

Banking Handloom Sector: Issues and Challenges

Dr. D. Narasimha Reddy

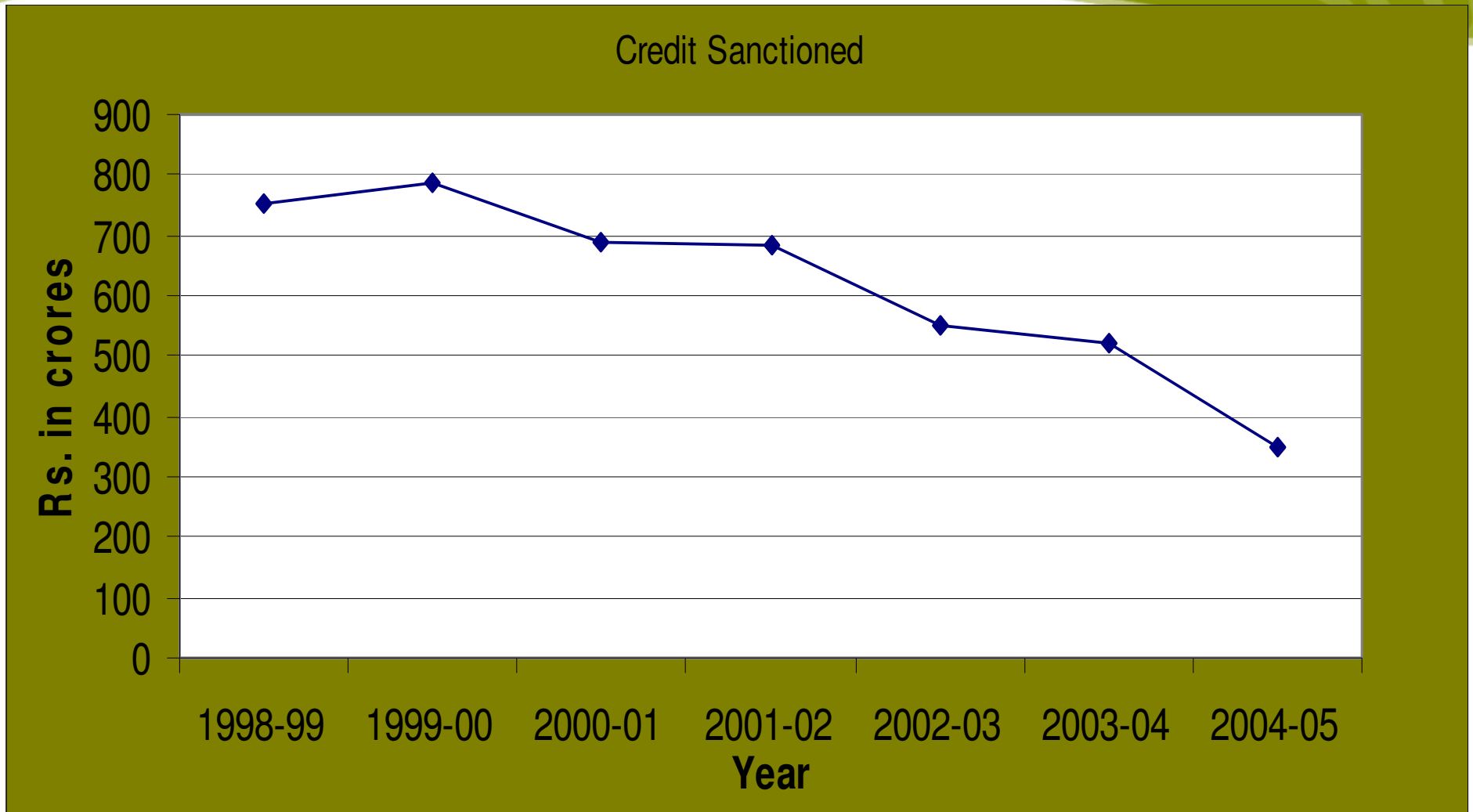
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Access to finance...crucial factor

Dr. Manmohan Singh: access to credit and cost of credit are two problems facing the handloom sector, 28 June, 2006

Credit.....availability



Outstanding of Scheduled Commercial Banks, 2006 (RBI)

Category	Amount (in crores)
Cotton textiles	66,078
Jute & other natural fibre textiles	32,697
Handloom textiles & khadi	1,073
Other textiles and textile products	1,903
Total Textiles	30,406
Total Bank Credit	1,513,842

Credit.....Issues

- Decrease in credit sanctions
- Poor utilisation of sanctioned credit at various levels
- Increasing cost of credit
- Delay in credit availability
- Long term credit needs are not addressed
- Growing demand for credit

Estimated Demand for Credit

- NABARD estimation for 20,000 WCS is Rs.3,225.76 crores
- Independent estimation is Rs.15,000 crores

Credit Delivery....Issues

	Old mechanisms	New Mechanisms
Indirect	NABARD, SCBs, DCCBs and WCS	SHGs
Direct	Private lending	Artisan credit cards Commercial banks Micro-finance NGOs

Credit Delivery.... Issues

- Time delays in sanctioning
- Increasing transaction costs
- Bureaucratic attitudes in banks
- Lack of awareness among bankers about handloom sector
- Weak cooperative structures
- Rising input costs

Credit Delivery.... Issues

- Marketing problems increases vulnerability
- Low margins for small producers
- Lack of awareness among handloom weavers about banks and banking procedures
- Existing debts and lack of any assets

Learning's for Bankers

- Rs.50,000 crore industry
- 3 crore employment
- Rs.1,00,000 crore market demand
- 20-50 percent markup
- Flexibility, speed and low risk in the value chain

Learning's for Bankers

Credit as a growth engine:

- 13 percent market share in India
- Growing exports
- Opportunities in recessionary atmosphere

Learning's for Bankers

- Requires a higher investment volume & monitoring costs towards supply chain management
- Need is highest at weaving level and at fabric- and garment making stages

Challenges for Weavers

- **Working capital / cash flow gaps**
- Lack of capital at the right time
- Risk is high due to many external influences: natural disasters, product rejection, quality of yarn and colours, weaver capacities, personal interest and circumstances of the lender

Challenges for Weavers

- Dependence on a single buyer
- Insurance for loans
- Differentiation between living costs and wage earnings!
- Financial and banking illiteracy
- Problems with individual banking professionals

National Measures

- Improve the primary interface between weavers and bankers
- Work on entire supply chain projects: **link assessment of market, production planning and access to finance**
- Improve financial literacy at the weavers, HPGs and handloom organisations

National Measures

- Build-up credit track record of weavers, HPGs and handloom organisations and others within the value chain – a la HS classification

What can be done?

- **Research on the needs of weavers**
- **Design of suitable and affordable financial products**
- Increase credit to Rs.15,000 crores
- Implementation of Karmakar (NABARD) Committee recommendations – Rs.1295 crore package

Idea

- Encapsulate a payment system that would for instance settle wages for weaving – held in a separate bank account and reconciled at the conclusion and delivery of the contract.
- Such an account would be jointly run by value chain partners, possibly by retailers and weavers. Such an account could also be used to assist weavers as part of the cost of raw material.



Thanking you

Chetana Society and CCW