

GLIMPSE OF KHADI REFORM AND DEVELOPMENT PROGRAMME

1. Need of KRDP

The distinctive feature of khadi is its capability to provide earning opportunity to rural artisans in their household at minimal investment. The supports extended through various schemes, so far introduced, were considering only the promotion of certain specific institutional activity that could partially realise the growth potential of Khadi sector.

The Khadi Reform and Development Programme cover all requisite areas of the sector for instance institution, raw material supply, training and development and marketing, for all round development of the sector.

2. Objective of KRDP

The objectives of KRDP are

- to ensure better earning for artisans and involve them in the implementation of the khadi programme.
- to position khadi in tune with the current market requirements and develop khadi as a global brand.

The KRDP also provides support for development of five identified traditional village industries such as handmade paper, honey, herbal health and cosmetics, leather and agro food processing industry.

3. Major components of reform support

3.1 Reforms at Khadi Institution Level

- Direct reform assistance to 300 existing khadi institutions (KIs) to the extent of Rs. 1.20 Crores each.
- Modernization of 1200 outlets of Khadi institutions,

- **Nearly 1.50 lakhs artisans will be employed through introduction of new implements (charkha, loom and fabric processing equipments)**
- **The khadi institutions will be supported to switch over to working in SHG mode and nominating representative of SHGs to the extent of 50% in the managing committees.**
- **50 new khadi institutions will be assisted and those are to be organized and managed either on Entrepreneurship Model or on Producer Company Model.**
- **15% increase in number of artisans employed by Khadi institutions (KIs).**
- **20% increase in the earnings of Khadi artisans**
- **10 % annual increase in Sales on compounded basis**
- **15% decrease in raw material (Slivers) production cost**

3.2 Marketing Organization

A marketing organization will be set up with majority private partnership to bring the modern concept of marketing in the sector. Twenty khadi plazas will be set up in the metro, mini-metro and capital cities in the country.

3.3 Khadi Mark Development

KVIC will develop Khadi Mark for positioning khadi as a guaranteed hand spun and hand woven cloth ensuring specified base earning for artisans.

3.4 Raw material procurement and Production

KVIC will introduce Public Private Partnership (PPP) in Central Sliver Plants to provide quality sliver/roving at reduced price.

3.5 Training and development of artisans

KVIC will conduct training programme for skill development of artisans. Training programme for artisans will also be organised to enable them to participate in the management of khadi institutions.

3.6 Market-linked pricing and introduction of Benefit Chart

Khadi institutions shall formulate pricing strategies (benefit chart) as determined by the market forces based on specific input provided by KVIC. This will help institutions not only to provide better earning for artisans but also for karyakartas without any financial burden to the institution.

3.7 Production Incentives / Modified MDA

The scope of present MDA scheme will be further extended to benefit the artisans and karyakartas. The modified MDA will also provide liberty to the institution to offer discount both at retail as well as whole sale point and outsource professional marketing services.

3.8 Village Industry Clusters

5 traditional village industries viz. Handmade Paper, Honey, Herbal Health and Cosmetic Products, Leather and Leather products and Agro-Food products will be developed under cluster mode.

4. Benefits of KRDP

4.1 For Artisans

In addition to the existing benefits such as AWFT, JBY, share in MDA and workshed etc. all artisans engaged in Khadi activities will receive following benefits:

- Introduction of benefit chart will offer scope for significant increase in artisans' earnings.**

- **Implementation of modified MDA will provide additional incentives to all artisans and further special incentive to spinners.**
- **Payment of wages to artisans through bank / post office account will encourage artisans to plan savings for future betterment.**
- **Introduction of professional marketing strategies by Marketing Organisation will further enhance earning opportunity of artisans.**
- **Development of new product through regular skill up-gradation programme shall assure increased earning.**
- **Timely replacement of implements will ensure KVIC specified base earning in long run.**
- **Participation of artisans in the governing body of the institution shall enable better understanding of khadi activities among the artisans and karyakartas to accelerate growth of the institution.**
- **Artisans can set up khadi institutions under Producer Company model to ensure social entrepreneurship among artisans.**
- **Global recognition of hand spinning and hand weaving through khadi mark.**

4.2 For Institutions

4.2.1 Direct benefit to RIIs:

The reform package provides comprehensive direct reform support to 300 Khadi Institutions engaged in the production and marketing of khadi and its products. Though KVIC made ADB convinced to support all khadi institutions, the number was restricted to a manageable 300 KIs in the first instance to start with. The details of support are:

- **Maximum assistance of Rs.71.00 lakhs for total revamping of productive infrastructure such as**

charkha, looms and establishment of common facilities (from pre-weaving to fabric conversion).

- **Maximum assistance of Rs. 48.00 lakhs for modernisation of sales infrastructure including store layout, inventory management and local publicity.**
- **Total computerisation of the khadi institutions developing an integrated MIS for khadi sector. It will enable the Secretary / Chairman of the Khadi institution to get all information about production, sale, expenditure and earning etc. at once.**
- **Managerial support for engaging Reform Implementing Officer and IT officer to assist institution in managing its activities effectively and achieve desired results.**
- **Arrangement for training of all office bearer, staff, artisans in relevant areas to equip them in attending their work more efficiently.**
- **Maximum assistance also of Rs. 14.00 lakhs as margin money for working capital to enable mobilisation of bank finance under ISEC scheme of KVIC.**

4.2.2 For all KIs

- **Issue of Khadi Mark, first of its kind in khadi sector, to all khadi producing institutions towards distinct identification of genuine khadi and restrict unauthorised use of the word 'khadi'.**
- **Access to new market segments as well as updated marketing data through professionally managed Marketing Organisation (MO).**
- **The MO will help the KIs to produce market oriented products and thereby averting pile up of stocks.**
- **Support of MO will be available to KIs for product design inputs and product catalogue preparation etc.**

- **Opening of 20 state-of-the-art new sales outlets by MO will open avenues for all KIs to boost the overall sale.**
- **Supply of un-interrupted quality raw material at reduced price through introduction of PPP in existing CSPs.**
- **Adoption the benefit chart by institutions and pricing their khadi products as determined by the market forces will help them to earn surplus and utilise the surplus for the development of the institutional activities.**
- **The institutions can utilise a portion of modified MDA, as envisaged in KRDP, to further promote the khadi activities.**

Frequently Asked Questions [FAQs]

I. Reforms at Khadi Institution level

Q.1 What is Direct Reform Assistance?

Ans: KRDP, among a range of support, provides Direct Reform Assistance to 300 existing Khadi institutions to emerge as Self Reliant and organize Khadi Programme on their own. The support (maximum ` 119.00 lakhs) covers all reform activities of KIs viz. production, marketing, governance, IT/MIS etc.

Q.2 Support available under KRDP is quite comprehensive. If it is extended as loan, KIs will face enormous difficulty, particularly because of the fact that Khadi programme is not a profit making business, but a socio-economic activity to render earning opportunity to rural artisans.

Ans: Assistance available under KRDP is for the reform of Khadi Sector. The main objectives of reform are to make KIs self reliant and increase earning and welfare of Khadi artisans. Though the total KRDP fund is loan to Government of India from Asian Development Bank, the Government of India, in turn, is providing the fund as Grant to KVIC for onward release to KIs and other stake holders.

Q.3 As per the agreement, all infrastructural support will be provided by KVIC in kind. Will KVIC arrange supply of implements as per the quality and quantity required by institutions?

Ans: Yes. The conditions of ADB include supply of implements in kind to RIs. KVIC will arrange the same in kind as per the demand of institutions clearly mentioning the name of implements, specification, model and numbers they would like to procure.

Q.4 According to the agreement to be entered between KVIC and RII, the RII has to register with MO for outsourcing the professional marketing inputs. How the legitimate interest of KIs will be protected in such transactions?

Ans: The registration of RIIs with the Marketing Organization will help in receiving support from MO in the areas like conducting market/product survey, formulation of marketing strategy, registration of products of KIs in the product catalogue of MO and also to support MO for brand building.

All these areas are essentially to strengthen the marketing potential of Khadi produced by RIIs. Hence, RIIs may not have any reservation for building such tie-ups.

Further, KVIC being almost equal partner of MO and regulator of the entire sector will take steps to protect the interest of RIIs in their transaction with MO.

Q.5 The RIIs has to organize artisans into self help groups. What measures are being taken to facilitate KIs for artisans' SHG formation?

Ans: Formation of SHGs is not a new concept. Lakhs of SHGs are operational across the country and helping in mobilizing financial support for the group members. Many Khadi institutions have organized their artisans into SHGs.

KVIC is issuing guidelines to field offices for organizing workshops in consultation with KIs at places having sufficient concentration of artisans to further encourage formation of SHGs.

Q.6 Inclusion of 50% artisans in the Governing Body may lead to factionalization of the Governing Body.

Ans: Artisans are the back bone of Khadi Programme. KVIC has issued several guidelines advising institutions for

inclusion of artisans in the Managing Committee. The real empowerment of the artisans is only possible, if they are made an integral part of the institution's management. KRDP attaches special emphasis on this.

Q.7 Whether the requirement of enhanced working capital for the RIs will be made available under ISEC Scheme of KVIC?

Ans: Yes. The institutions receiving assistance under Direct Reform Programme will be sanctioned required working fund under ISEC Scheme of the Commission.

Further, these institutions will receive an assistance of ₹ 14.00 lakhs (maximum) in kind to enable mobilization of additional Bank finance.

II. Marketing Organization (MO)

Q.1 Is there any need for a separate Marketing Organization?

Ans: The existing marketing setup in KVIC with limited knowledge of marketing, product development and no strategic orientation cannot provide a market-centric approach.

As a result, the scope for growth of artisans, workers, Institutions and entrepreneurs in terms of work potential, earnings and better livelihood are very limited.

Such a situation, therefore, requires a separate set-up to handle the entire marketing activities of the Sector.

Q.2 What is the justification for a marketing set-up with majority private partnership?

Ans: KVIC has made significant progress in creating decentralized production centres for KVI products. But it requires total shift from supply-side focus to consumer or demand side focus.

The organizational set up for marketing needs to have professional capability and orientation to assess the ever changing market scenario and respond swiftly.

An organization managed by competent and experienced professionals, in an independent as well as accountable corporate environment preferably a joint venture organization with majority share from private partner can provide requisite solution to the benefit of all stakeholders.

Q.3 What are the important responsibilities to be assigned to the proposed Marketing Organization?

Ans: The MO will take up following responsibilities:

- **development of market as well as product**
- **management of KVIC's departmental sales outlets,**
- **modernization of institutional sales outlets and**
- **opening of new sales outlets in big cities or commercial centres.**

Q.4 How the marketing organization will help in developing new products and their marketing?

Ans: Mo will arrange market survey by specialist organization to identify various customer segments and preferences, size and potential for developing appropriate product development strategy to meet the demand of the targeted customer segments.

It will help reposition Khadi and VI Products, particularly the traditional (Thrust) VI Products, and leverage the "Eco-friendly", "People-Centric" nature of these products.

Q.5 Whether MO will work for brand building which so far remained unattended?

Ans: Yes. The MO will obtain rights through license agreements with KVIC to promote and use the 'Brands' currently owned by KVIC. MO will also develop a national brand building strategy including strategic tie-up with expert advertising agencies.

Q.6 Whether the Marketing Organization will also assist in the management of KVIC's Departmental Sales Outlets (DSOs)?

Ans: Yes. The operation and management of DSOs of KVIC will be transferred to the Marketing Organization under a lease contract restricting any disposal of assets. The KG Bhavan

at New Delhi will be the last DSO to be transferred to MO if at all required.

Q.7 Whether Marketing Organization will assist Khadi institutions in effective marketing and increasing their sales turn-over?

Ans: Yes. Khadi Institutions will be totally free to develop partnership with private sector. KVIC will help willing institutions in formulating contract with MO protecting the commercial interest of KIs.

Q.8 Though there are around 7050 Khadi outlets in the country, there is dearth of good outlets in the state capital and commercial centres of the country. Whether Marketing Organization would set-up state of art/model outlets in these locations?

Ans: Yes. The MO will be setting up around 20 outlets in the state capital/ potential commercial centres of the country.

III. Khadi Mark

Q.1 What is Khadi Mark?

Ans: Khadi Mark is a symbol to render a distinct identity of genuine Khadi, which guarantees use of natural fibres viz. cotton, wool, silk and the handspun hand woven nature as well as specified base earnings of artisans.

Q.2 How the Khadi Mark will be implemented ?

Ans: KVIC as promoter and guardian of Khadi Sector will take the role of monitoring, verification and enforcement of genuineness of all Khadi products being sold as Khadi through Khadi Certification Regulation 2011 under KVIC Act.

KVIC will issue tags and labels to the institutions after verification of the products, the hand spinning and hand weaving process and the earnings of artisans through accredited agencies. These labels and tags are to be attached to each and every Khadi and Khadi products at point of sale.

Under Khadi Mark, no person shall sell or no textile shall be sold as Khadi or Khadi products in any form and manner without it bearing a Khadi Mark issued by KVIC.

Q.3 What benefit will Khadi Mark extend to institutions and artisans?

Ans: The Khadi Mark will render the following benefits:

Benefits for Institutions

Khadi though being natural, handspun and hand woven, sale of Khadi remained stagnant over the years in the absence of consumer centric approach. It also led many players taking advantage of non-genuine Khadi in the market.

Introduction of Khadi Mark will block or close sale of non-genuine Khadi as Khadi in the market and enable khadi institutions to acquire its real market share and become commercially viable in the competitive textile market.

Benefits for Artisans

While issuing Khadi Mark to the Institutions, KVIC will ensure by physical verification of Artisans' pass books and their bank accounts that the wages of artisans' are being paid as prescribed by the Commission.

Q.4 Are not Khadi Mark and Khadi Certification repetitive exercise and unnecessarily burden the Khadi programme?

Ans. No. The institutions, desirous of implementing Khadi Programme, have to obtain Khadi certificate issued by the Central Certification Committee of KVIC. The system of renewal of Khadi Certificate will cease to exist.

Institutions selling Khadi and Khadi products, either through wholesale or retail have to obtain Khadi Mark tags and labels. The Khadi Mark issued to institutions will be valid for 5 years and should be renewed thereafter.

Q.5 How the Khadi certificate and Khadi Mark will be administered by KVIC?

Ans: KVIC in supersession of its all earlier guidelines pertaining to Khadi Certification has formulated separate regulations named as Khadi Certification Regulation 2011. These regulations will govern the entire system of Khadi Certification as well as Khadi Mark.

Q.6 Don't KVIC feels that allowing private organizations and loose system of checks and balances will help entry of other textiles in Khadi sector?

Ans: KVIC will ensure detailed physical verification of the activities of Khadi institutions through professional technical organization (Government or Quasi Government) before issuing Khadi Mark. Such verification will further tighten the checks and balances presently being done by KVIC.

Q.7 Will KVIC be able to prosecute any person for illegal use of name 'Khadi'?

Ans: Regulatory power available under the KVIC Act and Khadi Certification Regulation authorizes KVIC to take legal action such as cancellation of registration and forfeiture of khadi mark tags and labels.

KVIC is also authorized to issue notices restraining any person from usage of name 'Khadi' unless he approaches KVIC seeking khadi certificate and/or khadi mark. It is also open to KVIC to alert the general public about the persons dealing with spurious khadi.

KVIC is also contemplating registration of khadi mark under Trademark Act. Once the same is registered, the illegal use of khadi mark will attract action against persons / entities as per the provisions given in the Chapter XII of the Trademark Act 1999.

Q.8 Whether KVIC will arrange promotion of Khadi Mark for creating consumer awareness?

Ans: KVIC will make wide media publicity for promotion of khadi mark. Since this is professional task the

promotion of khadi mark will be assigned to Marketing Organization and KVIC will monitor the media plan of MO for khadi mark promotion.

IV. Benefit Chart

Q.1 Why change in the cost chart system is required?

Ans: The change is required in the cost chart system because of following reasons

- The material cost accounted in cost chart system does not reflect the actual cost paid for the raw material.**
- Earning of majority of the artisans, specifically spinners, are very low.**
- The provisions, in the nature of administrative and selling overheads incurred by the institutions, are allowed in the cost chart irrespective of the size of the KIs.**
- Product pricing done on the basis of the cost chart does not take into account the marketability of the product. Non availability of surplus hampers future growth.**

Q.2 What is benefit chart?

Ans: The most important objective of KRDP is to ensure self sustainability of khadi activities and provide maximum financial benefits to the artisans.

The present system of cost chart pricing does not allow any scope for generating surplus to meet the aforementioned requirements.

Benefit Chart is intended to provide opening to the institutions to achieve self sustainability by generating possible surplus through selling of products at market linked price.

Q.3 How the benefit chart concept will be implemented?

Ans: Extensive market survey being conducted by KVIC includes the assessment of price range of the products similar to Khadi sold by private organization.

Based on the results of the market survey, KVIC will circulate the price range of the various product categories within which the products of KIs can be sold in the market. This will enable the KIs to appropriately price their product in the market.

The difference between selling price, at which the products are sold to customers, whole sellers and other alternate marketing channels, including Marketing Organization at market linked pricing and actual costing of Khadi shall be the surplus. This system is termed as 'benefit chart'.

An IT system will be put in place to calculate the contribution generated by each product and the total surplus generated by the institution.

Q.4 How the benefit chart will do well to the artisans, karyakartas and KIs?

Ans: Introduction of benefit chart will form the guiding principle for utilization of the surplus generated from selling the products by the Khadi Institutions to customers, whole sellers and other alternate marketing channels, including Marketing Organization at market linked pricing.

The surplus as accrued shall be utilized for distribution of incentives amongst the artisans and karyakartas, undertaking production and marketing reforms and capital formation for ensuring long term sustainability.

Q.5 Framework for utilization of surplus under Benefit Chart

Ans: The surplus so calculated should be utilized for the following purposes:

Enhancement of earning of artisan and karyakartas: A fixed portion of the surplus should be distributed among the artisans and workers.

Skill development of artisans and Karyakartas: A part of surplus shall be utilized for training and skill development of artisans and karyakartas to improve market acceptability of khadi products and to switch over from weak product segments to the better and remunerative product segment.

Product design and development: The KIs shall use the benefit chart surplus to develop and design products based on market requirement and trends.

Marketing reforms: The KIs shall utilize the Benefit Chart to position khadi as eco friendly, handmade, social cause fabric rather than the low cost segment of the textile industry.

Capital formation: The fund may also be used for capital formation to be utilized in future for expansion and mitigate risks and contingencies.

Q.6 Whether implementation of benefit chart will be limited to the institution receiving assistance under KRDP?

Ans: The benefit chart will be the system of costing based on the principle of marginal costing. The benefit chart will be applicable for all khadi institutions implementing khadi programme i.e. for the entire Khadi sector.

V. Modified MDA [Production Incentive Plan]

Q.1 What is Modified MDA [PI Plan]?

Ans: Modified MDA [PI Plan] is a financial assistance on Khadi categories requiring fiscal support to increase the competitiveness of the Khadi products by improving quality as well as marketability.

Modified MDA [PI Plan] on production is an assistance proposed to be provided on the prime cost of Khadi and Polyvastra achieved by the certified Khadi institutions.

Under Modified MDA [PI Plan] scheme the institutions will be authorized to market linked pricing, completely de-linking from cost chart mechanism. Such freedom was partially available under MDA restricted only to fabric conversion stage.

With introduction of market linked pricing some products under Benefit Chart regime may not be profitable. The Modified MDA [PI Plan] will help institution to cross subsidize non-economic products for the period the quality of production is improved.

The Modified MDA [PI Plan] will serve as incentive to Khadi Institutions to increase their value addition by focusing on product development, using alternate marketing channels and

employment of expert agencies for marketing, promotion and publicity.

Q.2 How Modified MDA [PI Plan] takes MDA further ahead?

Ans: Modified MDA [PI Plan] takes care of market segmentation thereby offer more focus on products that need support. Evolving Product/Marketing strategies are quite complex task particularly for small institutions. Modified MDA [PI Plan] offer scopes to institutions to take support of a professional agency like Marketing Organization or any other alternate marketing channel in this regard.

Modified MDA [PI Plan] offers full flexibility in pricing.

Modified MDA [PI Plan] proposes to offer incentive to all artisans and karyakartas for their whole hearted efforts with additional incentive to spinners who form the distinctive characteristics of Khadi.

Q.3 How the Modified MDA [PI Plan] assistance be utilized?

Ans: The Modified MDA [PI Plan] scheme offers flexibility to Khadi Institutions to go for need based utilization of funds towards activities for improving the earning of artisans as well as improves the market for Khadi and Polyvastra.

A fixed portion of the Modified MDA [PI Plan] available to the institutions shall be distributed amongst the spinners, weavers and other artisans.

While hand-spinning is the key differentiator of Khadi from other textile, the earning of Khadi spinners is extremely low. Hence, allocation of an additional portion of Modified MDA [PI Plan] for giving additional incentive to spinners may be considered.

The institutions shall be free to utilize the remaining amount for various purposes in the areas of product development and marketing reforms.

Activities for which the amount available from Modified MDA [PI Plan] can be utilized by the institutions are:

- ✓ **Incentives to all artisans and karyakartas directly involved in production and sales activities.**
- ✓ **Additional incentives to spinners.**
- ✓ **Skill development of all artisans and karyakartas.**
- ✓ **Procurement of improved implements.**
- ✓ **Product and design development.**

- ✓ Renovation of outlet.
- ✓ Payment to external marketing agencies.
- ✓ Marketing promotion, advertisement and publicity.
- ✓ Use of alternate marketing channels.
- ✓ Need base discounts on sales (whole sale as well as retail sales).

Q.4 How is Modified MDA [PI Plan] assistance calculated?

Ans: Modified MDA [PI Plan] may be calculated on the cost directly attributable to the production of Khadi and overhead costs should be excluded for the purpose of calculation of PI.

Modified MDA [PI Plan] shall be calculated as a fixed percentage of the prime cost of Khadi (Cotton, Silk, and Woolen) and Polyvastra produced by the Khadi Institutions.

The composite production activity of spinning, weaving and wet processing of Khadi encompassing cost of raw material, hand spinning and hand weaving including spinners/ reelers and weaver wages/ conversion charges and provision for their social security measures, wet processing (bleaching, dyeing, finishing, printing) etc. Conversion of Khadi cloth into ready to wear and ready to use items will not constitute cost of production.

Q.5 How the market segmentation under Modified MDA [PI Plan] will be achieved?

Ans: Under the Modified MDA [PI Plan] products would be classified into 3 broad categories:

- Category 'a', which can be sold at a premium by adopting market linked pricing,**
- Category 'b', which have the potential to be sold at a premium after some product design and quality changes and**
- Category 'c', which are not capable to compete with the mill made fabrics and will continue to be sold at cost.**

This classification would indicate the market acceptability and demand of the various products and help in identifying the fast moving products.

To start with, the Modified MDA [PI Plan] shall be applicable for all the products. However, with the introduction of Benefit Chart and successful implementation on products under category 'a', such products shall be gradually taken out of the Modified MDA [PI Plan]. Similarly, after the Marketing Organization comes on board, products under category 'b' shall gradually move towards

Benefit Chart concept and shall be taken out of the Modified MDA [PI Plan] after they become self sustainable.

Modified MDA [PI Plan] shall be restricted to category 'c' which is unable to compete with similar products in the market, despite marketing reforms and where the target consumer is price sensitive;

A scientific study/market survey will be conducted to understand which products are viable enough to be taken out of the Modified MDA [PI Plan].

VI. Continuation of ISEC during and post implementation of KRDP

Q.1 Will the institutions continue to receive working capital support under ISEC scheme of KVIC as per the approved budget sanctioned for khadi and polyvastra under KRDP as well as normal programmes?

Ans: Yes. All institutions irrespective of their size and category, whether covered under direct reform assistance of KRDP or implementing normal Khadi programme, will continue to receive interest subsidy for the working capital support availed from banks under ISEC scheme of KVIC for the target of khadi and polyvastra programme sanctioned by the Standing Finance Committee of KVIC.

In addition to the aforesaid support, the institutions, implementing khadi programme under KRDP - direct reform assistance, will receive an assistance of ` 14.00 lakhs (maximum) in kind to enable mobilization of additional Bank finance.
