



## TECHNICAL EFFICIENCY OF HANDLOOM INDUSTRY IN BANGLADESH: A STUDY

Saikat PANDE<sup>1</sup>  
Kazi Mostafa ARIF<sup>2</sup>

### Abstract

The handloom textile industry is a significant source of income and employment for many rural workers in Bangladesh. However, it faces tough competition from power loom textile industries, resulting in wage discrimination and decreased profit margins. This study aims to measure the technical efficiency of the handloom textile industry in handloom rich areas of Bangladesh. This study used multistage sampling techniques to collect data from 50 handloom textile industries in the Sirajganj district. The Stochastic Frontier Analysis (SFA) technique was used to assess technical inefficiency and production efficiency. In contrast, the Benefit-Cost Ratio was used to determine the profit margin for handloom textile industries. The findings indicate that the sample's technical efficiency ranges from 38 to 100 percent, with a mean value of 79 percent. The SFA regression model also indicates that 66 percent of handloom industries have a 0.75-1.00 efficiency score. The Benefit-Cost Ratio analysis shows that handloom products are not highly profitable. The study also identified several factors affecting production efficiency, including high prices of colors and fabrics, lower adaptation of technical knowledge, and obstacles to access to credit. The government should address these issues to ensure favorable textile production in the area.

**Keywords:** Handloom Industry, Technical Efficiency, Stochastic Frontier Analysis, Benefit-Cost Ratio, Cobb-Douglas

**Jel Classification:** R11, J0, O4, D24

### BANGLADEŞ'TE EL TEZGAHI ENDÜSTRİSİNİN TEKNİK VERİMLİLİĞİ: BİR ÇALIŞMA

### Öz

El tezgahı tekstil endüstrisi, Bangladeş'teki birçok kırsal işçi için önemli bir gelir ve istihdam kaynağıdır. Ancak, makineli dokuma endüstrilerinden gelen rekabetle karşı karşıya kalmakta bu da ücret ayrımcılığına ve azalan kar marjlarına neden olmaktadır. Bu çalışma, Bangladeş'in el dokumacılığı açısından zengin bölgelerinde el dokumacılığı tekstil endüstrisinin teknik etkinliğini ölçmeyi amaçlamaktadır. Bu çalışmada, Sirajganj bölgesindeki 50 dokuma dokuma endüstrisinden veri toplamak için çok aşamalı örnekleme teknikleri kullanılmıştır. Teknik verimsizliği ve üretim verimliliğini değerlendirmek için Stokastik Sınır Analizi (SFA) tekniği kullanılmıştır. Buna karşılık, el dokuma tekstil endüstrileri için kar marjını belirlemek için Fayda-Maliyet Oranı kullanılmıştır. Bulgular, örneğin teknik etkinliğinin yüzde 38 ile yüzde 100 arasında değiştiğini ve ortalama değerinin yüzde 79 olduğunu göstermektedir. SFA regresyon modeli ayrıca el dokuma tezgahı endüstrilerinin yüzde 66'sının 0.75-1.00 verimlilik puanına sahip olduğunu göstermektedir. Fayda-Maliyet Oranı analizi, el tezgahı ürünlerinin çok karlı olmadığını göstermektedir. Çalışma ayrıca, yüksek renk ve kumaş fiyatları, teknik bilginin daha az uyarlanması ve krediye erişimin önündeki engeller dahil olmak üzere

<sup>1</sup> Lecturer, Department of Economics, Dhaka International University, Starkul, Badda, Dhaka, [saikatpande.eco@yahoo.com](mailto:saikatpande.eco@yahoo.com), ORCID ID: <https://orcid.org/0000-0003-4645-4705>

<sup>2</sup> Professor, Department of Economics, Islamic University, Kushtia, Bangladesh, [arifeconomics@yahoo.com](mailto:arifeconomics@yahoo.com), ORCID ID: <https://orcid.org/0000-0002-1086-2670>

**Atıf / To Cite:** Pande, S. & Arif, K. M. (2023). Technical Efficiency of Handloom Industry in Bangladesh: A Study. *Journal of Economics and Research*, 4(1), 33-47.

üretim verimliliğini etkileyen çeşitli faktörleri belirlemiştir. Bölgede uygun tekstil üretimini sağlamak için hükümet bu konuları ele almalıdır.

**Anahtar Kelimeler:** El Tezgâhı Endüstrisi, Teknik Verimlilik, Stokastik Sınır Analizi, Fayda-Maliyet Oranı, Cobb-Douglas

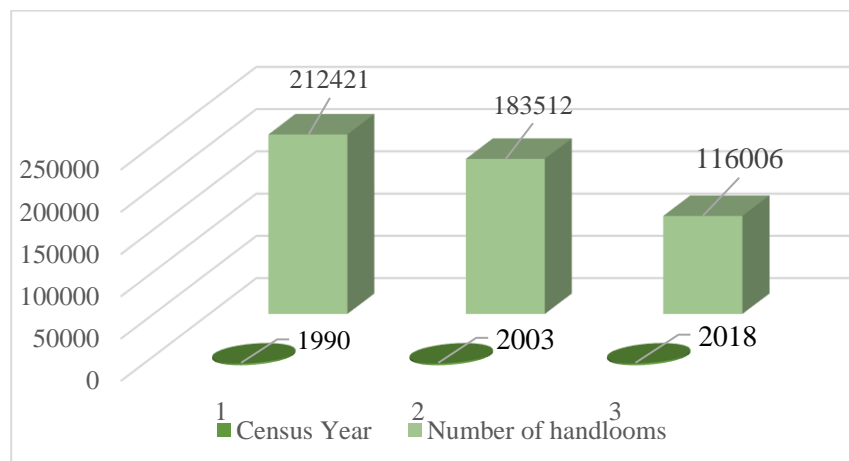
**Jel Sınıflandırması:** R11, J0, O4, D24

## INTRODUCTION

The handloom textile industry is one of Bangladesh's major labor-contributing industries. This is a major non-farm sector in Bangladesh that continuously helps to reduce rural poverty by employing a large share of rural men and women (Ahmed, 1999). The weaving business employs 1.5 million weavers, dyers, hand spinners, embroiderers, and affiliated craftspeople (BHB, 2012). The BHB report also shows that 0.30 million active looms produce 620 million meters of clothing a year, meeting 40 percent of local demand in Bangladesh. The industry weaves around 173.7 million yards of fabric per two months. This industry adds around BDT 10 billion to the national exchequer annually (BHB, 2012).

The industry has a rich and glorious history. The Dhakai muslin and Jamdani sarees were renowned all over the world for their distinctive method of construction as well as their fabric (BBS, 2018; Bolts, 1772). One of the most significant weaving industries in the country, contributing to supplying domestic fabric demands. In the distant past, it has continued to be an economically viable and important cottage industry in Bangladesh, playing a crucial role in providing rural people with a means of subsistence and encouraging the economic progress of the nation. It is Bangladesh's second-largest employer of people in rural areas, following agriculture. In this industry along with men, women are also able to contribute to the production process while keeping their daily domestic responsibilities without difficulty or discrimination. Moreover, the lack of non-agricultural employment in rural Bangladesh, the handloom sector employs a total of 0.85 million rural residents. This industry accounts for 48.04 percent of cottage industry employment and 49.50 percent of the cottage industry output in Bangladesh (Islam and Hossain, 2012).

Despite the bright prospects of the handloom industry, the country's handloom has started declining at a significant rate. For instance, According to Handloom Census 2018, the total number of handloom units in Bangladesh is 116006, which is a decrease of 36.79 percent from the number of handloom units recorded in the 2003 census and a decrease of 45.39 percent from the number of handloom units recorded in the 1990 census. The figure below shows the total number of handloom units in the past three handloom censuses in Bangladesh.



## Figure 1: Handloom Units in the Last Three Handloom Census

Source: (BBS, 2018)

The lack of insufficient capital is one of the main reasons for this decline in the number of handlooms throughout time. Moreover, an excessive increase in the cost of fabric and color is another major cause of the decline in this sector. In addition, Most of the looms are being replaced with power looms. However, some products that can only be woven by handloom are not possible to produce in power loom. But even so, not all weavers have the financial capability to convert their looms into power looms. So they are being forced to close their weaving business. Besides, low-profit margins, lack of capital, and problems related to marketing were accused of this rapid decline of the handloom industry in Bangladesh (BBS, 2018).

The handloom owner who is still running their weaving industry is not able to run their business efficiently because they do not have enough knowledge and ideas about the handloom business. Even if they cannot adapt to technology, they cannot convert their looms into power looms. Moreover, the handloom sector lags behind the power loom sector in competition and its market share decreases along with the profit margin. Consequently, there has been a downward trend in the handloom industry for the past three decades. Poor infrastructure for product marketing and insufficient government policy for sector development are the current issues facing the sector (Rahman and Noman, 2019).

Though the handloom owners can't capable to adapt with technological changes, this textile industry is currently experiencing several difficulties. Where production inefficiency is the major problem i.e., handloom units cannot produce at full capacity due to inefficiency. This results in low handloom unit productivity. Consequently, the units cannot generate additional income (Islam and Hossain, 2015).

In such a situation these questions are raised. The purpose of this investigation is to discover the answer to the following questions:

- Whether the handloom industry efficient or not? and
- How much are the costs and returns of the handloom industries in the study area?

Against this backdrop, this study is an attempt to measure the technical efficiency of the handloom industry units in the Sirajganj district of Bangladesh. So that the unpacked potential can be utilized.

The paper is structured as follows: The background of the research problem is stated in introduction. Section 1 describes the related literature reviews. Section 2 provides the methodology of the study in detail. Section 3 shows the empirical results and interpretations of those results. The study concluded with the conclusion part.

### 1. LITERATURE REVIEW

There has been sample literature to examine the technical efficiency of the handloom industry. But a few studies are found the technical efficiency of the handloom industry in Bangladesh. This section provides a summary of findings from the previous literature and also some related findings from other countries will be included here.

Islam and Hossain (2018) investigated the factors that influence the profitability of handloom weaving units in Kumarkhali Upazilas of Kushtia district in Bangladesh. They used the multi-stage random sampling technique and collect 120 handloom unit data. This study calculated these handloom units' net profit and profitability using conventional

statistical methods. The Cobb-Douglas production function model is used to examine the variables that influence the profitability of the handloom units. The factors that affect profitability are identified by estimating a log-linear regression model, which confirms that sales revenue and the inputs of labor, capital, and yarn have a positive impact on the profitability of the units. They found that the annual average net profit of the Handloom units is BDT 274.3 thousand, which is 46.75% in terms of average yearly profitability.

Islam and Hossain (2015) traced the factors that led to the technical inefficiency of handloom weaving units located in the Kumarkhali Upazila in Kushtia, Bangladesh. The study is mainly based on primary data from people who particularly own handloom units in the study area. Structured questionnaires were used to collect the data. A total of 57 handloom units are chosen for the study. They used a Cobb-Douglas production function model to compute the technical inefficiency index produced from the acquired efficiency values for handloom units. They also used the Tobit Model. It is possible to uncover inefficiencies in handloom weaving units. They analyzed that handloom units in the study area had an average inefficiency of 0.245 percent. Their finding from this study is factors such as the owner's education, experience, team size, and age all have a role in handloom weaving's inefficiency.

Banarjee et al., (2014) examined a case study on handloom workers and the reasons for their relocation to the Tangail district, Bangladesh. They used case studies and interviews to gather primary data, and research papers, websites, and journals were studied to learn about the industry's history and evolution. They also conducted case studies to determine the root causes of migration. They pinpoint the factors that led to the mass exodus of weavers from Europe to India. They found that the number of businesses in the industry is dwindling at an alarming rate sector is shrinking. In Tangail, they discovered the causes of the decline in the number of handloom weavers. The primary driving factors behind their emigration are communal violence, rising raw material prices, a lack of government financing, inadequate transportation infrastructure, superior infrastructure in India, and a lack of security.

Liton et al., (2014) evaluated Bangladesh's handloom industry's current state and potential future problems. They discovered that Bangladesh's handloom industry is made up of more than 0.183 million handloom units, 0.505 million handlooms, and approximately 1 million handloom weavers, roughly half of whom are female workers. Due to various problems and barriers to development, Bangladesh's ancient and vital cottage industry is on the verge of extinction. This study discovered two handloom weaving units in Bangladesh, each with 505556 looms. The total number of operational looms is 311851, accounting for 61.7 percent of all looms, with the remaining 193705 looms inactive. They have identified several reasons for the closure of looms, including a scarcity of funds, a scarcity of raw resources, insufficient technology, a weak marketing system, and insufficient government support. They encouraged the government to overcome these impediments to promote the handloom sector in the country further.

Rahman (2013) identified the Handloom industry in Pabna, Bangladesh. He cites all of the internal and external elements that have significantly contributed to the current state of the handloom industry in Pabna, Bangladesh. Some preset variables such as a scarcity of inadequate working capital, high raw material costs, a lack of organizational competency, inadequate innovation and reliability, a lack of governmental support and expertise, a lack of electricity, a lack of credit facilities, and so on were shown.

Islam et al., (2013) attempted to analyze the cost-benefit of handloom weavers in Kumarkhali Upazila, Kushtia district. This study is mainly based on primary data. The data which utilized in this research was gathered by a standardized questionnaire sent to owners

of handloom businesses in the study region. For the analysis, 57 handloom units were randomly chosen from around the country. They could determine the profitability of the handloom industries using the cost-benefit analysis method. The results of this study are handloom weaving activity is lucrative, with per-loom profit for small and large-scale units being more significant than for medium-size units.

Raihan (2010) studied the possibilities of reducing rural poverty in Bangladesh through the development of the handloom sector. He has also investigated the reasons that contributed to the closure of handloom operations in Bangladesh. The research discovered that the country's handloom business is deteriorating due to various problems, including a lack of education and competence among employees, a lack of weaver organization, and smuggling of fabric from other countries, particularly India. The investigation also discovered that about 0.2 million looms are closed because of a lack of working capital.

Jaforullah (1999) carried out production technology, the elasticity of substitution, and the technical efficiency of the handloom textile industry in Bangladesh. To determine the production technique and technical efficiency of Bangladesh's handloom textile industry, researchers employed several translog and Cobb-Douglas frontier production models. According to his findings, the industry's technical efficiency in making fabric was just 41%. An increase in the male/female labor ratio and a decrease in the hired/family worker ratio and labor/capital ratio boosted industrial efficiency. A linearly homogeneous Cob-Douglas function characterized the pro-industry production technology. The fundamental focus of his and his colleagues' research was on the flexibility of substitution that exists within the industry between labor and capital.

Most research has been performed on the current difficulties and potential of the handloom industry (Liton et al., 2016). Furthermore, relatively few studies have been conducted on the handloom industry's present scenario, challenges, and problems they face in their business and prospects (Kalyani, 2017) and (Islam and Hossain, 2012). Very few literatures are discussed the handloom industry's efficiency (Islam and Hossain, 2015) and (Rahman, 2013). In Sirajganj, there is scant research on the productivity of the handloom sector. However, the study area is the best location for handloom businesses. But there is no individual study on the efficiency of the handloom industry in Sirajganj. Some literature investigated the cost-benefit, profitability (Islam and Hossain, 2018) and (Islam and Hossain, 2013), production technology, and elasticity of substitution (Liton et al., 2016), causes of migration of the handloom worker (Banarjee et al., 2014).

## **2. METHODOLOGY**

### **2.1. Sampling, Study Area and Data Collection**

The study is based on primary data that were collected from the owners of handloom units. A total of 50 handloom unit data were collected from three Upazilas and five unions of the Sirajganj district in Bangladesh. The name of the two unions under Ullapara Upazila are Durganagar and Ullapara Municipal, The two unions are Dhukariabera, Bhangabari under Belkuchi Upazila and Shahjampur Municipal is the only union under Shahjampur Upazila. The Sirajganj district was selected as a purposive sample. Then using multistage sample techniques, the Upazila is selected first, followed by unions and then handloom units. For data collection a standardized open- and closed-ended questionnaire was utilized. Data collection was conducted from December 2021 to February 2022.

## 2.2. Measuring Benefit-Cost Ratio and Technical Efficiency

### a. Net Return from the Handloom Industry

The net return is calculated by subtracting the total cost of production from the gross return. Multiplying production as a full volume by the average price yields the gross return. It was made of the primary product's magnitude multiplied by itself. The following Equation (1) was utilized to estimate the gross return (GR):

$$GR = \sum QP \quad (1)$$

Where,

GR = Gross return (BDT/Unit Handloom Machine)

Q = Quantity of product (BDT/Unit)

P = Average price Product (BDT/Unit)

Net return is determined by subtracting total production costs from gross return. The overall cost of production is calculated as the sum of the total variable and fixed costs. In this investigation, the following Equation (2) was used to determine the net return of handloom production.

$$\Pi = GR - TC \text{ (TVC + TFC)} \quad (2)$$

Where,

$\Pi$  = Net return

GR = Gross return (Total production \* per unit price)

TC = Total cost of production

TVC = Total variable cost

TFC = Total fixed cost

### 2.3. Benefit-Cost Ratio (BCR)

The benefit-cost ratio of Handloom has been used to identify whether handloom industries are profitable or not. The following Equation (3) is used to determine the BCR:

$$BCR = \frac{\text{Gross Return}}{\text{Total Cost}} \quad (3)$$

### 2.4. Stochastic Frontier Model (SFM)

The concept of farm efficiency has been extensively examined and investigated technical efficiency via stochastic edge production. A functional approach and a cognitive approach (Ajibefun, 1999; Ajibefun, 2002). Using the stochastic features uncovered by this research, a descriptive analysis model for the handloom industry in the study area was developed.

Meeusen and Brock (1977) suggested the SFA model initially. Additionally, Aigner et al., (1977), assuming an adequate production function is applied, a common functional interpretation of the model would look something like this:

$$Y_i = f(X_i, \alpha) + \varepsilon_i \quad (4)$$

Where,  $Y_i$  = output level of the  $i^{\text{th}}$  farm,  $X_i$  = unknown input value of the  $i^{\text{th}}$  farm, and  $\alpha$  = unknown parameter. The parameter to estimate  $\varepsilon_i$  = error term which consists of two

separate components  $vi$  and  $ui$ , that  $\varepsilon_i = U_i + V_i$ . Here,  $V_i$  error compound member is a bidirectional error. Member and  $ui =$  one-way error member. Random (symmetric)  $V_i$  components are assumed to be identical and independent. It is distributed by  $N(0, \sigma_v^2)$ . It does not depend on  $ui$ , this random error is a random variation in the output due to factors outside the weaver's control that reflect luck, Weather, natural disasters, car breakdowns, and variables effect of input quality and measurement error output variables, statistical noise, missing variables functional form (Aigner et al., 1977). Following, non-negative random user interface variables indicate a stochastic shortage of products in the most efficient production. So  $ui$  related to the technical inefficiency of the handloom unit is considered independent and evenly distributed (Ajibefun et al., 2002). Truncate the quasi-normal distribution by  $N(0, \sigma_u^2)$ , and it is also independent of the  $V_i$ s. The parameters of the probabilistic boundary model are scored sequentially for the maximum likelihood score way. The variance of probability features is evaluated as follows:

$$\sigma_s^2 = \sigma_v^2 + \sigma_u^2 \quad (5)$$

And,

$$\gamma = \frac{\sigma_u^2}{\sigma_s^2} = \frac{\sigma_u^2}{\sigma_v^2 + \sigma_u^2} \quad (6)$$

Some empirical research has been conducted to analyze this. Combining production risk and technical efficiency into one skeleton. Kumbhakar (1993) demonstrated the analysis to assess production risks and technical efficiencies using: Flexible production capabilities for product presentation technology. And his model allows negative or positive limits. After the study, Specification error in Equation (4), the error specification in Equation (4) is

$$\varepsilon_i = g(X_i, \beta)[V_i - U_i] \quad (7)$$

So, in Equations (4) and (7), and get

$$Y_i = f(X_i, \alpha) + g(X_i, \beta)[V_i - U_i] \quad (8)$$

Equation (8) specifies a probabilistic boundary for probability distribution-production operations with modifiable risk factors (Battese et al., 1997). The handloom received the mean and variance of the production (hazard function), as were the expenses of investment and technology. The inefficiency impact may be approximated using the following formula for the  $i^{\text{th}}$  handloom:

$$E\left(\frac{Y_i}{X_i U_i}\right) = f(X_i, \alpha) - g(X_i, \beta)U_i \quad (9)$$

And,

$$Var\left(\frac{Y_i}{X_i U_i}\right) = g^2(X_i, \beta) \quad (10)$$

The margin is calculated with this variance (hazard function). A partial derivative of the production risk may be derived. Costs and variations in manufacturing that might be favorable or negative. This is

$$\frac{\partial var^{Y_i/X_i U_i}}{\partial x_{ij}} > 0 \text{ or } < 0 \quad (11)$$

Thus, the average yield ratio to the  $i^{\text{th}}$  determines the technological efficiency of the handloom firm ( $TE_i$ ). Handloom owner (taking input resource  $X_i$  and the inefficiency impact of his skill value,  $U_i$ ) up to the equivalent average maximum. It is possible to characterize possible production (production without technology) inefficiency as follows:

$$TE_i = \frac{E(Y_i/X_i, U_i)}{E(Y_i/X_i, U_i=0)} = 1 - TI_i \quad (12)$$

Where  $TI_i$  is the technical inefficiency. It is characterized as a possible production loss, and is expressed as the following Equation (13):

$$TE_i = \frac{E(U_i g(X_i, \beta))}{E(Y_i/X_i, U_i=0)} = \frac{U_i g(X_i, \beta)}{f(x_i, \alpha)} \quad (13)$$

Random border production function parameter function is known, the best guess of  $U_i$  would be a conditional anticipation of  $TE_i$ , with an absolute value of random variable  $Ei = Vi - Ui$ . It can show that  $U_i/(Vi - U_i)$  is distributed as  $N(\mu_i^*, \sigma_*^2)$  where  $\mu_i^*$  and  $\sigma_*^2$  are determined by;

$$\mu_i^* = \frac{(V_i + U_i)\sigma_u^2}{(1 + \sigma_u^2)} \quad (14)$$

$$\sigma_*^2 = \frac{\sigma_u^2}{(1 + \sigma_u^2)} \quad (15)$$

It can also show that,

$$E \left[ \frac{V_i}{U_i} - U_i \right], \text{ denoted by, } E \left[ \frac{V_i}{U_i} - U_i \right], \hat{U}_i \quad (16)$$

$$\hat{U}_i = \mu_i^* + \sigma_* \left[ \frac{\varphi(\mu_i^*/\sigma_*)}{\omega(\frac{\mu_i^*}{\sigma_*})} \right] \quad (17)$$

$\varphi(\cdot)$ , and  $\omega(\cdot)$  represent a typical random variable's density and distribution functions. The predictor for the random variable,  $Ei$  provided by Equation (17), may estimate the Equation (18):

$$TE_i = \frac{\hat{U}_i g(X_i, \hat{\beta})}{f(X_i, \hat{\alpha})} \quad (18)$$

After calculating Equation (18), Equation (13) can be written as in the following Equation (19):

$$TE_i = \frac{\hat{U}_i g(X_i, \hat{\beta})}{f(X_i, \hat{\alpha})} \quad (19)$$

The technical efficiency of the handloom of the  $i^{\text{th}}$  firm is  $TE_i = 1 - TI_i$ . The technical efficiency of the  $i^{\text{th}}$  handloom unit may alternatively be worked out as  $TE_i = \exp(-u_i) * 100$  (TE is converted to percent by multiplying this equation by 100). Based on the information provided above, the conditional expectation equation is determined and calculated conditioned on the composite error  $\varepsilon_i = (Vi - Ui)$ .

## 2.5. Empirical Model

The Translog, a random production frontier model, was used in calculating the degree of efficiency of the handloom industry in the research region. To achieve the study objective the weaver's yearly income from handloom production is taken as a proxy of output for the explanatory variable and inputs of handloom are considered as the independent variables.

The experimental approach for this research is defined as Cobb-Douglas and translog functions (Villano and Fleming, 2004). The Cobb-Douglas distribution is assumed to be suitable for the frontier production function in this analysis.

The stochastic production function for handloom weavers was described as follows:



$$\ln Y_i = \beta_0 + \beta_1 \ln X_{1i} + \beta_2 \ln X_{2i} + \beta_3 \ln X_{3i} + \beta_4 \ln X_{4i} + v_i - u_i \quad (20)$$

Where,

Ln=Natural logarithm

$Y_i$ =Yearly income of the  $i$ th farm (BDT/Year)

$X_{1i}$ = Capital the  $i$ -th farm (BDT/Year)

$X_{2i}$ = Labor cost by the  $i$ -th farm (BDT/Day)

$X_{3i}$ = Input/Raw materials cost by the  $i$ -th farm (BDT/Day)

$X_{4i}$ = Number of machines the  $i$ -th farm

$\beta_i = \beta_0$  to  $\beta_4$  are unknown parameters, and

$v_i - u_i$  = The disturbance term in the production function

The technical inefficiency effects of  $U_i$  are defined as:

$$U_i = \delta_0 + \delta_j Z_i + W_i \quad (21)$$

Where,

$i = (1, 2, 3)$

$Z_1$ =Age of the handloom owners (years)

$Z_2$ =Education of the respondents (Measured in the year of schooling)

$Z_3$ = Family size (no)

$W_i$ = Random error of technical inefficiency model

### 3. RESULTS AND DISCUSSION

#### 3.1. Socioeconomic, Demographic and Unit-Specific Characteristics

Table 1 displays the estimation variables and associated sample data, including the handloom owner's maximum and minimum values, mean, and standard deviation about their socio-demographic variables (Age, education, family size), economic variables (Labor cost, input cost, capital, yearly income), situational variables (Number of Handloom Machines, experience), production cost and selling price of the handloom product per unit (Sari, Gamsha, Orna).

**Table 1: Socioeconomic, Demographic, and Unit-Specific Characteristics**

Variable	Minimum	Maximum	Mean	Standard Deviation
Age (Years)	26	63	47.3	9.45
Education (Years)	0	15	4.02	4.17
Family Size (Numbers)	3	9	4.83	1.97
Labor cost in a Day (BDT)	150	6600	1282	1133.15
Input Cost in a day	170	24000	4702.4	5651.51
Capital (BDT)	10000	580000	136200	107544.77

Yearly income (BDT)	20000	300000	119100	64866.98
Number of Handloom Machines (Numbers)	1	28	7.94	5.38
Experience (Years)	5	45	24.74	10.423
<b>Production Cost of the Handloom Product (BDT)</b>				
Sari	80	700	368.91	126.33
Gamsha	35	115	76.67	28.19
Orna	75	80	77.33	2.89
<b>Selling Price of the Handloom Product (BDT)</b>				
Sari	90	800	404.22	143.05
Gamsha	40	120	82.33	30.24
Orna	80	90	83.33	5.78

Source: Author's calculation using filed-survey data, 2021-2022

The average age of handloom owners is 47.30 years which indicates they are all in middle age. From this, it is clear that young individuals are not entering in this business. The handloom owner's average number of years in school is 4.02, this indicates they are not fulfilling their primary-level schooling. Each family has an average of four members.

The minimum labor cost per day is BDT 150, the maximum labor cost per day is BDT 6600, and the average labor cost per handloom unit is BDT 1,282. The average daily input cost is BDT 4702.40. The average annual income is BDT 119100, and the average capital worth is BDT 136200. The ratio of capital to annual income indicates that the output is comparatively smaller than the invested capital.

Minimum of one (1) and maximum of twenty-eight (28) handloom machines are owned by handloom owners. The average experience (working age) of handloom owners is 24.74 years which indicates that handloom owners are not encouraged in recent times. Those who were previously involved in this business are now doing this business.

**Production Cost of the Handloom Product:** The average production costs for Sari, Gamsha, and Orna are 369.91, 76.67, and 77.33, with the lowest and highest cost values being 80, 35, 75, and 700, 115, 80, respectively.

**Selling Price of the Handloom Product:** The average selling price of Sari, Gasha, and Orna is 404.22, 82.33, and 83.33, with the lowest and highest selling values of 90, 40, 80, and 800, 120, 90, respectively.

Table 1 also shows the standard deviations of the variables. The standard deviation of variables is measured by the amount of variation or dispersion of a set of values. A low standard deviation indicates that the values tend to be close to the mean of the set, while a high standard deviation indicates that the values are spread out over a wider range.

**Table 2: Maximum Likelihood Estimates for Parameters of Cobb-Douglas Stochastic Normalized Cost Frontier and Economic Inefficiency Effect Model**

Independent Variables	Parameters	Coefficient	Standard error	P-value
<b>Stochastic Frontier</b>				

Constant	$\beta_0$	4.225*	.000	0.000
Ln Capital ( $X_1$ )	$\beta_1$	.125*	.000	0.000
Ln Labor cost ( $X_2$ )	$\beta_2$	.221*	0.000	0.000
Ln Input/Raw materials cost ( $X_3$ )	$\beta_3$	-.087*	.000	0.000
Ln Number of machines ( $X_4$ )	$\beta_4$	.060*	.000	0.000
<b>Inefficiency effect model</b>				
Constant		1.212	.877	0.167
Age(years) $Z_1$	$\delta_1$	-.0109	.011	0.332
Education (years of schooling) $Z_2$	$\delta_2$	-.134***	.073	0.068
Family size (no.) $Z_3$	$\delta_3$	-.0758	.152	0.619
<b>Variance parameters</b>				
Sigma-squared	$\sigma^2$	0.142*	.114	0.001
Gamma	$\gamma$	0.999		
<b>Log-likelihood function</b>				
Likelihood Ratio		24.404		

Source: Author's calculation using filed-survey data, 2021-2022

Table 2 describes \* (0.01) or 1%, \*\* (0.05) or 5% and \*\*\* (0.10) or 10% indicate significance levels of probability.

The stochastic frontier results revealing that the coefficients of the variables are positive except in the case of the  $x_3$  (Input cost). All variables have statistically significant at 1% level. Despite input, cost impacts negatively on firm production, but these are statistically significant.

To measure how inefficient technology is a maximum likelihood estimator is used. Generally, a negative indication of the predicted variables means a decrease in technical inefficiency or an increase in technical efficiency. In table 2, the inefficiency effect model outcomes indicate that the education variable is significant at a 10% significance level.

The value of the variance parameter  $\sigma^2$  is positive and 0.142, which is statistically significant at 1% level. This value conveys that there prevails enough evidence to believe that technical inefficiencies are present in the model. Thus it also indicates the differences between the observed (actual) and frontier (potential) output are due to inefficiency and not chance alone. Theoretically, it can say that the estimated model and distributional assumptions for the error terms are appropriate.

The variance ratio Gamma ( $\gamma$ ) is the total production variation owing to technical efficiency from the frontier level of output. In the recommended truncated normal model, the anticipated value of (the ratio of output variance owing to technical efficiency) is 0.99. It may estimate that around 99 percent of the discrepancy between observed and anticipated output is related to the inefficiency variables that are under the control of the farmers in the study region.

**Table 3: Technical Efficiency of Handloom Firms**

No of Farms	Technical Efficiency			
	Mean	Maximum	Minimum	Standard Deviation
50	.789	1	.375	.166

Source: Author's calculation using filed-survey data, 2021-2022

It is seen in Table 3 that the mean technical efficiency for the sample is 79 percent, with a minimum of about 38 percent and a maximum of hundred percent. This indicates that the handloom unit can obtain 79 percent of potential output from a given mix of production inputs. This result tells us that in the short run, there is room for increasing handloom production in the study area by 21percent by adopting more advanced technology and techniques.

**Table 4: Frequency Distribution of Technical Efficiency of Handloom Production**

Number of firms under different efficiency levels %		
Below 50	50-below 75	75-100
3	14	33

Table 4 describes the frequency distribution of the efficiency estimates obtained from the stochastic frontier model. The sample data exposes the estimated firm efficiency as almost one. About 66 percent of firms' efficiency level is in between 0.75 to 1.00. Only 6 percent of the firm has an efficiency score under fifty percent. Twenty-eight percent of firm efficiency level ranges between fifty to below seventy-five percent.

### 3.2. Benefit-Cost Ratio from Handloom Units in the Study Area

Here, family labor was not included in labor costs. Because they can't take money on daily basis rather than share their profit for a specified period of time. While collecting data, it was seen that fixed cost was included as materials of products and processing costs.

**Table 5: Benefit-Cost Ratio of the Handloom Industry**

Items	Sari (BDT)	Silk Sari (BDT)	Gamsa large (BDT)	Gamsa Medium (BDT)	Orna (BDT)
Labor Cost	95	80	25	13	32
Input Price	275	182	60	22.5	43
Material Processing Cost	8	8	2	1	2
Fixed Cost	7	10	3	1.5	3
Total Cost/Unit	385	280	95	38	80
Total Revenue/Unit	425	315	120	40	90
Net Profit/Unit	<b>40</b>	<b>35</b>	<b>25</b>	<b>2</b>	<b>10</b>
<b>BCR</b>	<b>0.10</b>	<b>0.12</b>	<b>0.26</b>	<b>0.05</b>	<b>0.12</b>

**Net Profit:** The net profit is determined by subtracting total cost of production from the gross return. Total revenue for one unit of sari Silk Sari, Gamsa (Large), Gamsa (Medium), and Orna is 425, 315, 120, 40, and 80 BDT, respectively. BDT 285, 280, 95, 38, and 80 are the costs per unit production of a handloom product. So, the total profit for each one is 40, 35, 25, 2, and 10 BDT, respectively.

**Benefit-Cost Ratio:** The benefit-cost ratio is calculated in the above table by dividing total revenue and total cost on a full-cost basis. The Benefit-Cost Ratio (BCR) on the real cost is 0.1025, 0.125, 0.263, 0.053, and 0.125 for the handloom pre-unit sari Silk Sari, Gamsa (Large), Gamsa (Medium), and Orna, respectively. The Benefit-cost ratio (BCR) on a full

cost basis is highest on Gamsa (Large) which shows the return over cost is almost one-fourth, which indicates the return from the handloom product is very low.

## CONCLUSION

The purpose of the research was to determine the technical efficiency of the handloom industry in the Sirajganj district, along with the technical efficiency, socio-demographic state, and current hazards and prospects of the handloom industry in the six unions of the three Upazila in Sirajganj district, and throughout Bangladesh. Sirajganj was purposefully sampled, and the individual samples were multistage random samples. A total of 50 handloom owners shared preliminary data. Tabular and econometric tools were used to analyze data.

All variables except input cost have positive stochastic frontier coefficients. Capital, labor cost, and the number of handloom machines all affect handloom production (Yearly Income). Negative calculated parameters indicate technical inefficiency which is input cost, age, education, and family size. Gamma represents production divergence from the frontier. The technological efficiency ratio (truncated normal model) is 0.99. Almost 99 percent of observed and frontier output disparities are due to inefficient handloom owners. The sample's mean technical efficiency is 79 percent (38-100 percent). The handloom farm's inputs may create 79 percent of its potential output. Modern technologies can enhance handloom productivity by 21 percent. 66 percent of handloom firms have efficiency scores of 0.75-1.00. The handloom industry's efficiency is 49 percent. The industry's efficiency is between 50 percent and 75 percent. The benefit-cost ratio (BCR) on a full-cost basis is highest from *Gamsa* (Large) which shows the return over cost is almost one-fourth, which indicates the return from handloom product are very low. This study also investigated socio-demographic variables (age, education, and family size), economic variables (labor cost, input cost, capital, and yearly income), situational variables (number of handloom machines and experience), and production cost and selling price of different handloom products.

The tradition of the Bangladesh weaving industry is well-known all over the world which is the most potential industry in Bangladesh. The history of weaving is one of the most glorious in the art world of Bangladesh. The weaving industry can be a significant example of how this industry can economically benefit people and how small and cottage industries can meet the needs of SDGs like decent work (encouraging social debate, providing social safety nets, securing workplace rights, and encouraging employment) and economic growth. In this context, for the development of the handloom industry, some recommendations have been made. Which are given bellow:

- The government should maintain yarn prices low so weavers can make products cheaply.
- Modern mills and power looms now compete with traditional weavers. For weaving products, the government can adopt the quota system.
- Government, banks, and NGOs must provide lower-interest finance to handloom producers.
- Weavers don't receive raw materials on time or cheaply. So, the Handloom Board of Bangladesh should establish a monitoring cell to prevent wholesalers and merchants from gaining undue advantages.
- To implement a trade union policy in the rural weaving business.

### **Statement of Research and Publication Ethics**

This study has been prepared in accordance with the rules of scientific research and publication ethics.

### **Authors' Contribution Rates**

Author 1's contribution to the article is 50%, author 2's contribution to the article is 50%.

### **Declaration of Interest**

There is no conflict of interest arising from the study from the point of view of the author or from the point of view of third parties.

### **REFERENCES**

- Ahmed, M. U. (1999). Development of Small-Scale Industries in Bangladesh in the New Millennium: Challenges and Opportunities, *Asian Affairs*, 21(1), 24-28.
- Aigner, D. J., Lovell, C. A. K. & Schmidt, P. (1977). Formulation and Estimation of Stochastic Frontier Production Function Models. *Journal of Econometrics*, 6(1), 21-37. [https://doi.org/10.1016/0304-4076\(77\)90052-5](https://doi.org/10.1016/0304-4076(77)90052-5)
- Ajibefun, I. A. & Abdulkadri, A. O. (1999). An Investigation of Technical Inefficiency and Production of Farmers under the National Directorate of Employment in Ondo State, Nigeria. *Applied Economics Letter*, 6, 111-114. <https://doi.org/10.1080/135048599353735>
- Ajibefun, I. A. & Daramola, A. G. (1999). Measurement and Source of Technical Inefficiency in Poultry Egg Production in Ondo State, Nigeria. *Journal of Economics and Rural Development*, 13, 85-94.
- Banarjee, S., Moniruzzaman, M. & Sharmin, M. S. (2014). Status of Handloom Workers and Causes of Their Migration: A Study in Handloom Industry of Tangail District, Bangladesh. *Research on Humanities and Social Sciences*, 4(22), 157-162.
- Bangladesh Handloom Board (BHB), (2012). Importance of Handlooms in Bangladesh. *Bangladesh Handloom Board, Bangladesh Handloom Board, Bangladesh Handloom Board, Dhaka*.
- Battese, G. E. & Coelli, T. J. (1995). A Model for Technical Inefficiency Effects in a Stochastic Frontier Production Function for Panel Data. *Empirical Economics*, 20(2), 325-332. <https://doi.org/10.1007/BF01205442>
- Battese, G. E., Rambaldi, A. N. & Wan, G. H. (1997). Stochastic Frontier Productions Function with Flexible Risk Properties. *Journal of Productivity Analysis*, 8, 269-280. <https://doi.org/10.1023/A:1007755604744>
- BBS (Bangladesh Bureau of Statistics), (2018). Report on Bangladesh Handloom Census 2018, Dhaka. *Planning Division, Ministry of Planning, Dhaka, Bangladesh*.
- Bolts, W. (1772). Considerations on India Affairs and its Dependencies to Which Is Prefixed, A Map of Those Countries, Chiefly from Actual Surveys. J. Almon in Picadilly, P.Elmsly in the Strand, and Brotherton and Sewell in Cornhill. <https://10.11648/j.ss.20160505.12>
- Islam M. K. & Hossain M. E. (2018). Determinants of Profitability of Handloom Weaving Units Operating in Kumarkhali Upazilas of Kushtia District in Bangladesh. *International Journal of Research in Business Studies and Management*, 5(5), 1-7.

- Islam, M. K. & Hossain, M. E. (2015). Determinants of Technical Inefficiency of Handloom Weaving Industry in Kushtia District of Bangladesh: A Tobit Model Approach. *Journal of Investment and Management*, 4(4), 95-99.
- Islam, M. K. & Hossain, M. E. (2012). An Analysis of Present Scenario of Handloom Weaving Industry in Bangladesh. *Rabindra Journal*, 3(1), 1-14.
- Islam, M. K., Hossain, M. E. & Ghosh, B. C. (2013). Cost-Benefit Analysis of Handloom Weaving Industry in Kumarkhali Upazilas of Kushtia District, Bangladesh. *Development Compilation*, 9(1), 63-72.
- Jaforulla, M. (1999). Production Technology, Elasticity of Substitution and Technical Efficiency of the Handloom Textile Industry of Bangladesh. *Applied Economics*, 31(4), 437-442. <https://doi.org/10.1080/000368499324147>
- Kalyani, A., Rohitha, V. & Bharathi, M. P. (2017). An Analytical Study on Issues of Handloom Industry in Undivided State of Andhra Pradesh. *International Journal of Innovative Research Explore*, 4(6).
- Kumbhakar, S. C. (1990). Production Frontiers, Panel Data, and Time-Varying Technical Inefficiency. *Journal of Econometrics*, 46(1), 201-211.
- Liton, M. R. I., Islam, T. & Saha, S. (2016). Present Scenario and Future Challenges in Handloom Industry in Bangladesh. *Social Sciences*, 5(5), 70-76.
- Meeusen, W. & Van Den Broeck, J. (1977) Efficiency Estimation from Cobb-Douglas Production Functions with Composed Error. *International Economic Review*, 18, 435-444. <https://dx.doi.org/10.2307/2525757>
- Rahman, M. A. & Noman, M. H. (2019). Poverty and Food Security Analysis of Handloom Weaver Households in a Selected Area of Bangladesh. *Journal of the Bangladesh Agricultural University*, 17(1), 80-85, 10.3329/JBAU.V17I1.40667.
- Rahman, M. M. (2013). Prospects of Handloom Industries in Pabna, Bangladesh. *Global Journal of Management and Business Research*, 13(5), 8-18.
- Villano, R. & Fleming, E. (2004). Analysis of Technical Efficiency in a Rainfed Low-Land Rice Environment in Central Luzon. *Agricultural and Resource Economics*, 2(2), 1-12.
- Vimalkumar, R. (2018). Future and challenges of the handloom industry in Jaffna, Sri Lanka. 7 [https://slfue.org/images/slfue2018\\_SUSL/proceedings/proceedings-2018.pdf](https://slfue.org/images/slfue2018_SUSL/proceedings/proceedings-2018.pdf)