial banks to link up with cooperatives.**

10. As a corollary to the above point, WCSs performing well need to be encouraged to **migrate and transform themselves to the Progressive Cooperatives Law** such as the Mutually Aided Cooperative Act in Andhra Pradesh and similar laws enacted in 9 other states.

11. The district is the cutting edge in all development interventions. It is important to **strengthen the process preparing and using PLPCs** especially in the 100 clusters where the Government is implementing the cluster development programme.

12. NABARD might be assigned **direct responsibility and accompanying authority to implement cluster development initiatives** in say 30 to 40 districts as a pilot project. In the past, NABARD has successfully worked with State Governments in implementing water shed development and horticulture development programmes that involve civil society, banks and the government functionaries. It has facilitated and developed a significant network of over 3,000 NGOs and bank branches all over the country in the process of scaling up of the SHG Bank-Linkage Programme in the last decade. This expertise at the district and the regional offices of NABARD needs to be capitalised.

13. The banking sector has gained significant experiences in popularising the Kisan Credit Card scheme. Commercial banks and the branches of the RRBS have at least started issuing credit cards to artisans. They need to be further motivated to upscale this effort. **ACC offers a big potential that remains to be tapped**.

**14. Self help groups of artisans** and concepts such as joint liability groups of artisans need to be experimented with. Although these **might take a longer time frame to show results, they are important in creating multiple options for weavers for accessing credit.**

15. Regions where there are weaver clusters and presence of well functioning alternate financial institutions such as **MFIs and NGO-MFIs could be a potential delivery mechanism**. However, this alternative does not absolve the responsibility of the formal institutions to respond to the credit needs of the weavers.

16. Commercial Banks and RRBs need to introduce **mechanisms for financing masterweavers** where cooperative banks are weak.

Annexure 1

# Research Brief: Access to Credit



Similar to other informal sector workers, weavers face difficulties in accessing credit, which limits their ability to increase production and enhance their incomes. Due to the lack of credit from banking institutions, weavers are forced into exploitative relationships with money-lenders, who give them credit on exorbitant terms and traders, who advance production credit, and use the leverage gained to suppress wages. As of now, there is no definitive study quantifying total credit flows to the sector. In handlooms, it is possible to track credit flows as the main source of credit is NABARD which refinances loans made to handloom cooperatives by SCBs and DCCBs. Loans made to small-entrepreneurs in the handloom sector are difficult to track as such loans are not classified by the sub-sector they are made to. Anecdotal evidence suggests that such loans are minimal in the handloom sector, as entrepreneurs outside of the cooperative fold are unable to access credit from formal banking institutions.

AIACA is seeking to commission a review paper that focuses on the handloom sector, detailing overall credit flows to the sector through NABARD and exploring what steps need to be taken to track credit flows to the sector. This paper is meant to serve as the basis for advocacy relating to policy change with regard to improving access to credit for weavers and will be supplemented with individual case studies of credit shortages in specific crafts clusters. Such a paper would cover the following:

## Handlooms

- Compile statistics on lending through NABARD to the handloom sector over the past ten years.
- List and critically analyze the procedure followed by NABARD in sanctioning credit to cooperatives.
- Interview selected handloom cooperatives and weavers outside the cooperative fold to include their perspective on the efficiency and appropriateness of the credit-sanctioning mechanism, and the problems they face in accessing the required credit.
- Estimate credit demand for the handloom cooperatives and quantify the mismatch between supply and demand of credit to the sector.
- Suggest recommendations to improve access to credit for weavers both within and outside the cooperative fold.

ANNEXURE 2

# List of Books, Government Publications and other research studies consulted and referred in this report


*Andhra Pradesh State Focus paper 2005-2006*, NABARD Regional Office Andhra Pradesh, December 2004.

*Annual Reports of Dastkar Andhra* and *Dastkar Andhra Marketing Association* 2004-2005.

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*Dynamics of India's Textile Economy: Towards a Pragmatics Textile Policy*, K D Saksena, Shipra Publications, 2002.

*Joint Census of Handlooms And Powerlooms 1995-96*, Handlooms Sector, NCAER, November 2004.

*India's Textile Sector: A Policy Analysis* by Sanjiv Misra, Sage Publications, 1993.

*Growth and Prospects of Handloom Sector in India*, Occasional Paper 22, Dr M Soundarapandian, NABARD, Mumbai 2002.

*NABARD Annual Report 2004-2005* and earlier years.

*Report on Growth and Prospects of the Handloom Industry*, Study commissioned by the Planning Commission, Seemanthini Niranjan and Soumya Vinayan for Dastkar Andhra, 2001

Rural Credit and NABARD 2003, NABARD, Mumbai 2003

*State of India's Farmers* by A Narayanamoorthy in *Economic and Political Weekly*, Vol XLI No. 6 February 11-17, 2006

*Status and Plan of Action for Financing Handloom Weavers*, NABARD, Mumbai, Undated (2006?)

*The Kisan Credit Card Scheme: Impact, Weaknesses and Further Reforms*, Anil Sharma, NCAER, New Delhi, 2005

*The Politics of Textiles, the Indian Cotton Mill Industry and the Legacy of Swadeshi 1900-1985* by S R B Leadbeater, Sage Publications, 1993.

*Traditional Industry in the New Market Economy: The Cotton Handlooms of Andhra Pradesh* by Kanaklata Mukund and B Shyama Sundari, Sage Publications, 2001.

Workshop on Understanding Markets, Marketing Handlooms, 25th and 26th June 2004,Workshop Report by Dastkar Andhra, 2002

ANNEXURE 3

# List of individuals and institutions met during this study including field visits to Andhra Pradesh and Orissa

| Andhra Pradesh | |
|---|---|
| December 19, 2005 | ❖ Delhi – Hyderabad travel.<br>❖ Ms. Shyama Sundari and Sri Ram Murthy Dastkar Andhra, Hyderabad, Mr. Mohan Rao, Hyderabad.<br>❖ Hyderabad – Kurnool bus travel. |
| December 20, 2005 | ❖ Kurnool – Yemmiganur bus travel<br>❖ Mr. Ibrahim, Accountant, Yemmiganur Weavers' Cooperative Society, Yemmiganur<br>❖ Four weaver families in the weavers' colony in Yemmiganur<br>❖ Mr. Satyanarayana, master weaver in Yemmiganur<br>❖ Accountant in the Yemmiganur branch of the Kurnool DCCB<br>❖ Mr. Victor, Branch Manager, Syndicate Bank, Yemmiganur<br>❖ Return journey to Kurnool. |
| December 21, 2005 | ❖ Kurnool – Hyderabad bus travel<br>❖ Ms. Shyama Sundari, Ms. Seemanthini, Mr. Durga Prasad in DA<br>❖ Mr. Wadavi, Mr. Shastry and Mr. Chari in NABARD, Hyderabad regional office<br>❖ Hyderabad – Vijaywada train travel. |
| December 22, 2005 | ❖ Vijaywada – Polavaram taxi travel<br>❖ Mr. Subramani, Mr. Uma Maheshwar Rao (Chairman and Secretary) and other officials in the Polavaram WCS, Polavaram, Krishna District<br>❖ Mr. Prasad – Branch Manager, Indian Bank, Polavaram<br>❖ Two weaver families in Polavaram<br>❖ Mr. Sajja Nageshwara Rao, Private Trader in Kalamkari in Pedna |

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| December 22, 2005 | ❖ Ms. Swati, Mr. Gangadhar, Mr. Narasaihya – President's Award winner<br>❖ Mr. Amrutam, Assistant Director, Handlooms, Krishna District.<br>❖ Return travel to Vijaywada |
| December 23, 2005 | ❖ Vijaywada – Rajmundry train travel<br>❖ Rajmundry – Pulugurtha Weavers' Cooperative taxi travel<br>❖ Mr. Satyanarayan, Secretary, Cooperative Society, other officer bearers and four members of the society weavers families<br>❖ Mr. Subramanyam, ADT, Textile and Handlooms department<br>❖ Three weavers holding ACCs<br>❖ Group leader of one women SHG in Pulugurtha<br>❖ Mr. Vijay Raju, Manager DBD, State Bank of India, Mandpeta, East Godavari District<br>❖ Sales shop of Pulugurtha society in Dwarpudi market<br>❖ Other shops in Dwarpudi market<br>❖ Dwarpudi – Rajmundry return travel<br>❖ Rajmundry – Secunderabad train travel. |
| December 24, 2005 | ❖ Secunderabad / Hyderabad – Delhi air travel |
| **Orissa** | |
| February 13, 2006 | ❖ Delhi – Bhubneshwar travel<br>❖ Mr. Behera, Deputy Secretary, Mr. Rath, MD Boyanika, Mr. Swain and Mr. S M Behera, Dept of Textiles, Bhubneshwar<br>❖ Visit to Boyanika showroom<br>❖ Visit to Priyadrashini, a showroom owned by an entrepreneur and discussion with Mr. Laltendu Mohanty, the owner/entrepreneur |
| February 14, 2006 | ❖ Visit to Radhakanta WCS, Bajpur, Khurda zone, discussions with WCS officials and weavers<br>❖ Visit to Gramin Bank branch and meeting with Mr. Sahoo, Branch manager in Bajpur<br>❖ Visit to Khurda DCCB at Khurda and discussions with Mr. Das, Assistant secretary of the bank |

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| February 14, 2006 | ❖ Visit to Brahmagiri Thana WCS, Bajpur, Khurda zone, discussions with WCS officials and weavers<br>❖ Travel to Gopalpur, Ganjam district |
| February 15, 2006 | ❖ Discussion with Mr. Arjun Behera, deputy director textiles department<br>❖ Visit to Choudeswari WCS, in Berhampur town, discussions with WCS officials<br>❖ Visit to Berhampur DCCB at Berhampur and discussions with Mr. Nityananda Sengupta, secretary of the bank<br>❖ Visit to Hinjilicut WCS, in Ganjam district, discussions with WCS officials<br>❖ Return travel Hinjilicut to Bhubneshwar |
| February 16, 2006 | ❖ Mr. Jena, DGM, and his colleagues Mr. Kumar DDM Khurda in NABARD, Bhubneshwar office<br>❖ Mr. R C Panda, General manager and his colleague in Orissa State Cooperative Bank<br>❖ Return travel Bhubaneshwar Delhi |
| March 1, 2006 | ❖ Mr. D P Panda, GM and Mrs. T. S. Raji Gain, DGM, NABARD Mumbai |
| March 9, 2006 | ❖ Mr. B. K. Sinha, Development Commissioner – Handlooms, Ministry of Textiles, Govt. of India, New Delhi |