

Financing Small Business-Owners in Back-Strap Handloom Sector: A Study on Rangamati District of Bangladesh

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Abstract

Back-strap handloom represents a very early stage of cloth production and is still recognised as a symbol of the glorious past of the entire human race. The handloom products of Bangladesh have already gained popularity in the international market. Moreover, the back-strap handloom products of Rangamati now have high demand to the tourists. Therefore, these back-strap handloom products are not only important as the cultural artifacts but also as profitable sources for small entrepreneurs. However, the weavers require sufficient initial capital to start the business as well as working capital to carry on the business. But the entrepreneurs confront different problems regarding acquiring loans from formal as well as informal sources. These problems include insufficient amount of loan sanction, excessive documentation, requirement of references, inability to provide collateral, unfavourable loan policy and so on. Therefore, necessary measures are required to overcome all these problems so that this glorious sector can be flourished with its promised potentiality as well as cultural significance.

Keyword: Finance, Small Business, Handloom Sector, Indigenous Group

Introduction

The handloom sector rolls its carpet back to the ancient era. There were some excavations that demonstrate the glorious history of the handloom industry of Indian subcontinent (Kumar *et al.*, 2011). Even at present, the

tradition of weaving cloth by hand constitutes one of the richest attributes of Bangladeshi culture and heritage. In the Chittagong Hill tracts of Bangladesh, traditional hand weaving is a functional need as well as a professional practice among indigenous women who are “guardians of culture” at home and in the community. By preserving their clothing tradition, they show pride of their unique culture and affirm their lasting connections to their ancestors. Traditional textiles of various groups reveal a wealth of information regarding social relations and aesthetic conventions in the hill region. Since they are associated with various local rituals and are indicators of cultural changes throughout time, they are much more than objects to be handled and admired (Roy, 2005).

Along with the cultural and historical importance, handloom is now the source of livelihood to several millions of artisans and their families all over the world. In Bangladesh, handloom sector consists of more than 0.183 million handloom units with 0.505 million handlooms. Manpower of about one million weavers, dyers, hand spinners, embroiders and allied artisans have been using their creative skills into more than 0.30 million active looms to produce around 687 million meters of fabrics annually. There are about 1 million handloom weavers of which about half are female workers (Bangladesh Handloom Board; Ministry of Textiles and Jute). Therefore, the underprivileged women workers are also getting opportunity for earning.

More specifically, the handloom products of Rangamati are gradually gaining popularity both at domestic and international markets. There are more than nine handloom textile factories in the district (Financial Express, 2009).

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However, the traditional hand weaved products using back-strap loom, locally called ‘bian’, is more expensive than those produced in textile factories because of the quality of products as well as the diversity in designs. Moreover, because of the indigenous way of production, these products reflect the genuine traditional significance.

The business of back-strap handloom products got the boom after 1997 due to high demand of the tourists. The reason is that in 1997 the government of Bangladesh signed the peace accord with the ‘Parvatya Chattagram Jana Samhati Samiti’ (a political platform of the Chittagong Hill people) to bring to an end of two decades of armed insurgency that opened the door of Chittagong Hill tracts for all; many tourists started visiting the place to enjoy the enriched natural beauty of the place (Chakma, 2012). Therefore, now this small business of back-strap handloom products has a promising role to contribute to the economy. However, in general, the sector of small and medium enterprises, was declared as a priority sector in the Government Industrial Policy 2005 considering the promising role. At the same time, the researcher and economic planners identified that there are several problems of flourishing this sector where in terms of ranking ‘financing problem’ emerges as the topmost problem (Hossain, 1998; Sikder, 1998; Schiffer, 2001). Sikder (1998) further added that still informal sources of finance are considered as the major source of debt of small businesses because of complex and time consuming procedural formalities of formal institutional financing. Against this background, considering not only the aesthetic value but also the business potentiality of the handloom sector, an attempt has been made to analyze the problems of acquiring working capital of the entrepreneurs of this sector.

Research Objective

The broad objective of the study is to analyse the problems of acquiring finance from external sources of the entrepreneurs who produce back-strap handloom products. To pursue this objective, the specific objectives are:

- To analyze the problems of initial capital of the back-strap weavers
- To rank and analyse the problems of acquiring working capital of the entrepreneurs

- To synthesize the problems and draw recommendations

Research Methodology

The study area is Rangamati considering the unique feature of production of back-strap handloom; though in other districts there are production of handloom, the products of Rangamati is most prominent. The three areas of Rangamati where the business is developed and which are close to the centre of the town have been selected. These areas are Rangapani, Chakrapara, and Rajbari. The sample was selected through convenience sampling from an indigenous group called “Chakma”. In total 50 women entrepreneurs have been selected who are producing the back-strap handloom products generation after generations but now engaged in business to sell to the retailers, selling at the tourist spots. Moreover, to properly analyse the problems of financing as it requires reasonable experience in business, it has been considered that no entrepreneurs started business after 2005. At the same time, it should be mentioned that the data were collected from January, 2012 to March, 2012.

Primary data were collected by a questionnaire through a face to face interview method. Most of the questions of the questionnaire were structured with a few unstructured questions. To explore the problems of acquiring the initial capital, the entrepreneurs those who started their business comparatively at the later period are taken together. As most of the weavers started their business after the Peace Accord (1997), these entrepreneurs (total 32 out of 50) are taken into consideration. As a result, the time frame of 1997 to 2005 is considered; this time span has made it reasonable to analyse the nature and the problems of start-up capital. However, for analysing the problems of the entrepreneurs for acquiring the working capital the total sample (50) has been considered. Moreover, simple statistical tools such as percentage, average, Mean Score of Relative Importance (MSRI) have been implemented for this research.

Weaving Back-strap Handloom in Rangamati

Before going to the analysis of financial aspects of the business, it is better to have an overview of the culture of back-strap handloom in Rangamati in order to realise

the significance of the product. The indigenous women have adeptly developed the art of weaving their designed fabrics with ideas of motifs that have been generated directly from the natural environment where they have been residing for ages (Lechtman, 1977, cited in Chakma, 2012). The age-old looms are very uncomplicated in construction and easy to operate. Apart from these, the greatest advantage that lies with these looms is the unlimited scope for designing (Hutchinson, 1978).

The indigenous dress often represents a group identity. Besides, art in traditional societies is a symbolic expression of the basic values and beliefs held by a society as a whole. However, weaving traditional dress is considered to be an important virtuous quality for a young woman. Weaving also plays an important role for some religious rituals (Chakma, 2012). Moreover, this back-strap handloom is a ritual activity that reinforces family and community ties.

The renowned textile factories in Rangamati are Bain Textile, Nakshi Textile, Banalata Textile, Banani Textile, Tantuj Textile, Craft & Fashion Textile, Bayan Textile, Majumder Textile, Rakhain textile etc. (Financial Express, 2009). Handloom items that enjoy good sales include pinon-khadi (an indigenous dress used as skirt-breast cloth), different Bengali dresses, floor mats, dining table mats, bedcovers, cushion covers and so on. However, the entrepreneurs who weave through back-strap handloom basically produce pinon-khadi and the retailers collect these from them. Then these dresses are sold at the tourist spots. It should also be mentioned that the indigenous communities are experiencing a great deal of changes due to modernisation and commercially mass produced garments (Roy, 2005). At present, to keep pace with the demand of the tourists to produce dresses with modern designs, weavers undertake training from institutions such as BISIC. This study also reveals that 34% entrepreneurs have training from BISIC for designing.

Problems of Start-up Capital

Sufficient start-up capital is very important in order to start a business. In a study, Hossain (1994) has revealed that one basic reason of low profit is the low levels of initial investment. However, in case of handloom weavers, though they are weaving generation after generations, it is also important for them to have reasonable amount

to launch their venture for selling to the retailers. For properly analysing the problems of start-up capital, the entrepreneurs (32) those have commenced their business approximately at the same time are taken together.

Most of the weavers (59%) started their business with the venture capital of Tk. 15,000-Tk. 20,000 (see the annexure). All the weavers got financial support from their parents or husbands. Hossain (1994) also has revealed that the initial capital is typically inherited or raised from family members. Along with this source, the weavers take debt from different sources. From Table 1, it can be revealed that relatives (38%) and friends (36%) are considered as major sources. Some (22%) take loan from NGOs and a few (8%) acquire loan from other sources such as BRDB. In this regard, it should be mentioned that banks do not provide any venture capital.

Table 1: Sources of Debt for Start-up Capital of the Entrepreneurs

Sources	Percentage
Relatives	38
Friends	36
NGOs	22
Other	8
Total	100

Source: Field Survey, 2012

Those who took loan from NGOs, mentioned that the vital problem of getting loan from there is to have membership in a co-operative society as loan is disbursed through this society. In case of institutional financing, document preparation, inadequate amount and lengthy time are considered as some of the problems.

Problems of Loan Undertaking Process

It requires sufficient working capital to run a business properly. However, the weavers are facing so many problems regarding acquiring loan from different sources or even to approach for loan from the sources. Before analysing the problems, it would be better to identify the sources of finance for the day to day activities.

The entrepreneurs have working capital from multiple sources. From Table 2, it has been revealed that major source of working capital is NGOs (78%). Informal

sources such as relatives and friends (60% and 58% respectively) are also dominating sources. It should be noted that there is no interest charge in case of undertaking loan from informal sources. Besides, about half (52%) of the entrepreneurs take loan from institutional finance (except bank) such as BRDB and BISIC. However, banks are considered to be the least preferable sources of finance (32%) whereas banks are considered to be the most formal sources of finance.

The entrepreneurs face different types of problems regarding loan undertaking process when they have the loan or even to approach to take the loan. These problems are described based on their importance.

Table 2: Sources of Debt for Working Capital of the Entrepreneurs

Sources	Percentage
NGOs	78
Relatives	60
Friends	58
Institutional Finance (except bank)	52
Banks	32

Source: Field Survey, 2012

Table 3: Ranking of Problems of Loan Undertaking by the Entrepreneurs

Issues	Ranking
Inadequate Amount of Loan	1
Reference Required by the Institution	2
Unfavourable Loan Repayment Policy	3
Lengthy Time Required in Loan Sanctioning	4
Excessive Documentation	5
High Interest Rate and Cost of Processing	6
Inability to Provide Sufficient Collateral	7
Other Problems	8

Source: Field Survey, 2012

Inadequate Amount of Loan

Inadequate amount of loan is considered to be the top most problem by the entrepreneurs. The reason is that adequate working capital is very crucial to continue this business. The entrepreneurs generally purchase raw materials (basically threads and wax) from Rangamati whereas they cannot purchase on credit. On the other hand, in general,

the order is placed on weekly basis and most of the cases (90%) the advance is made for 30-50%. The entrepreneurs get only one week to provide the delivery. Therefore, they get less flexibility in terms of their operation; to operate the business they always need sufficient working capital. Jaim & Arefin (2007) have also revealed that in case of taking loan from private commercial banks, small entrepreneurs get only 65% of loan sanctioned against the applied amount.

Reference Required by the Institution

The second important problem is providing reference required by the institutions. In case of taking loan from banks and NGOs, it requires a reference that is a guarantor. He or she will have to be well-known person of the area as well as to the institutions and will take responsibility in case of defaulting loan. Entrepreneurs find it difficult to provide such a reference in many cases.

Unfavourable Loan Repayment Policy

The entrepreneurs consider that the loan repayment policy is quite unfavourable for them; that is the third important problem. In case of NGOs, loans will have to be repaid with interest in installments on weekly basis. This frequent repayment requires sufficient cash in hand within a short time.

Lengthy Time Required in Loan Sanctioning

Lengthy time requirement is the fourth important problematic factor for loan undertaking process. Because of lack of sufficient money on time, entrepreneurs cannot operate business properly. In general, in bank it takes about one month to disburse loan after application. However, in case of NGOs or other sources the time is not that much lengthy.

Excessive Documentation

According to weavers, excessive documentation is the fifth important problem for loan processing. They are unwilling to go to banks and other financial institutions due to huge documentation requirement. The entrepreneurs will have to provide the copy of national ID, certificate as

being the resident of the area, the details documents of the referee, different documents related to collateral in case of mortgage and so on. It should be mentioned that 42% of the entrepreneurs have not passed HSC examination whereas 24% got only primary education. Therefore, they do not feel convenient to manage all the documents. Besides, for the purpose of document preparation, the entrepreneurs need to spend time outside of home. This results in hampering their household work and or cultivation.

High Interest Rate and Cost of Processing

Interest rate and other cost of loan processing are another problem. In general, bank charges 10% interest rate whereas NGOs charges on an average 8%. In addition, the overall cost to acquire loan includes communication with the institutions, document preparation etc.

Inability to Provide Sufficient Collateral

The entrepreneurs consider that inability to provide sufficient collateral is one important problem. Banks require collateral such as land, building etc. for providing loan for more than Tk. 25,00,000. Moreover, personal relationship plays a crucial role for getting loan of less than TK. 25,00,000. Therefore, in general, if the entrepreneurs like to acquire loan from bank, they will have to provide collateral. In such a case, the problem is that although the people of this indigenous group use their property for generations, due to their own cultural norms, generally, they do not have any registration. However, they can legally have the registration of the property but it incurs cost and also some formalities that are not considered to be worthy for taking loan.

Other Problems

A few entrepreneurs have mentioned some other problems. A number of entrepreneurs do not feel comfortable to communicate with financial institutions due to formalities. However, another issue is that the difference in interest rates of loan offered by the NGOs that ranges from 6% to 10%. This difference is not only NGO wise but also loan undertaking from the same NGO. The reasons for such difference are attributed to the size of the loan, administrative cost, number of borrowers and its scale of

operation (Chakma, 2012). As because the entrepreneurs cannot understand the reasons they are confused that leads to consider it as a problematic issue.

The above analysis indicates that most of the problems of loan undertaking are related to banks. It has also been revealed from the study that most of the entrepreneurs (56%) consider bank as the most problematic source followed by NGOs (26%) and then by other sources (18%).

Table 4: Problematic Sources of Finance

Sources	Percentage
Banks	56
NGOs	26
Other Sources	18
Total	100

Source: Field Survey, 2012

Conclusion

Weaving and both of its traditional and innovative applications emerged across the Chittagong Hill Tracts hundreds of years ago and are preserved by indigenous women who dedicatedly wove their own clothing. However, the tradition of ethnic identity still continues today and traditionally made fabrics still have a very important significance to indigenous communities. Along with the importance as cultural artifact, the back-strap handloom of Rangamati has potentiality regarding business aspect due to the demand of the tourists; the entrepreneurs of this sector can contribute to the economy. Therefore, the government should pay attention to this promising sector. The financial institutions must come forward to provide working capital without any hassle to this potential sector.

At present, Bangladesh Bank has established a new department named 'SME and Special Programmes Department'. This department has issued guidelines that seek to promote an 'area approach' identifying and utilising the specific comparative advantages of different regions for the diverse range of SME activities. According to this policy, this traditional handloom sector can be considered with much attention to ensure the utilisation of proper potentiality of this sector. At the same time, the local culture should be also recognized consciously while executing the bank rules because of the distinct culture

of this group. For example, for undertaking collateral, the local norms of possessing the property should be considered with care. Moreover, the NGOs and other financial institutions should also design suitable loan packages considering the potentiality of this sector.

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Annexure

Table A1: Start-up Capital Investment

Amount	Number of Entrepreneurs	Percentage of Entrepreneurs
Below 10,000	1	3.13
10,000-15,000	2	6.25
15,000-20,000	19	59.38
20,000-25,000	8	25.00
Above 25,000	2	6.25
Total	32	100

Source: Field Survey, 2012

Table A2: Ranking of Problems of Loan Undertaking by the Entrepreneurs

Issues	MSRI Score	Ranking
Inadequate Amount of Loan	2.04	1
Reference Required by the Institution	2.64	2
Unfavourable Loan Repayment Policy	4.15	3
Lengthy Time Required in Loan Sanctioning	4.72	4
Excessive Documentation	5.12	5
High Interest Rate and Cost of Processing	5.82	6
Inability to Provide Sufficient Collateral	6.54	7
Other Problems	7.48	8

Source: Field Survey, 2012