Economic Reforms – Declining Handloom Industry – Role of Microfinance

1Dr. Ch. V. Krishna Reddy, 2Prof. Noorbasha Abdul
1Faculty Member, 2Professor,
Department of Commerce & Business Administration, Acharya Nagarjuna University,
Nagarjuna Nagar – 522 510, Guntur, AP, INDIA

Abstract: The Eleventh plan (2007-12) states ‘generation of productive and gainful employment, with decent working conditions, on a sufficient scale to absorb our growing labor force, form a critical element in the strategy for achieving inclusive growth’. The proposition of this avowed objective, however, has quite often been viewed critically by the researchers, when seen in the light of the Economic Reforms or the Liberalization and Globalization programmes being implemented by the Government of India since 1990s. The 61st round (2004-05) of the National Sample Survey states unambiguously that in spite of higher overall growth, the extent of decline in poverty in the post-reform period (1993-2005) has not been higher than in the pre reform period (1983-93). The other clear conclusion is that inequality has increased significantly in the post reform.

Objective of the paper
Against this backdrop, the focus of this paper is to analyze the challenges and problems being confronted by the handloom industry in the state of Andhra Pradesh, particularly in the wake of the Economic Reforms and to suggest long run strategies by which the industry would come out of the doldrums. Further, this paper will also suggest certain suitable schemes of the Microfinance network for absorbing the weavers being rendered unemployed, imparting job skills and creating decent working conditions.

Analysis and Results
In this paper the current challenges being faced by the handloom industry in the state of Andhra Pradesh have been examined at length. The discussion was so important to rightly understand the misery and distress being faced by the weavers in the state. The authors have tried how the reforms-led crisis in the handloom industry has thrown out thousands of weavers from regular employment. Thereafter the authors tried to explain about the suitability of some of the microfinance schemes currently being in implementation in the state to the debt ridden, unskilled and reemployed handloom weavers in the state, period and seems to have slowed down the rate of poverty reduction.

“There is a need to evolve a methodology for promoting micro enterprises to create livelihood and employment opportunities among SHG members, besides imparting relevant financial skills and developing their risk taking abilities.”

Dr. KG Karmakar, Managing Director, NABARD Microfinancing world, in supplement to The Financial Express, April–June, 2010.

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paper will also suggest certain suitable schemes of the Microfinance network for absorbing the weavers being rendered unemployed, imparting job skills and creating decent working conditions.

Data Sources:
The data used for the purpose of the paper are drawn mostly from the secondary sources. Since the first author of this paper happened to tour extensively in the state in connection with the study of the handloom industry, he is familiar with the current status of the handloom industry in the state. The author has also guided a couple of doctoral research works on the Handloom industry in Andhra Pradesh. Hence those studies are also the primary sources of information/data for this paper.

Section A

Handloom Industry in AP- Challenges and solution:
Handloom industry constitutes a major plank of Indian heritage and culture and it has place of pride in the nation’s economy. It continues to be the second biggest industry next only to agriculture in terms of rural employment. It is also a fact that handloom weavers are known for their knowledge, innovation and brilliance in designs.

India’s handloom sector provides employment for more than 130 lakhs people through 38 lakh looms and is the second largest rural employment provider next only to agriculture. Out of this, 60% are women, 12% SCs and 20 % STs (Ministry of Textiles 2001). In terms of production, handlooms produced fabrics of 7585 million sq. meters during 2007-08, against just 500 million sq. meters in the early 1950s. This sector accounts for 18 % of the total cloth produced in the country and 15 % of the total exports of fabrics. Over 125 countries are currently purchasing handloom products from India.

Contrary, the power loom sector though accounts for 77 % of total cloth production contributes only 10 % to the employment. Andhra Pradesh has the second largest number of handlooms of 3.5 lakhs next only to Tamilnadu. On the employment front, these looms in the state provide livelihood to about five lakh families or 15 lakh workers. There are nearly 50 handloom bases or clusters in the state and about 20 of them such as Pochampalli, Venkatagiri, Chirala, Gadval, Mangalagiri, Narayanpet, Dharmavaram, Siricilla and Uppada are having global reputation for their products. The average annual exports from these clusters account for over 100 cores.

Despite a eventful journey it got in the past the handloom sector has been beset with numerous problems. The neo liberal economic reforms that were initiated by the Government since 1991, have aggravated the crisis in handlooms sector throwing the poor weavers in joblessness and distress. According to one estimate, at least 580 weavers either committed suicide or died of starvation in AP during five years only. Major reasons for the weavers’ distress were lack of regular work, inadequate wages, growing indebtedness and ill health. Reports revealed that harassment by microfinance companies was also a major reason. This should be an eye opener for the Government to play a proactive role. The following were the prominent reasons responsible for worsening employment status in handloom sector of Andhra Pradesh.

I. PRODUCTION PROBLEMS
Scarcity of hank yarn and perennially rising prices of the yarn and dyes have been the major problems on the production front. If all the 40 lakhs handlooms in India are to be utilized to their full capacity, around 600 million kgs of yarn is required a year. However the actual production stands around 60 per cent only.

Taking advantage of the liberalized regime, the spinning mills have been violating the hank yarn obligation order, 1985 requiring the mills of producing at least 50 per cent of yarn in the hank form. As if it is not sufficient, the obligation was slashed down to 40 per cent in 1996. The Hank Yarn Notification 2003 further relaxed it and diluted even the 40 per cent obligation norm. Finally, only 10 per cent of the spinning mills are presently following the hand yarn obligation.

Secondly, diversion of hank yarn to the power looms has also become an alarming issue. The 1985 textile policy in fact, promised adequate supply of hank yarn at reasonable prices, restoration of 22 articles for exclusive production of handlooms, fiscal concessions, marketing facilities, modernization of looms, schemes for weavers, etc... Simultaneously, this policy has also encouraged a massive proliferation of power looms during the period of economic reforms promoting productivity, efficiency and competition. It is this strong lobby of power looms that has been snatching away the hank yarn by all illegal means leaving the handlooms to starve. The Saytam Committee (1999) itself had observed that 39 per cent of hank yarn is whisked away by the power looms.

Thirdly, the liberalization policy has also allowed indiscriminate export of yarn. During the post-globalisation period, the exports of hank yarn of various counts have gone up at an unprecedented pace. The govt. had permitted the exports of 100 million kgs in 1994, which was later raised to 130 million kgs. The proportion of hank yarn of the 20’s and 40’s has constituted more than 64 per cent which has been further increasing.

A major reason for the yarn problem is the centralized production system of yarn with the involvement of so many traders and intermediaries between the cotton growers and the weavers. The system of direct relationship of the weaver and the spinning mills with the farmer can be thought of.
Finally, the cooperative spinning mills are becoming bankrupt and hence are of no use for the primary weaver’s societies. For example, 13 cooperative spinning mills were closed in Andhra Pradesh. Resultantly, handlooms had to purchase yarn from the private mills at the market prices. Taking advantage, the yarn prices were raised unilaterally by the private mills. For example in 2006, the 41/2 kg yarn bundle price has gone up from Rs. 1,800 to Rs. 2,400 in only two months. The prices of yarn and dyes have gone up by 300 per cent only during the last ten years.

Inadequate measures:

The governments do not seem to have a minimum political will to solve the issue of yarn and other problems. Instead they complicated the problems for so many years in Andhra Pradesh. Other states are no exception.

The Governments at the centre have never initiated measures for checking the corrupt and illegal practices of the power looms. Instead they gave lot of fillip for the indiscriminate growth of power looms and their theft of hank yarn. Similarly, no tangible action is taken on the corrupt and inefficient yarn mills too.

The government subsidy being given to the handlooms has been reduced. During 1991-92, the subsidy was Rs. 187 crores to handlooms. This amount was reduced to Rs. 147 crores in 1995-96 and to Rs. 139 crores in 1996-97. Apart from cutting down the subsidy, the government has imposed excise duty on hank yarn. Only recently the government has withdrawn the excise duty.

Even the Mill Gate Scheme 1992-93, intended to deliver the hank yarn to weavers at mill rates is not properly implemented anywhere in Andhra Pradesh.

The yarn depots started by APCO to supply yarn to primary weavers’ cooperative societies were closed in March 2004 itself.

Even a government’s scheme of supplying of raw yarn to the weavers through mobile vans remained non-responsive since the weavers are ill afford to process such yarn.

II. MARKETING PROBLEMS

- Handloom Reservation Grossly violated:

  The Handloom Reservation Act of 1985 reserved 22 items for the exclusive production of handlooms. However, it could not be implemented till 1993 due to the legal dispute posed by the mill and power loom lobby in the Supreme Court. To overcome this, Abid Hussain Committee recommended the inclusion of the Act under the Ninth Schedule of the Constitution of India but this was never considered (GOI: 1990).

  The Mira Seth Committee recommended the reduction of the number of items reserved from 22 to 11 and the recent Annual Report of Ministry of Textiles indicates that this has been implemented (Ministry of Textiles: 2001). Even after the Act came into effect from 1993, the number of violations reported in the annual reports has been shockingly low, to the tune of five to fifteen from all over the country (Ministry of Textiles: 2001). Thus, despite the demands of weavers the Reservation Act has never been implemented efficiently and effectively. In addition to this, the approach paper to Tenth Plan, suggests that reservation is uneconomical in the wake of liberalization and hence has to be phased out eventually.

- Power looms: Victimization of Handlooms

  Power looms continue to blow a major threat to the very existence of the handlooms. In India about 20 lakhs power looms are working. More than 44,000 power looms are working in Andhra Pradesh, mostly in Karimnagar, Nalgonda and Chittor districts. These power loom centres are violating the Handloom Reservation Act,1985 and are copying the reserved articles for the handlooms. For instance, the famous tie & dye variety of Pochampalli faced a sever blow when the power looms of Bhongir (Nalgonda) copied the product and marketed the same as the product of handlooms. Similarly, the power looms at Nagari (Chittor) imitate the Mangalagiri dress material and the local saree variety of Chirala, Pedana, Jagannath puram, Bandaru Lanka, etc., and are marketing them in the names of the respective handloom centres.

  The government’s deep hunger for higher productivity has led for allowing the indiscriminate growth of modern looms like the jet and water looms. They are 10 times more productive than the traditional power looms – these in turn, are six times more productive than handlooms. While in the early 1990s the government encouraged the traditional power looms precipitating a serious crisis in the handloom sector, it is now pitching jet and water looms against power looms, endangering the latter.

III. FINANCIAL PROBLEMS

- Little Budgetary Support:

  The handloom sector has been over looked in the budgetary support. Both the state and union budgets earmarked scanty funds for the handloom segment. In the state budget of Andhra Pradesh, handloom sector was allotted only Rs.50 crore in 2008-09 budget. It is less than one-third of the meagre textile budget of Rs. 164 crores. In 2004-05 Budget about 50 per cent of the textile budget was earmarked for the handlooms (See Table-3). In the latest budget too the handlooms sector got a very poor allotment of Rs.332 crores including for the purpose of a long pending debt relief for the weavers through out the state. An examination into the actual
amounts spent reveals that a major proportion of these meagre amounts are not being utilised for the destitute handloom sector.

- **Poor Credit Facility:**

  Handloom weavers are denied with adequate credit facility by banks – Cooperative and Commercial banks. It is more so in the case of the handlooms out of the cooperative fold. In the case of Andhra Pradesh, about 85 per cent of the employment in handloom sector is provided by the non-cooperative sector and it is neglected by banks.

  Even the cooperative sector is not adequately financed by banks. In Andhra Pradesh during 2007-08, only Rs. 48 crores were given as credit to 372 societies, and Rs. 58 crores in the following year for 398 societies. The Self Help Groups formed by the handloom weavers are forced to borrow loans from private sources at exorbitant rates. It is these indebted weavers that are ultimately resorting to suicide or starvation death. According to one estimate, the cooperative sector in Andhra Pradesh requires at least Rs. 200 crore credit, if it has to provide work for the existing handlooms throughout the year. However, NABARD is unable to provide at least one third of it. An exclusive Bank for the handlooms still remains a dream for the weavers.

  The Spirit of the above Committees driven the truth that the state has neglected the handloom sector.

IV. **ADVERSE POLICY RESPONSE**

Many committees were appointed on handlooms after independence in the name of promoting the handlooms to higher heights. The Committees up to 1970s demonstrated the spirit of freedom movement and tried to lay strong foundations for a better future for handlooms. The committees thereafter having moved with the spirit of World Bank policies attempted to shut down the handloom industry eternally. For instance, the Committee consisting of Jawaharlal Nehru, Sardar Patel and Prof. N.G. Ranga had recommended that no sort of taxes should be levied at any level on the yarn and dyes meant for handlooms.

Later, the Shivaraman Committee (1974) among other things strongly opposed the entry of power looms into the textile industry with a view to protect the handloom sector. The Committee also recommended many welfare measures to the weavers and supply of hank yarn to the handlooms at subsidized rates.

However, the later Committees especially the Meera Seth Committee (1995) and the S.R. Satyam Committee (1999) have envisioned the modern textile industry in India devoid of the handloom sector and therefore strongly advocated conversion of handlooms into modernized looms, free market economy, export-orientation, downsizing of state help, etc.

The Satyam Committee could not see any future for the handloom industry and had thought that it is destined to die. It presumed that handloom sector is the most vulnerable to the threat of import penetration, and this sector has been sheltered and protected by the government from outside world and from more competitive power loom and mills sectors. It has also believed that the handloom weavers remain tradition bound and are averse to change.

The Satyam Committee therefore recommended that the handloom weaver should be converted as powerloom weavers. It also suggested the withdrawal of subsidy at the rate of 20 per cent every year from 1999-2000. It further suggested the withdrawal of the Handloom Reservation Act and the hank yarn obligation scheme.

Scholarly case studies on the handloom industry in India have amply revealed that it possesses several distinct qualities inherent in itself. And it continues to withstand any sort of competition from the modern looms. They safely concluded that the handloom industry is far from being the “sunset industry” as is often branded.²

In Andhra Pradesh, the Expert Committee under the Chairmanship of Sri K. Rosaiah, (2005), instead of proposing a way out for rising prices of yarn, debts and marketing problems of handloom weavers, focused on power looms welfare and suggested a paltry amount of Rs.20 crore for Powerloom and Handlooms together. The Committee recommended Rs. 106 crores for powerloom development, Rs. 97 crores for handlooms and 52 crores for APCO. There was no specific recommendation that APCO should buy exclusively the handloom cloth.

The spirit of the above Committees drives home the truth that the state has no proactive policy to put an end to the crisis of the handlooms and thereby the livelihood question of the millions of destitute weavers of the country.

V. **STRATEGIES**

In the context of Andhra Pradesh, some long range strategies are proposed here for strengthening of the handloom sector.

- Fool proof machinery to ensure sufficient quantity of yarn at reasonable rates to the weavers is to be set up.
- The Handloom Reservation Act should be implemented strictly. Very often, market information does not flow freely down to the primary producer. This is particularly true in informal marketing channels and private trade networks.
The government should set up production (to give direct employment to weavers) and purchase centres (to lift stocks directly) in every weaving region; A coherent labour and wage policy is essential.

The handloom sector should look for institutional support for modernization of production, substitution of vegetable dyes for chemical dyes and training in design and innovative patterns of weaving, so that the diversified handloom products withstand the growing competition of the stronger players in the liberalized textile markets. 

The long awaited dream of the weavers to have an exclusive bank for the handloom industry for its sustaining development is the need of the hour.

Section B

Role the Microfinance Agencies could play:

The Microfinance institutions can also play a major role in the promotion of handloom sector in general and the employment of the weavers in particular. Since both the Commercial banks and the Cooperative banks are not willing to extend loans to the weavers due to lack of collateral security, the microfinance agencies could be the suitable agencies.

Micro finance is almost a buzzword in the financial sector of every nation after the United Nations launched the International Year of Micro finance 2005. With the initiative of national bodies like National Bank of Agriculture and Rural Development (NABARD) and Small Industries Development Bank of India (SIDBI) in the beginning of 1990s this concept came to limelight.

As far as India is concerned, it has adopted a multi agency approach for the development of its microfinance programme. All the major financial institutions viz., Commercial Banks, Co-operative Banks, Regional Rural Banks, along with NGOs and MFIs have been associated with the micro finance programme. These institutions made experiments with various models to deliver microfinance at the doorsteps of rural poor. Of all the models, the SHG – Bank Linkage model is the most prominent microfinance models in India. The SHG – Bank linkage model has emerged as a major microfinance model in India.

Evolution of Self Help Group Movement in Andhra Pradesh:

Andhra Pradesh is the fourth largest state in area and fifth most populous state in the country accounting for 8.37% of the country’s area and 7.4% of its population. AS per the Census of 2001 the state has a population of 762.10 lakh, of which 554.01 lakh people live in 26,614 villages.

Andhra Pradesh has used Self-Help Groups (SHGs) extensively as a primary tool for poverty alleviation and empowerment. Currently, more than a crore rural women of the state have been mobilized into 8.51 lakh SHGs. These women groups have built a corpus of Rs. 4,025.55 crore including thrift amounting to Rs. 1,962.50 crore as at the end of 31 March 2009. The evolution of SHGs in the State has taken place over a period of time due to the coordinated and concerted efforts of the State and Central Government, NABARD, Non Government Organizations, Banks, etc.

The evolution of group concept in Andhra Pradesh can be traced back to the year 1982-83, with the implementation of “Development of Women and Children in Rural Areas (DWCRA)” in the Country as a Sub component of the Integrated Rural Development Programme (IRDP) launched by Government of India. The objective of DWCRA programme was to empower the rural women living below the poverty line by organizing them into groups to create sustainable income generating activities through self-employment.  

During the first ten years of implementation of DWCRA, only 4,000 groups were formed. The formation of groups gradually picked up due to the support from government agencies. By the end of the year 1998, there were around 79,000 DWCRA groups in the State covering 11.3 lakh women. With the launch of Swarna Jayanti Gram Swarozgar Yojana from 1 April 1999, the poverty alleviation programme such as IRDP, TRYSEM etc., including DWCRA, were merged into this programme. The groups promoted under the programme had focus on ‘economic activity’.

The average number of members in SHGs in Andhra Pradesh is 12. The SHG members mostly come from the disadvantaged sections of society, viz., Scheduled Caste, Scheduled Tribes and Backward classes. The current status of the Micro financing in the state can be gaused from Tables1 and 2.  

Table-1: Highlights of SHG movement in Andhra Pradesh – As on 31 March 2009

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total Number of SHGs in Andhra Pradesh</td>
<td>8,50,671</td>
</tr>
<tr>
<td>Total members covered under SHGs</td>
<td>1,01,82,181</td>
</tr>
<tr>
<td>Average number of members per SHG</td>
<td>12</td>
</tr>
<tr>
<td>Percentage of SC members</td>
<td>23</td>
</tr>
<tr>
<td>Percentage of ST members</td>
<td>10</td>
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</tbody>
</table>

Source: NABARD
Potential schemes for weavers:

The major problem haunting the handloom weavers in the state is either under employment or total worklessness due to the looming crisis in the industry especially during the post reforms period. Though the resolution of the crisis in the sector is broadly linked up to certain major policy decisions at the Government level, the microfinance agencies got a lot of role to play primarily in rescuing the weavers from the unemployment and to provide them suitable alternative work, provision of job skills and liberating them from mounting indebtedness. Certain of such popular schemes that are in progress in the state are discussed here under for their application to the handloom weavers.

1. Indira Kranthi Patham (IKP):
   Employment Generation & Marketing Mission (EGMM) was set up to address the needs of the next generation of the large network of SHGs created and nurtured by IKP. It aims at to create employment/employability for the rural/tribal underprivileged youth. It works in a public-private partnership mode to identify, train and place youth in entry level corporate jobs in hospitality, retail, sales, tourism, banking, rural BPOs, manufacturing, textiles and construction sectors. Total number of jobs created up to 2008-09, 1,85,748. Number of persons trained during the current year up to July 2009 is 16,700 and out of which placements were shown for 8861.

2. Pavala Vaddi:
   To encourage the women’s groups further and also to achieve 100% repayment, the State Government have introduced the PAVALA VADDI scheme, where in the government is reimbursing the SHG members any interest paid by the SHGs over and above 3% per annum. This has led to significant improvement in loan repayment. Under this initiative, 4,75,164 SHGs were given Rs. 52.67 Crores in 2004-05 and 2005-06. 2,90,825 SHGs were given Rs.50.02 Crores during 2006-07 and 5.54,359 SHGs were given Rs12.30 Crores during 2007-2008 upto March 2008. During the year 2008-09, Rs. 195.31 crores interest subsidy was given to 7,14,930 groups. In the current financial year, up to July 2009, an amount of Rs.47.04 crores is given to 1,84,714 groups. Thus, an amount of Rs. 457.34 Crores is given to 22,19,992 SHGs (repeated finance) as Pavala Vaddi incentive from inception of the Scheme.

3. Abhaya Hastham:
   Abhaya Hastham is a co-contributory pension cum insurance scheme visualized by the Government for the SHG women over and above age group of 18 in rural areas to provide social security in their old age. This scheme envisages contribution of Rs.30/per month by SHG women and government co-contribution of Rs.30/per month into her pension account. The contribution of the member and the co-contribution of the government is periodically transfer to LIC of India for investing diligently for securing better returns on the investment. The corpus thus generated till the age of 60 years will be used for giving monthly pensions amount to each women on crossing 60 years of age with a minimum pension of Rs.500/ and maximum of Rs.2200/per month. It also covers insurance to the women in addition to monthly pension on attaining the age of 60. It is proposed to cover all SHG women under this fold. Training programmes were organized for all staff members for enrollment of members, which is in full swing.

Under Insurance Initiative, it is proposed to cover 38.00 lakh Rural Landless Agricultural labourers under Indira Jivitha Bima Pathakam (Aam Aadmi Bima Yojana), out of which 27 lakh members have been
enrolled upto July 2009 verified with the support of age groups and remaining members will be enrolled after verification.

4. Micro Enterprises:

There is a need to evolve a methodology for promoting micro enterprises to create livelihood and employment opportunities among SHG members, besides imparting relevant financial skills and developing their risk-taking abilities even in the handloom sector.

Livelihood programmes require huge investments in capacity building, access to markets, technology arrangements for monitoring and impact, assessment and coordination, government support for social security and infrastructure development. This involves coordination of numerous organizational efforts particularly for savings in cost. NABARD is addressing the issue of marketing SHG products in a multi-pronged manner. NABARD has been implementing several livelihood promotion programmes financed under the purview of Watershed Development Fund (WDF), Tribal development Fund (TDF), Farm Innovation Fund (FIF), Umbrella programme for Natural Resource Management (UP-NRM) etc. These programmes if extended to the handloom weavers can solve not only the problem of unemployment but also bridge the apparent skill gap in them and prepare them to face the competition in the open market.

VI. REFERENCES

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3. Abdul Noorbasha, ( 1996), Economic and Political Weekly, June 8,