Chapter 7 - Industries and Commerce (Handlooms & Textiles) Department

7.1 Department profile

The Department of Industries and Commerce is primarily responsible for planning and development of industries in the State.

The main functions of the Department are to

⇒ assist and guide entrepreneurs in setting up industrial units;

⇒ enable entrepreneurs to get different industrial approvals and clearances from various departments/agencies through a single point of interface;

⇒ register small industries/tiny industries/small-scale service and business enterprises;

⇒ sanction incentives to eligible industrial units;

⇒ create a transparent, congenial, hassle-free and business-friendly environment for accelerated growth of the industrial sector in the State;

⇒ provide marketing assistance to the local industrial units;

⇒ rehabilitate sick small industrial units, etc.

District Industries Centres (DICs) are the Nodal agencies in the districts for development of village and small scale industries and generating self-employment opportunities through a single window. As part of our audit, during 2010-11, we reviewed the implementation of the Centrally sponsored Integrated Handloom Development Scheme by the Department. Our findings are summarised below.

7.2 Implementation of Integrated Handloom Development Scheme

7.2.1 Introduction

In Andhra Pradesh, about 3.50 lakh weavers and ancillary workers are employed in the handloom sector. Of these, 1.92 lakh are employed in 1,260 cooperative societies. Of these, 472 societies (37 *per cent*) were inactive as of March 2011.

GoI introduced (2007-08) the Centrally sponsored Integrated Handloom Development Scheme (IHDS) during the Eleventh Plan period (2007-12) by amalgamating the essential components of the four existing schemes viz., Deen Dayal Hathkargha Protsahan Yojana (DDHPY), Integrated Handloom Training Project (IHTP), Integrated Handloom Cluster Development Scheme (IHCDS) and Workshed-cum-Housing Scheme implemented during the Tenth Plan.

The objectives of IHDS *inter alia* are to:

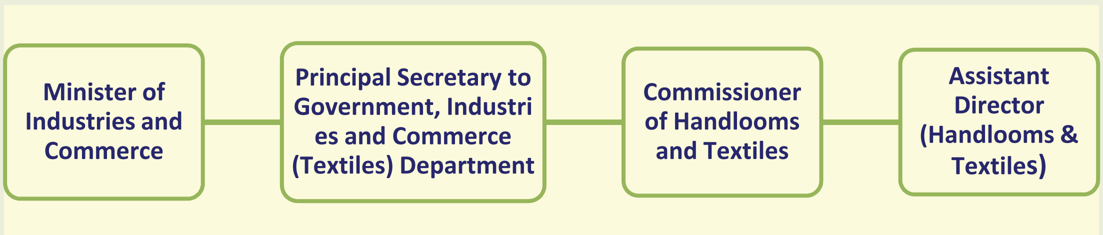
- focus on formation of handloom weavers' groups as a visible production group in selected handloom clusters;
- assist handloom weaver groups in becoming self-sustainable;
- up-grade the skills of handloom weavers/workers to produce diversified products with improved quality in synchronization with market requirements;
- provide suitable workplace to weavers enabling them to produce quality products and improve productivity;
- facilitate credit from financial institutions/banks; and
- organise holistic and flexible interventions for need based inputs specific to each cluster/group.

The scheme adopts, *inter alia,* two major approaches as explained below.

Cluster Approach	A handloom cluster is defined as a place where there is a large concentration of handlooms, producing handloom fabrics that would be in tune with market demands. Under the scheme, clusters of about 300 – 500 looms are taken up for development in a timeframe of three years within a cost ceiling of ₹ 60 lakh per cluster. Its sub-components are (i) Baseline survey, diagnostic study & formation of Self Help Groups (SHGs), (ii) formation of weavers consortium, (iii) Corpus fund for setting up of Yarn Depots, (iv) Design Development & Product Diversification, (v) Common Facility Centre/Dye House, (vi) Publicity & Marketing, (vii) Pooling of Project Management cost, (viii) provision of basic inputs, (ix) Skill Up-gradation and (x) Construction of Workshed.
Group Approach	Group Approach is implemented for the benefit of handloom weavers who are not covered by a cluster. A Group comprises 10 or more weavers in the form of a Self Help Group (SHG) Society/other weavers in combination/individual weavers. Group projects are to be completed within two years from the date of sanction. The scheme has three sub-components[1] with different funding pattern.

7.2.2 Organisational structure

The Commissioner, Handlooms and Textiles (Commissioner) at the State level, and the Assistant Directors (ADs) at the district level are responsible for implementing this scheme under the overall supervision of the Principal Secretary to Government in Industries and Commerce (Textiles) Department as shown in the organogram.



[1] (i) Skill up gradation - 100 *per cent* by GoI (implemented by Weavers Service Centres), (ii) Basic inputs 70:20:10 by GoI, State Government and beneficiary and (iii) Construction of work sheds - 100 *per cent* by GoI in case of BPL and for others 75 *per cent* by GoI and remaining by implementing agency/beneficiary

7.2.3 Audit objectives

Audit of IHDS was carried out with the objective of assessing whether the scheme objectives as outlined in Paragraph 7.2.1 were achieved.

7.2.4 Scope and Methodology of audit

We examined the implementation of the scheme by scrutinising the records in the offices of Commissioner of Handlooms and Textiles, Assistant Directors of Handlooms and Textiles (ADs) in ten districts[2] covering all 20 clusters and 75 groups in these districts. We also conducted an independent beneficiary survey in eight (out of ten) districts, through a structured questionnaire issued to the weavers, so as to understand the problems faced by them. Audit observations were discussed (October 2011) with the Principal Secretary to the Government and the Department's responses have been incorporated in the review at appropriate places. Our findings are discussed in the succeeding paragraphs.

Audit findings

7.2.5 Financial Management

7.2.5.1 Allocation and utilisation of funds

The total project outlay in respect of 52 clusters and 262 groups sanctioned by GoI in five phases was ₹ 38.61 crore[3].

Cluster approach

Based on the proposals submitted by the State Government, GoI sanctioned 52 clusters[4] to be set up in five phases (Phase II to VI) with a proposed outlay[5] of ₹ 29.80 crore (GoI: ₹ 26.03 crore; State: ₹ 3.05 crore and beneficiary contribution: ₹ 0.72 crore) for coverage of 21,588 weaver beneficiaries. Of these, 2 clusters were administered directly by Weavers Service Centre under the control of Ministry of Textiles, GoI, 38 clusters by the Department, 11 by NGOs and one cluster was administered by the Andhra Pradesh State Handloom Weavers Co-operative Society Limited (APCO). The sanctioned funds were to be released in three instalments by GoI.

For the 50 clusters, GoI released ₹ 11.67 crore towards its share. Out of this, the State Government released only ₹ 7.70 crore and retained the balance of ₹ 3.97 crore. As against its matching share of ₹ 1.45 crore, State Government released only an amount of ₹ 1.14 crore. The balance share of ₹ 0.31 crore was yet to be released. The phase-wise and year-wise details of funds released are given in *Appendix-7.1.*

As per GoI guidelines, UCs should be submitted within 12 months from the date of release of funds, failing which, further funds will not be released. Despite this, in respect of 25 out of

[2] Anantapur, Chittoor, Guntur, Krishna, Mahboobnagar, Nalgonda, SPS Nellore, Srikakulam, Vizianagaram, and West Godavari.

[3] 52 Clusters: ₹ 29.80 crore (GoI: ₹ 26.03 crore; State share: ₹ 3.05 crore and beneficiary contribution: ₹ 0.72 crore); 262 Groups: ₹ 8.81 crore (GoI: ₹ 7.91 crore; State share: ₹ 0.60 crore and beneficiary contribution: ₹ 0.30 crore)

[4] 2007-08: 26 clusters; 2008-09: 11 clusters; 2009-10: 2 clusters; and 2010-11: 13 clusters

[5] per cluster, the maximum ceiling was ₹ 60 lakh

50 clusters sanctioned in the State during 2008-11, UCs for ₹ 3.88 crore released by the State Government to these clusters, were not furnished to GoI even after the lapse of five to thirty two months, resulting in release of the subsequent instalments by GoI being held up. In the 18 clusters in 10 districts test checked, 15 *per cent* of the funds released to clusters had remained unutilised.

The ADs attributed (February – May 2011) non-utilisation of funds to (a) delay in supply of basic inputs by suppliers, (b) non-formation of consortium, etc. The contention is not acceptable as the ADs were themselves responsible for ensuring formation of consortia and supply of basic inputs within the stipulated time.

Group approach

Under the Group approach, GoI sanctioned (2008-10) 262 Groups with a proposed outlay of ₹ 8.81 crore (GoI: ₹ 7.91 crore; State: ₹ 0.60 crore; beneficiary contribution: ₹ 0.30 crore) for coverage of 3,978 beneficiaries. The sanctioned funds were to be released in two instalments by GoI. GoI released ₹ 6.14 crore towards its share and the State Government in turn released the amount to the Commissioner. However, as against the matching State share of ₹ 0.60 crore, Government released only an amount of ₹ 0.21 crore and the balance ₹ 0.39 crore was yet to be released. The phase-wise and year-wise details are given in *Appendix-7.2*.

We observed that,

- In the ten districts covered by Audit, 52 *per cent* funds (₹ 1 crore out of ₹ 1.93 crore[6]) released (2008-10) to 75 groups had remained unutilised and were lying in the bank accounts of ADs. ADs attributed the shortfall in utilisation of funds to (i) political rivalry between the members of the groups, (ii) non-submission of UCs/vouchers by the groups for the amounts already released, (iii) non-submission of detailed proposals by the groups, (iv) delay in finalisation of quotations and (v) master trainers not being allotted by Weavers Service Centre for conducting training programmes. The ineffective monitoring of the scheme activities by ADs at district level and by the Commissioner for the State as a whole, not only led to delays in obtaining further Central assistance but also denied the targeted weavers the envisaged benefits under the scheme.
- UCs for ₹ 6.14 crore were not submitted to GoI even after the lapse of 16 to 30 months resulting in the subsequent instalment amounting to ₹ 1.77 crore not being released by GoI as of August 2011.

Marketing Incentive

Marketing Incentive[7] is given to Handlooms societies for preparing conditions which are conducive to marketing of handloom products. The funding is provided by GoI and State Government on a 50:50 pattern.

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[6] Further, an amount of ₹ 23.90 lakh towards the skill upgradation component was directly released to the Weavers Service Centres by GoI

[7] It is arrived at by calculating 10 *per cent* of the average Sales turnover of the last 3 years, duly deducting the sales made to APCO and other Co-op. Societies, sales to Government Agencies and 10 *per cent* Rebate Sales

As per the instructions (October 2008) of Government, the assistance released under Marketing Incentive Scheme can be utilised by the Societies (i) for allowing up to 20 *per cent* discount on sale of Handloom Products, (ii) to invest in infrastructure like construction or renovation of Sheds/Showrooms and (iii) for purchase of yarn. We observed that,

- Although GoI had released its share of ₹ 5.23 crore (December 2010) pertaining to the year 2009-10 in respect of 407 societies, the amount had not been released by the State Government to the cooperative handloom societies as of May 2011.
- As against the State share of ₹ 5.23 crore, only ₹ 4.12 crore was released to the beneficiary societies (October 2010) and the balance of ₹ 1.11 crore was yet to be released. The Commissioner in turn retained (December 2010 to May 2011) ₹ 1.01 crore, as the ADs (H&T) of the districts had not submitted necessary proposals in sufficient detail duly approved by the District Level Committee concerned.

Thus, in all, the State Government had withheld an amount of ₹ 9.20 crore[8] out of funds released by GoI as detailed in the preceding paragraphs. In the exit conference, the Principal Secretary attributed (October 2011) the delay in releasing funds to beneficiaries to budget freeze by the Finance Department.

Thus, due to the delayed release/non-release of funds by the State Government/ Commissioner, despite availability of Central assistance, progress in achieving important components of the cluster approach like skill up-gradation, design development and product diversification, construction of Common Facility Centre (CFC)/Dye house, supply of basic inputs, etc. was hampered. Consequently, none of the 35 clusters and 262 groups in the State which were due for completion by 2010-11, had become operational as of August 2011. Further, tardy implementation of the scheme coupled with non-submission of UCs to GoI retarded release of further funds by GoI to the extent of ₹16.13 crore.

7.2.6 Common Facility Centre (CFC)/Dye House not established

CFC was meant to provide all facilities for pre-loom and post-loom activities including Dye house in every cluster. Each facility involving setting up of water treatment plant, effluent treatment plant, pre-loom and post-loom operations, quality control lab, display-cum-exhibition hall/committee room/common workshed, etc. was supposed to cost ₹ 20 to ₹ 30 lakh.

Sanctions for construction of CFC/Dye houses were accorded by GoI based on the proposals submitted by the State Government. Expenditure on CFC is fully financed by GoI whereas expenditure on Dye house is to be shared by GoI and State Government in the ratio of 80:20. During the period 2007-11, GoI sanctioned 47 CFCs and 13 Dye houses in the State.

Out of 47 CFCs and 13 Dye houses sanctioned, DPRs were submitted to GoI only in respect of 14 CFCs and 9 Dye houses. The funds released (September 2010 to February 2011) by GoI for construction of CFCs and Dye houses were lying unused by State Government as of August 2011.The Commissioner attributed (September 2010) the delay in submission of other DPRs of CFCs/Dye Houses to abnormal increase in cost of lands and problems faced

[8] Clusters: ₹ 3.97 crore; Marketing incentive: ₹ 5.23 crore

by the department in acquiring land free of cost especially in clusters covered in urban areas. Commissioner also stated that the District Collectors were being pursued regularly for allotting suitable Government land for construction of CFCs/Dye houses. The contention is not acceptable as all these aspects should have been considered before submitting the proposals to GoI.

Clearly, proposals were submitted to GoI without even ensuring the availability of land and without preparing required DPRs. Due to lack of CFCs/Dye Houses, the weavers were deprived of the envisaged benefit of having suitable workplace for pre and post loom weaving activities. This was confirmed by the weavers during the beneficiary survey conducted by Audit.

7.2.7 Corpus fund for yarn depot

Prior to introduction of IHDS, weaver/agency was required to pay an advance amount to National Handloom Development Corporation (NHDC) for purchase of yarn which was being delivered by it to the weavers within 3 - 4 weeks thereafter, resulting in delay in the production process. In order to ensure regular availability of yarn of requisite counts for 300 - 500 looms for a month, it was proposed to set up a corpus fund with NHDC, on a scale of ₹ 3 lakh per cluster, to enable it to supply yarn to weavers through a yarn depot at the cluster. Yarn depots were set up in all the 18 clusters test checked by us in the 10 districts.

GoI released ₹ 1.24 crore[9] to the Commissioner (December 2007 to February 2011) towards corpus fund in respect of 47 out of 50 sanctioned clusters. In 18 clusters in the ten test checked districts, an amount of ₹ 43 lakh was released to NHDC for supply of yarn to 7,815 beneficiary weavers. As against this, only 1,722 beneficiary weavers (22 *per cent*) could purchase yarn on cash payment which majority of the weavers could not afford to do due to their poor economic condition. The envisaged credit linkage for meeting their working capital needs was not also provided by banks as discussed in the succeeding paragraph. As a result, the weavers continued to remain under the clutches of Master weavers who provided them the yarn on expensive credit. Further,

- in six[10] out of 18 clusters, against 2,672 members, only 2 *per cent* i.e., 66 members/ weavers could purchase yarn and avail of the benefit;
- in four[11] out of 18 clusters, no indents were placed with NHDC for supply of yarn since April 2010;
- in respect of Gadwal cluster, no indents were placed with NHDC for supply of yarn since April 2009.

Thus, the purpose of creating revolving fund with NHDC for supply of yarn had remained grossly underachieved, as 78 per cent of the weavers could not purchase yarn since they could not afford it.

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[9] As per scheme guidelines, ₹ 3 lakh was the upper limit for this component in each cluster. The amounts released towards yarn depots were less than ₹ 3 lakh per cluster and ranged from ₹ 1 lakh to ₹ 3 lakh in respect of the 18 clusters

[10] Gadwal, Kosigi, Madanapalli, Mudireddypalli Puttapaka and Sangam,

[11] Mudireddypalli Kosigi, Puttapaka and Sangam

7.2.8 Purchase of Computer Aided Textile Design (CATD) systems

Under cluster approach, purchase of Computer Aided Textile Design (CATD) systems was significant part of design development and product diversification sub-component. There was a provision for purchase of CATD for creating new designs in colour forecast and trend forecast. GoI sanctioned computer systems for 43 out of 50 clusters but released funds (₹ 46 lakh) for 32 clusters only. The State Government retained with it ₹ 17 lakh and released only ₹ 29 lakh for 22 clusters. In the 18 clusters in ten districts test checked, though funds were released to nine clusters for CATDs, these were actually procured only in seven clusters. CATD systems were not procured in Pedana and Polavaram clusters of Krishna district as on the orders of the Commissioner, the funds intended for the purpose were diverted, towards conduct of training programme under the scheme. The CATD systems procured for the 3 clusters were kept in ADs Office without supplying to them[12]. The ADs stated (February - April 2011) that the systems were not supplied to clusters due to their use in the office itself and that the systems would be transferred to the clusters after completion of the project in those clusters. The contention is not acceptable as CATDs were intended for use by the qualified designers appointed in each cluster itself.

The objective of CATD system for creating new designs and forecasting etc. to up-grade the skills of handloom weavers/workers to produce diversified products with improved quality had thus not been achieved.

7.2.9 Poor credit linkage by banks

To provide working capital to the weavers of Self Help Groups and cooperatives, margin money to be provided at the rate of ₹ 6,000 per weaver, is funded by GoI, State Government and the beneficiary on 70:20:10 basis. The money is to be deposited in the respective banks along with the beneficiary share as seed money for providing credit linkage to the weavers who are formed into SHGs, by the banks for meeting working capital needs of the weavers for enabling them to take up production activities and get continuous employment. Out of 50 clusters, GoI sanctions were received only in respect of 38 clusters, against which ₹ 1.01 crore[13] were released by it in respect of 34 clusters. However, only an amount of ₹ 70 lakh was actually released to the implementing agencies for providing necessary credit linkage. The balance ₹ 31 lakh was lying with the State Government. We further observed the following in the 18 clusters in 10 test checked districts:

- No margin money was sanctioned or released in respect of eight clusters[14].
- As against ₹ 32.53 lakh placed with the bank authorities towards margin money for 10 clusters, a meagre ₹ 5.40 lakh was provided as of April 2011 to just the weavers of Madanapalli cluster.

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[12] Mudireddipalli: ₹ 3.45 lakh, Narayanreddypet: ₹ 1.87 lakh and Siripuram Vellanki: ₹ 1.78 lakh

[13] Though the maximum assistance sanctioned towards Margin money to every weaver was ₹ 6000, the number of beneficiaries covered varied from one cluster to another, i.e., ranging from 28 in one cluster to 253 in another

[14] Gadwal, Mudireddypalli, Payakaraopeta, Pedana, Polavaram, Puttapaka, Rajoli and Yadiki

- No credit linkage was provided in the remaining nine clusters[15] despite the money being deposited with banks.

Similarly, under Group approach, as against ₹ 39.38 lakh released to banks for providing credit linkage to 75 groups in the 10 districts, assistance of merely ₹ 4.95 lakh was provided by banks to five groups. The balance amount of ₹ 34.43 lakh remained locked up in the banks, adversely affecting the working capital requirement of the group members.

Further, the State Government introduced (2009-10) Loan Waiver Scheme to relieve the Weavers Co-operative Societies and the weavers from indebtedness to money lenders and micro finance companies. The objective of the scheme was to enable societies/weavers to obtain fresh working capital from banks to thus enable them to eke out their livelihood. The scheme was introduced as a one-time settlement. Their loans outstanding as on 31 March 2010 were to be waived by banks. The State Government was required to reimburse the banks to that extent. We however, observed that, under the loan waiver scheme the State Government had not released any amount to banks during 2009-10. In 2010-11, though an amount of ₹ 312 crore was provided for in the State budget, only an amount of ₹ 109.27 crore was released to the banks/financial institutions as of August 2011. Delayed implementation of loan waiver scheme also contributed to poor credit linkage by banks under IHDS.

The ADs stated (February – April 2011) that due to delay in implementation of loan waiver scheme, the banks were not coming forward to provide credit linkage to the weaver groups.

The department's inability to sort out with the banks the issues adversely impacting better credit linkages resulted in non-achievement of the envisaged objective of facilitating credit to weavers from financial institutions/banks.

7.2.10 Impact assessment

We randomly interviewed 120 weavers in eight out of ten sampled districts through a structured questionnaire and observed the following:

- Most of the weavers surveyed do not have separate work sheds for pre and post weaving activities. Common Facility Centres, meant to provide all facilities for pre and post weaving activities, were not set up.
- Due to non-provision of the envisaged bank linkages, the weavers could not procure yarn and hence were forced to depend on master weavers and private dealers for supply of yarn.
- Weavers were provided with only one out of several available inputs viz., skill upgradation, margin money, looms, jacquards, dobbies and accessories, etc. irrespective of their actual needs. The one input provided to weavers did therefore, not prove helpful to the cause of weavers in a majority of the cases.
- No permanent marketing channel like APCO (an apex cooperative marketing society for Weavers Cooperative Societies) was available either for clusters or Groups. At present,

[15] Ampole, Dagguluru, Isukapalli, Kosigi, Kotagandredu, Narayanreddipeta, Rajam, Sangam and Siripuram

weavers and their groups depended mostly on expos conducted by the department or on private master weavers forcing them to market their products at lesser margins.

- Other schemes like 10 *per cent* yarn subsidy on purchase of raw material and marketing incentive, which are applicable to Weaver Cooperative Societies, were not extended to handloom clusters.

Various studies conducted by the National Bank for Agriculture and Rural Development (2002), State Government (2009-10) and Centre for Economic and Social Studies (2010) to ascertain the main problems faced by the weaver community and causes behind suicidal deaths of weavers had disclosed the following:

- Handloom weaving is a traditional and hereditary profession using traditional methods of production and designs due to lack of exposure, awareness and knowledge about changing consumer preferences, protection technologies and methods of marketing.
- Competition from products manufactured by power loom sector
- Meagre wages resulting in reluctance of younger generation to enter/continue the profession
- Steep increase in prices of hank yarn and chemicals and their non-availability
- Inadequate credit from financial institutions
- Inadequate marketing infrastructure
- Production related stress, occupational health hazards and lack of social security measures thereby making artisans vulnerable to distress and hence suicides.

The above issues had not been addressed by the department/Government, resulting in the benefits of the scheme not fully reaching the intended beneficiaries. Incidentally, there were 251 suicidal deaths of weavers in the State during the years 2007 to 2010.

7.2.11 Conclusion

Although IHDS is the only major intervention by both Central and the State Governments in the handloom sector at present, its implementation in the State had suffered despite availability of Central assistance. The proposals for funding of the scheme were submitted to GoI without ensuring the availability of land for clusters or preparing the DPRs. Tardy implementation coupled with non-furnishing of UCs to GoI resulted in freeze on release of further funds (₹ 16.13 crore) by the latter. Even the Common Facility Centres/Dye Houses, which are critical for the clusters have not been established fully, depriving the weavers of the benefit of having suitable workplace for pre and post loom weaving activities. Working capital needs of weavers were not met. The department also could not sort out with the banks the issues adversely impacting better credit linkages. As a result, none of the 35 clusters and 262 groups which were due for completion by 2010-11, were operational as of August 2011.

7.2.12 Recommendations

- As the release of further funds by GoI is linked to the submission of UCs for the amounts released earlier, effort should be made to furnish UCs to GoI in time.
- Preference should be given for the establishment of Common Facility Centres/Dye Houses, which are critical for the clusters in providing suitable workplace for pre and post loom activities of weavers. Proposals for funding of the scheme should be submitted to GoI only after ensuring the availability of land and after preparation of DPRs.
- The Department should address the issue of providing credit linkages by banks to weavers on priority basis.
- Loan Waiver Scheme should be implemented as envisaged, which would improve credit linkages by banks under IHDS.

Audit findings were reported to the Government in July 2011. These were also discussed with the Principal Secretary to Government in October 2011. The Principal Secretary while confirming the delay in release of funds under the scheme, stated that the GoI releases amounting to ₹ 14.61 crore were held up with the State Government (Finance Department). He also confirmed the non-release of further funds by GoI due to non-submission of UCs for the amounts already released/spent, but could not explain the inaction of the Department in ensuring that UCs were submitted on time.