



A PLAN FOR EXPLORING THE EXPORTS POTENTIAL OF HANDCRAFT PRODUCTS IN KHADI AND VILLAGE INDUSTRIES COMMISSION (KVIC) IN INDIA

The Khadi and Village Industries Commission (KVIC) is a statutory body set up under the Khadi and Village Industries Commission Act (1956) under the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India. The KVIC is involved in production and marketing of 'Khadi- a handspun and hand-woven fabric' made in an eco-friendly manner earning carbon credits for the country and saving huge amount of water, which is getting scarce each passing day. Along with khadi, it is also involved with production and propagation of Village Industry based multiple products which are manufactured through traditional skill sets and very basic levels of technology interventions. While KVIC has seen impressive productions and sales volume during 2014-18, however, the exports emanating from the Khadi and Village Industry sector are too little in the entire export basket. This Project on exploring the exports potential of handcraft products in Khadi and Village Industries Commission (KVIC) in India is currently based completely on the strength of the secondary sources of data available through the annual reports and multiple sources of published data sets. The goals of this policy analysis are to provide a comprehensive discussion of multiple policy alternatives, with a description of key elements of each alternative. Limited data analyses were conducted with the objectives, including: identifying the key causes of exports growth from KVIC; identify the key steps to correct the historic shortcomings of exports; steps to make KVIC a part of the global value chain; and steps undertaken for higher wages and remuneration for artisans and institutions.

I. Brief Overview

The world has seen unprecedented competition in the post globalised era, whereby multiple cultures, artefacts, languages and traditions have been uprooted by the advent of mass cultural ethos. In particular all cultural and heritage-based organisations are striving hard to reinvent and make them relevant to the need of the millennial. In this background, a case study of an organisation, which needs to be transformed to maintain its importance as a premier agency for job creation and repository of traditional knowledge and skill sets along with the concern that whether it could become the driver for exports of handcraft products from India is being presented in this paper. The organisation under review, the Khadi and Village Industries Commission (KVIC) is one such statutory body set up vide KVIC Act 1956, under the Ministry of Micro, Small and Medium Enterprises (MSME), Government of India. The objective of KVIC is to "plan, promote, facilitate, organise and assist in the establishment and development of khadi and village industries in the rural areas in coordination with other agencies engaged in rural development" (KVIC Act, 1956). The KVIC is involved in production and marketing of 'Khadi- a handspun and hand-woven fabric' made in an eco-friendly manner earning carbon credits for the country and saving huge amount of water, which is getting scarce each passing day. Along with khadi, it is also involved with production and propagation of Village Industry (VI) based multiple products which are manufactured through traditional skill sets and very basic levels of technology interventions.

In the organisation under review, there are almost 20,000 odd human resources directly working under the payrolls of KVIC and an artisan base of 140 million, who are directly or indirectly incentivised to achieve the targeted levels of production year after year. There are around 3000 registered Khadi and Village Industry (KVI) Institutions, which act as key stakeholder in the entire country operating for almost three generations. These societies operate through trusteeship or boards having secretaries and maintaining a paternalistic relationship with the artisans involved in making handcraft products including unique hand-spun-hand-woven khadi fabric. The other important point to mention here is that these institutions owe their allegiance to Mahatma Gandhi, who has used 'charkha- spinning wheel' as a symbol of mass mobilization for indigenous goods during the freedom struggle and propagated khadi as the livery of freedom to stir up emotional chord to mobilize people to join freedom movement in India. There are close to half a million exclusive khadi artisans, who are predominantly women engaged in the act of spinning the yarn from natural fibers of cotton, silk and wool and weave fabric on handloom. Even though, the Union Government has dedicated schemes and programmes to provide financial



support, health insurance and scholarship for children of such artisans, their earnings have remained stagnant over a long period of time.

MSME sector accounts for 95 per cent of the total industrial activity in India and contributes to almost 40 per cent of exports. However, the exports emanating from the KVI sub-sector is too little in the entire export basket of the MSME sector. In particular, sectors involving social sustainable livelihood projects, the exports have always raised the financial viability and earnings for the participants. Further, there is a significant global demand for handcraft products with organic, ethnic, heritage and lesser carbon footprint items. Thus, KVIC can play it to the strength and capture the market for betterment of KVI Institutions and artisans. The khadi fabric production has made an average jump of 62 per cent in the last five years, that is, from 103.22 million square metres in 2014-15 to 170.80 million square metres in 2018-19. In the fiscal 2014-15, the share of khadi in total textile production was 4.23 per cent, which, in the year 2018-19, has increased up to 8.49 per cent (KVIC, 2019).

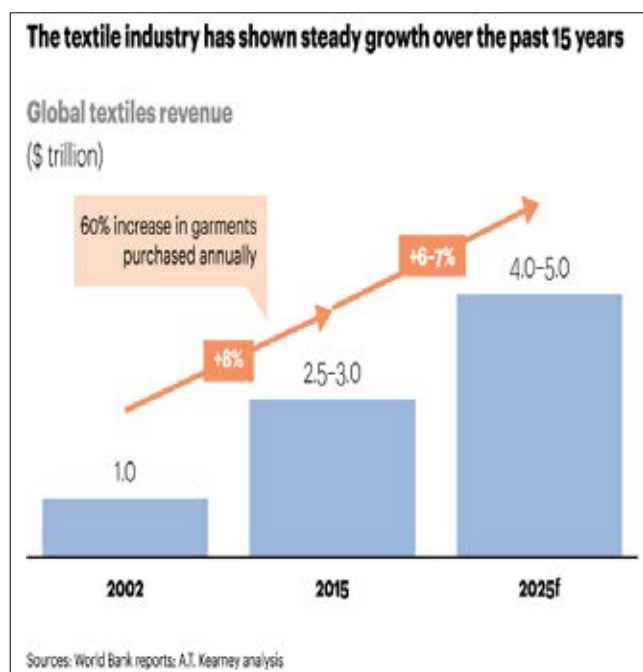
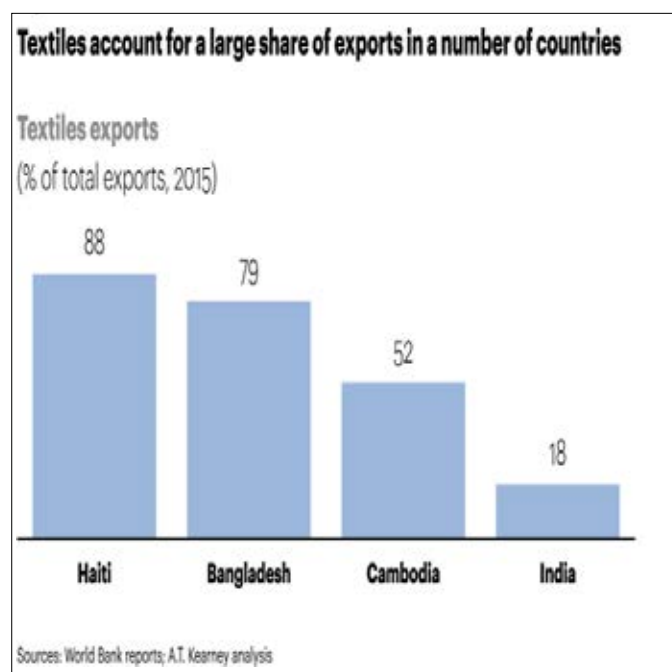
II. Project Purpose

The percentage of handcraft products as a percentage of total exports from India has remained stagnant to the tune of 16-18% including cotton, apparel and other handcraft products. The pertinent question is even though KVIC as an organization has registered significant growth and expansion, the exports do not match up to the growth rate. Thus, the analysis will be drawn upon exports data vis-à-vis turnover of KVIC for the said period. With this backdrop, this paper aims to find out the reasons of narrow exports in KVIC on sales and marketing efforts currently being under operation, limited skill sets pertaining to use of social media, electronic and print advertisements and lack of connect with the youth; to find the importance of quality, standardization, patenting and trademarks and other parameters; to improve upon the existing gaps through adoption of modernized and innovative techniques to create value in KVIC's products; to integrate KVIC to the ever-increasing global supply chain of handcraft products; to compensate the artisans and institutions for exports based on profit sharing models; to take up key steps in a time-bound manner to break the exports glass ceiling.

III. Summary of Theoretical Underpinnings of Exports

On the important topic of diversification of products for exports, R. Hausmann, J. Hwang, and D. Rodrik argue that "countries change their export mix by moving to products "nearby" in which they already excel (i.e., those products that they export with Revealed Comparative Advantage (RCA)." (Hausman et.al. 2007) Further, each product requires a specific set of capabilities, and if a country has RCA in that product, then that country has accumulated the product-specific capabilities at the individual, firm and organization levels. Moreover, "capabilities manifest themselves as a quality-productivity combination. A given capability is embodied in the tacit knowledge of the individuals who comprise the firm's workforce. The quality-productivity combinations are not a continuum from zero; rather, there is a window with a "minimum threshold" below which the firm would be excluded from the market." (Sutton 2001, 2005)

As per the World Bank Report, the apparel industry has enjoyed steady revenue growth—with a Compound Annual Growth Rate of 8 per cent during the past 15 years—and is forecasted to grow to as much as \$5 trillion by 2025 (see *Figure 1A*). It contributes a significant share to the economies of many countries and has created mega brands—such as Nike, Zara, and LVMH—while producing many billionaires, and the numbers continue to grow (see *Figure 1B*). Because of fashion's growing importance to the global economy, textile manufacturing has become the world's third-biggest manufacturing industry, behind only automotive and electronics manufacturing. The apparel industry has served as a stepping-stone to growth in many countries, especially developing ones. Export diversification may not be easy as many new activities may require large-scale investments. For example, textile product diversification may require well-developed supply chain of good quality yarn, natural dyeing facility, design houses for design intervention, modern cuts-n-fits, packaging and promotion, sizes and color combinations for the specific export market, etc. to reach out to the target groups.

**FIGURE 1A: Growth of Textiles Industry****FIGURE 1B: Leading Exporting Countries**

IV. Project Research Questions

The research questions unravel the underlying thoughts and actions to explore and adopt an export-led strategy to develop and modernize the KVI products and its possible outcomes. In order to reach this stage, the following questions may narrow down the focus of the research:

- A. What is the total export corpus from India and what is the percentage of handcraft products in total exports and what are the current exports from KVIC?
- B. What are the key challenges faced by exports of khadi and village industry products?
- C. What needs to be adopted to modernize and innovate techniques to create value in KVIC's products?
- D. How to integrate KVIC to the ever-increasing Global Value Chain of handcraft products?
- E. How to compensate the artisans and KVI institutions for exports?

V. Key Organizational Challenges

The organizational challenges relating to project research question hover around the qualitative analysis of the reasons of stunted exports in the current context. The non-availability of credible research papers and exploratory studies on the subject genuinely affect the lack of bandwidth of quality data on the particular subject. The two of the major stakeholders, such as the KVIs and artisans also appear not to be in sync with the policies of exports. Even though multiple schemes of the Union Government are available to provide the necessary springboard for enhancing exports, in reality the requisite awareness and lack of one-stop solution or single window information access poses serious challenge for the organization *per se*.

VI. Data Plan: The research problem dives deep into getting the underlying pattern and dominant themes of the pattern of struggles to get the exports going from the sector. To unravel this, an attempt has been made to look into a series of secondary data sources (both quantitative and qualitative), which are already available in the public domain.



VII. Data Selection: The important products of exports, the number of countries of export, the countries registering exports of handcraft products in the global value chain, the total percentage of exports growth of KVIC in comparison to total exports from India, the available schemes enabling exports, the state institutions aiding exports have been explored in the study. As far as sampling of the data is concerned, the relevance of the valid data is maintained by getting to the core of the universe of data on the subject and representative samples have been drawn from all parts of the country and majority of the institutions concerned. Necessary caution has been observed to avoid any bias on selection of representative sample. The consideration of trade-offs has been provoked in terms of assessing the possible solutions to achieve the solitary objective of increasing participation of KVI institutions and artisans in the process of exports.

VIII. The data sources relied upon are as follows:

Annual Reports of KVIC; Annual Reports of Ministry of MSME; Export data from Foreign Trade Policy; Ministry of Commerce website; Directorate General of Foreign Trade portal; Multiple Research Papers on KVIC; Annual Report of Ministry of Textiles; Answers to Questions laid on the Parliament pertaining to KVIC; Press Information Bureau published news items on KVIC & Ministry of MSME; Newspaper articles and articles on web portals; World Development Report, 2020; ILO Wage Report 2016-17; Kearney Report on Textiles.

IX. Data Analysis Methods

As there is little to no existing literature on the topic of lack of exports from KVIC, it may be plausible to perform deductive research because of the nature of the research design. In essence, examining qualitatively whether factors such as quality, standardization, patenting and trademarks, and price parameters are contributing to market trends. In the 'Desk Research' stage, relevant secondary data and information from credible sources have been gathered for assessing growth; checking products, and market trends and new developments; studying impact of policies; and related analysis. Then, in the next stage, 'Stakeholder Interactions for Information Gathering Including Customers', the research questions were shared with senior most office bearers, three best performing khadi institutions, three expert consultants for the sector for gathering information related to: current export trends and nature of business; existing or anticipated concerns and constraints; Market & Product inputs; Key reforms, facilitation and interventions sought by the stakeholders; & Any other feedback or perspective, etc.

Findings of the Study

Question Probed: What is the total export corpus from India and what is the percentage of handcraft products in total exports and what are the current exports from KVIC?

Data Set #1: 5-year Analysis (2014-2018) of KVIC Turnover vis-à-vis Exports

India has registered total \$535.45 billion of total exports in 2018 over \$478.15 billion of exports in 2017-18 in spite of the global exports' slowdown owing to various factors. The impressive growth of Indian exports can be observed in Figure-2. India's textiles sector is one of the oldest industries in Indian economy dating back to several centuries. India's overall textile exports during FY 2017-18 stood at US\$ 39.2 billion and is expected to increase to US\$ 82.00 billion by 2021. The textile and apparel industry can be broadly divided into two segments - yarn and fibre, and processed fabrics and apparel. The domestic textile industry in India is estimated to reach US\$ 223 billion by 2021 from US\$ 150 billion in 2018. In FY19, growth in private consumption was expected to create strong domestic demand for textiles.

The Indian textiles industry is extremely varied, with the hand-spun and hand-woven textiles sectors at one end of the spectrum, while the capital-intensive sophisticated mills sector at the other end of the spectrum. The close linkage of the textile industry to agriculture (for raw materials such as cotton) and the ancient culture and traditions of the country in terms of textiles make the Indian textiles sector unique in



comparison to the industries of other countries. The future for the Indian textile industry looks promising, buoyed by both strong domestic consumption as well as export demand. With consumerism and disposable income on the rise, the retail sector has experienced a rapid growth in the past decade with the entry of several international players like Marks & Spencer, Guess and Next into the Indian market.

Data Set #1A: Commodity Wise Breakup & Percentage of Handcraft Products as Part of Exports

FIGURE: 2 Total Exports from India (2014-18)



Source: Ministry of Commerce & Industry, Govt. of India

In 2018, India's most valuable exported products were processed like petroleum oils, unmounted diamonds, medication mixes in dosage, jewellery, rice, cars, automobile parts or accessories, crustaceans including lobsters, cyclic hydrocarbons then predominantly cotton yarn as could be seen under Table-1 & Figure-3. Strategically located near highly populated trading partners including China, Pakistan and Bangladesh, the Republic of India shipped \$535.45 billion worth of goods and services around the globe in 2018.

TABLE 1 Top Ten Exports Commodities from India during 2018-19

Sl. No.	Top Ten Exports (2018-19)	Value in USD Billion	% share
1	Mineral fuels including oil	48.3	14.9
2	Gems, precious metals	40.1	12.4
3	Machinery including computers	20.4	6.3
4	Vehicles	18.2	5.6
5	Organic chemicals	17.7	5.5
6	Pharmaceuticals	14.3	4.4
7	Electrical machinery, equipment	11.8	3.6
8	Iron, steel	10	3.1
9	Cotton	8.1	2.5
10	Clothing, accessories (not knit or crochet)	8.1	2.5

Source: Directorate General of Foreign Trade (DGFT)

Case for Khadi Sector: Khadi sector in India is of great importance as it generates livelihood and employment opportunities at the grassroots level in the nation. Khadi products produced in India include fabric, garments and accessories, and furnishing items such as curtains, bedsheets, napkins, etc. Indian Khadi products for a long time did not have separate HS code and are being exported under the HS codes of Indian handloom. However, as late as November 2019, 11 Khadi products are endowed with HS Codes. Major export markets for Indian Handloom products are USA, EU and Middle East. Fabrics are mostly exported to Vietnam and China. Exports of Indian Handloom registered a decline of (-)11% CAGR in last four years and that of Khadi registered a decline of (-)24% CAGR. China is India's largest competitor in handloom sector followed by Pakistan and Turkey. (IBEF, 2019)

Assessment of Market Factors (SWOT Analysis)

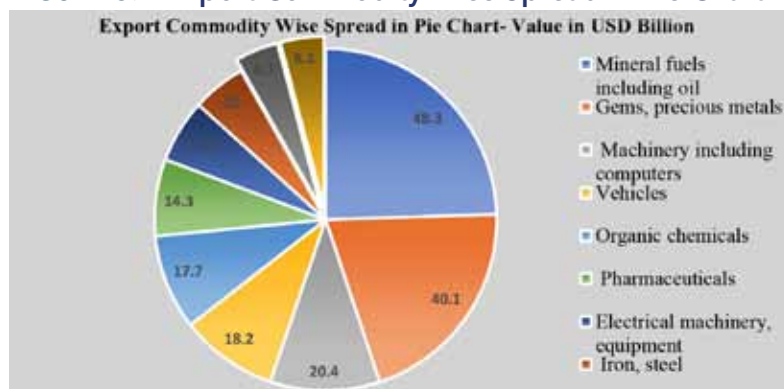
Strengths: India has been one of the established players in Handloom sector and has been one of the leading Handloom exporters of the world. Khadi products are solely made in and exported by India and possess a rich heritage.

Weaknesses: Since Khadi production is a time taking process, the production volumes are quite low. Further, there is no economies of scale in the sector. Limited design capabilities in Indian handloom and Khadi sector hampers export growth.

Opportunities: With declining Chinese handloom exports to USA and European markets, huge opportunity has arisen for Indian players.

Threats: The skilled weavers employed by this industry are declining and hence cost of getting highly trained weavers has increased. Similarly cost of getting good quality raw materials has gone up and has put pressure on the margins of Khadi manufacturers and exporters. Labelling requirements, stringent quality checks and other such Non-Tariff Barriers (NTB) in the textile sector also hamper exports.

FIGURE 3: Export Commodity Wise Spread in Pie Chart



Source: DGFT, Ministry of Commerce & Industry, Govt of India

Data Set #IB: 5-year Analysis (2014-2018) of Productions, Sales & Exports of KVIC

Current Turnover vis-à-vis Export Scenario of KVIC

Looking at the numbers of production, sales and exports from KVIC over the last five years, one feels excited and somber at the same time. The simple reason is, even though production and sales have registered significant growth to the tune of more than 100% over the last five years, as depicted under Table-2. Exports figures as a percentage of total Sales of Khadi and Village Industries for the year 2018-19 are abysmally low at 0.0036 %. Looking at the Figures 4A and 4B, it raises lots of question of the way the current exports are managed and envisioned in KVIC. While Ministry of Textiles is looking for an export target of \$223 billion by 2021 (Ministry of Textiles, GoI, 2019), KVIC appears to be in least readiness to take up the challenge as well as the opportunity. This is the nucleus of the problem of this paper.

TABLE 2: KVIC-Production, Sales & Exports 2018-19

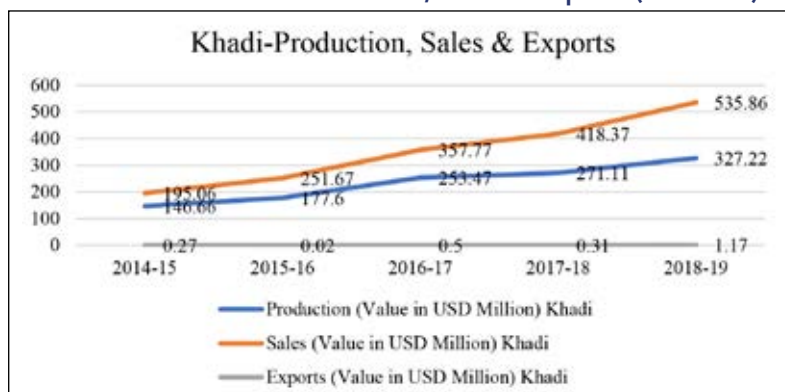
Year	Production (Value in USD Million)		Sales (Value in USD Million)		Exports (Value in USD Million)		
	Khadi	V.I.	Khadi	V.I.	Khadi	V.I.	Total Exports
2014-15	146.66	4448.23	195.06	5327.59	0.27	20.47	20.73
2015-16	177.6	5570.77	251.67	6730.76	0.02	23.34	23.36
2016-17	253.47	6851.71	357.77	8331.94	0.50	44.40	44.90



2017-18	271.11	7742.46	418.37	9445.37	0.31	44.75	45.06
2018-19	327.22	9361.17	535.86	11846.16	1.17	43.26	44.43

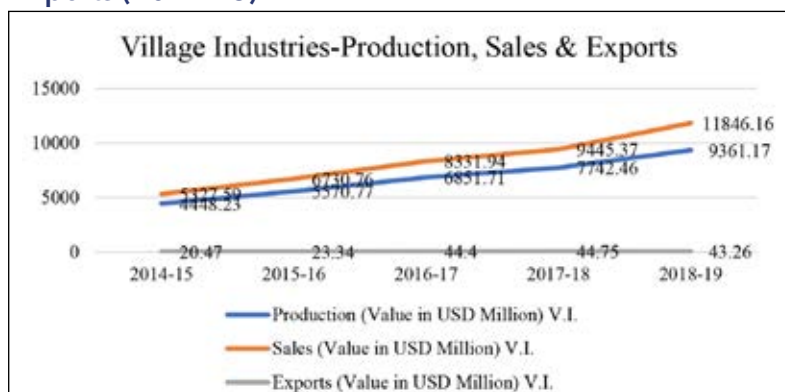
Source: KVIC Annual Reports 2014-18, M/o MSME, GoI.

FIGURE 4A: Khadi- Production, Sales & Exports (2014-18)



Source: KVIC Annual Reports 2014-18, M/o MSME, GoI

FIGURE 4B: Village Industries- Production, Sales & Exports (2014-18)



Source: KVIC Annual Reports 2014-18, M/o MSME, GoI

the highest potential for exports of KVI products in the long term, the focus in short-medium term may be more to explore and develop the markets in Middle East, South Asia and South East Asia. Easier market access, reduced logistics cost, improved awareness due to presence of traditional customer groups including Indian diaspora, attainable quality standards and simpler packaging and labelling requirements contribute to a higher immediate potential for these markets.

The main items exported under Khadi are silk & muslin, ready made garments, textile based handicraft and *Charkha* to USA, Japan, Italy, Poland, Australia, UK, Canada and Middle East nations. The Government, in order to boost export of Khadi products, has given deemed 'Export Promotion Council' status to KVIC under which KVIC has already enlisted more than 900 exporters. In addition, there are also various/other products like honey, hand made paper, Leather, Agro based & Food processing (such as *papad*, pickle, jam, jelly, squash, etc.) and herbal health and cosmetics (such as henna, shampoo, face scrub, herbal body wash, moisturizer, face wash, lip balm etc.) which are gaining increasing prominence due to: (i) Environmentally conscious segment of customers; (ii) Lifestyle changes; (iii) Increase in disposable income; and (iv) Increasing clamor for herbal products with zero carbon footprint.

Target Markets and Projected Exports

Looking at the direction of exports from KVIC, while the developed markets of USA, EU have stringent quality standards, have

Question Probed: What are the key challenges faced by exports of khadi and village industry products?
Analysis #1: Key Challenges to Exports from KVIC

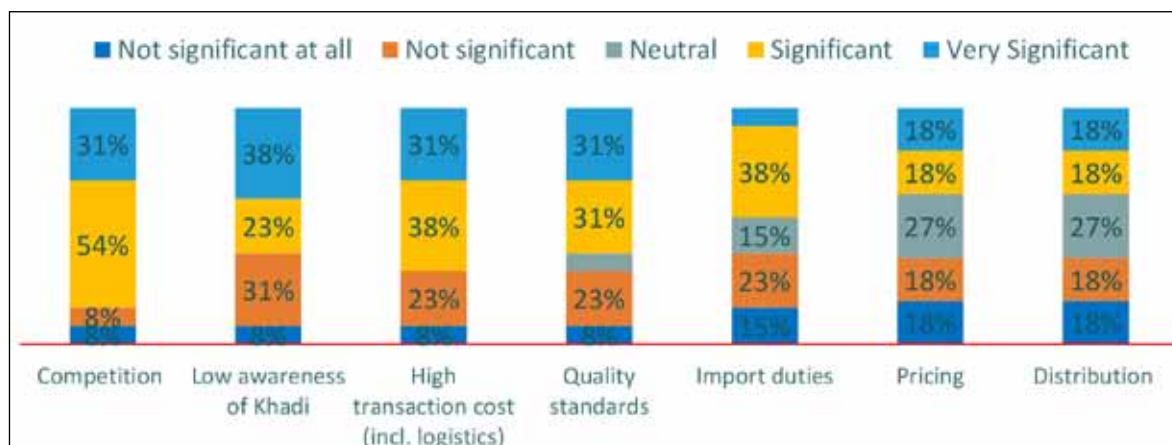
Thus, the need of the hour is to enhance the export of the various products to the right set of markets with streamlined strategies. The key challenges have been subsumed in a study conducted by Investment Information and Credit Rating Agency (ICRA) Management Consulting Services Limited as part of Asian Development Bank led Khadi Reforms Development Program in the second quarter of 2017. A total of 83 respondents were interviewed for the study which included- Bulk purchasers of Khadi for exports; Bulk purchasers of VI products for exports; Exporters & Fashion Industry Experts. The findings are very much relevant and apt to adopt for this study. In this segment the challenges faced by bulk exporters in export of KVI products are captured. The

questionnaire was structured as a Likert scale ranging from the lowest score of 1, which translated to “Not significant at all” and the highest score of 5, which translated to “Very significant”. Higher the value chosen by respondent, the challenge from the particular factor is perceived to be high. The factors that were asked to be ranked by the respondents were:

1. Competition from similar FMCG products from other countries
2. Low awareness of customers towards KVI products
3. High transaction cost (including logistics)
4. Quality standards in import markets
5. Import duties including Customs, Taxes
6. Pricing (Unfavourable/ Inadequate)
7. Distribution Challenges

The respondents were asked to rank each of the above seven factors on a scale of 1 to 5. A score of 5 would translate to high challenger for exports. Based on the output on the study, the challenges faced by Khadi exports and VI product exporters are summarised in the upcoming sections. The challenges faced in export of Khadi products by bulk purchasers are analysed in the Figure-5 below.

FIGURE 5: Challenges faced in khadi exports

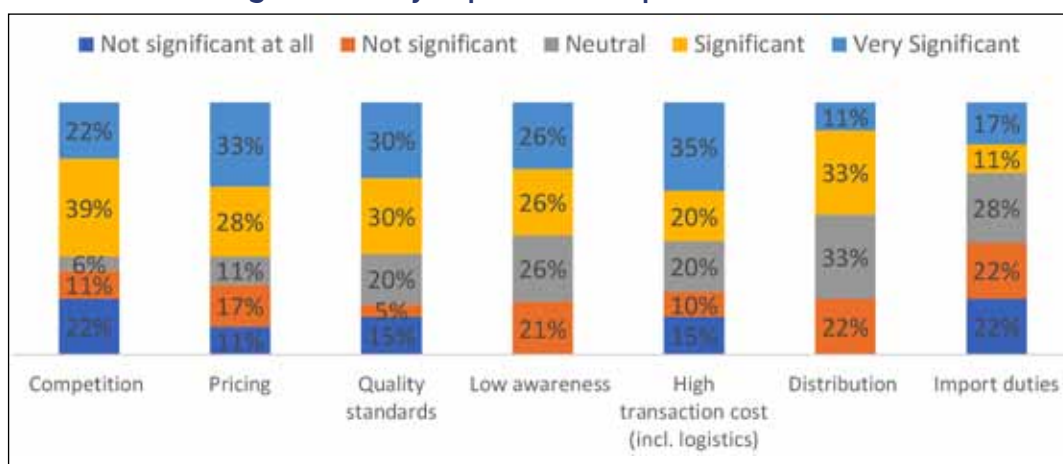


Source: ICRA Management Consulting Services Limited Analysis of KRDP.

Competition and High Transaction Cost are recognised as the most significant challenge to export Khadi products by bulk purchasers. Issues of quality standards and low awareness of khadi are also perceived as challenges by exporters. A few other issues which were highlighted during the interaction with Khadi exporters are: Less production Capacity of yarn and fabric as a constraint for export; Issues in marketing including retaining customers for repeat purchase; & Lower margins due to the presence of middle-men and brokers with higher commission rates.

The challenges faced in export of VI products by bulk purchasers are analysed in the Figure-6.

Pricing and Quality Standards are recognised as the most significant challenge to export VI products by bulk purchasers. Issues of awareness and competition and high transaction costs are also perceived as challenges by exporters. A few other issues which were highlighted during the interaction with VI exporters are: Requirement

**FIGURE 6: Challenges Faced by Exporters of VI products**

Source: ICRA Management Consulting Services Limited Analysis of KRDP

for certifications; Higher transit time to certain markets and non-availability of cheaper infrastructure facilities; Lack of government funded affordable testing facilities; Lack of technical know-how.

Question Probed: What needs to be adopted to modernize and innovate techniques to create value in KVIC's products?

Analysis #2: Modernization, Marketing & Promotion Initiatives

This is the most important segment as to what could be make or break for achieving the exports potential of the khadi and village industry sector. The organization needs to be remodeled from bottoms up, with creation of new wings such as Research & Design; Design and Innovation; Craft-specific Cluster development; Sales and Merchandising; Marketing and After Sales services. There is a dearth of skilled manpower and professional expertise in KVIC. Thus, massive hiring from various background needs to be conducted with proper training to be given about Khadi and its value system. All of them need to work at ground level to understand what it takes to make something by HAND. One needs to utilize the quality of handmade product with adoption of the best technology to package and market it. Its stories need to be rendered in artistic way to enhance the luxury of handmade. Reforms within the sector have their limitations in bringing incremental changes to the current performance. Design development, maintaining the authenticity of khadi and maintaining the originality of the product are some of the key requirements. Patenting, trademarks may come at the second stage, first the product itself needs lot of rethinking.

Even today, India does not have a single brand which is globally known in any segment. Indians are using international brands for daily needs, but Indian brand is yet to reach the global market. The main reason is that brands are built over time with long-term vision and strong financial breakup. Thus, there is a strong case to build the Khadi brand. Looking at the best brands in the similar space, Épice is a brand dedicated to producing wearable art, which was co-founded in 1999 by the Danish duo Bess Nielsen & Jan Machenhauer. Mixing innovation with a deep respect for history, 'Épice' works to uphold two traditions: the rigorous and purposeful Scandinavian approach intertwined with the sublime and refined Indian stance. [Epice, n.d.] The other international brand 'Khadi & Co.' by Bess Nielsen is extremely popular in the entire Europe. There is another brand 'Khaadi' by a famous designer from Pakistan has several successful stores across London. These success stories not only provide ample examples of the numerous possibilities but also the level to which it can reach, if properly planned and executed. Even internationally, the fabric is gaining recognition. This humble fabric was the subject of an exhibit by world-renowned Issey Miyake at the 21_21 Design Sight in Tokyo and showcased again in 2019 at the brand's New York store.

Big mens wear Indian textile brands like Peter England and Raymond have recently started working with clusters to release khadi collections, and Arvind Ltd has invested heavily to create khadi denim. KVIC has taken it

to South Africa, Russia and New York (at the 63rd session of the Commission on Status of Women by the United Nation's Economic and Social Council) as part of its promotional strategies. Popular websites like Jaypore, Ajio and sustainable fashion website, Ikkivi, sell ample khadi apparel which looks nothing like the older look and entices consumers to embrace this traditional fabric as part of their daily and occasion-wear wardrobes. Time has come perhaps for all citizens to own at least one khadi item to support our country's artisans, encourage visionary designers and make a contribution towards global warming.

Question Probed: How to integrate KVIC to the ever-increasing Global Value Chain of Handcraft Products?

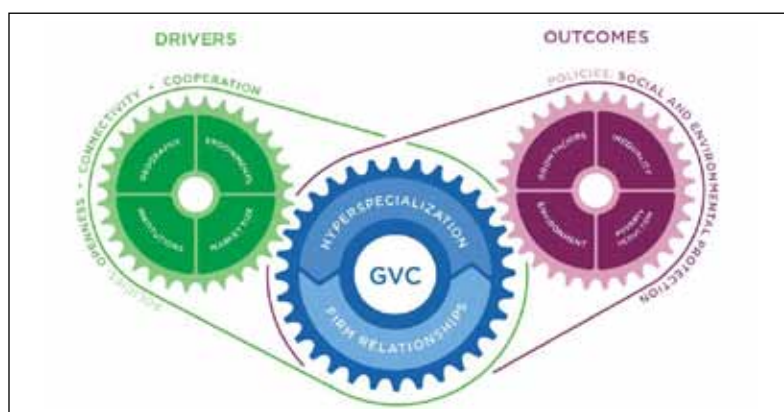
Analysis #3: Joining the Global Value Chain

Recent Initiatives to Integrate with Global Value Chain:

A global value chain (GVC) involves the fragmentation of production across countries. Backward participation is importing foreign inputs for processing and further export. Forward participation is exporting inputs that are incorporated in the exports of other countries. Rich and fast-growing economies have been exporting varieties of complex products and services in intricate supply chains in the world market. There is some evidence that successful integration and upgrading in GVCs can underpin development success, with data showing that countries that participate more in GVCs are richer, and that those that integrate more rapidly grow faster (World Trade Report, 2014). These intricate relationships of drivers and outcomes of GVC along with policy choices are beautifully depicted under Figure-7 from World Development Report-Draft, 2020.

More than two-third of world trade occurs through global value chains (GVCs), in which production crosses at least one border, and typically many borders, before final assembly. "Comparing the situation of 2000 to that for 2017, it seems there was no significant change in the network topology in Europe and North America, but dramatic changes occurred for Asia. China not only had important linkages with other hubs (the US and Germany), but also with its Asian neighbours (Japan, the Republic of Korea, Chinese Taipei, and almost all Asian countries) and other emerging countries (Russia, Brazil, India)" (Global Value Chain Development Report, 2019, p.26). As reported, there were three main regional supply hubs in Europe, Germany, Italy and the UK, who exported textile sector value-added to their trading partners through final goods trade. India was also a sub-supply hub with inflow linkage from the UK and outflow linkages to Nepal and Bangladesh. Like China, Bangladesh is a powerful example of how participation in global value chains has supported economic growth and structural change.

FIGURE 7: GVC participation is driven by economic fundamentals but policy choices matter - both to enhance participation and to ensure benefits are shared and sustained.



Source: World Development Report-Draft, 2020

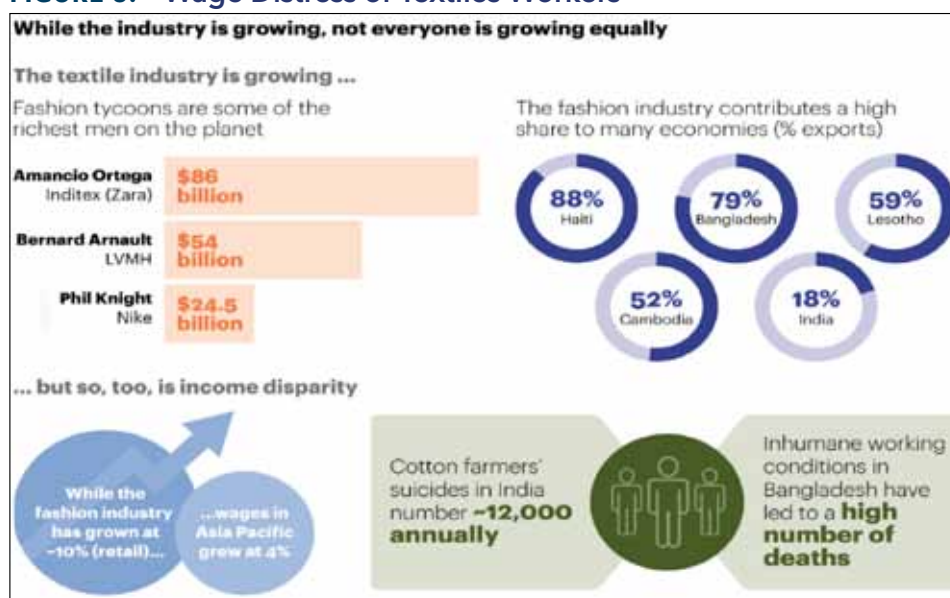
In view of the aforesaid, a long-awaited move to make export of Khadi from India, the Ministry of Commerce and Industries has allocated separate HS code on 4th November 2019 for this signature fabric of India. Earlier, all the data regarding export of this signature fabric used to be clubbed under omnibus category of handloom textile head. Now, one can keep a constant eye not only on export figures, but it will also help in planning broader export strategy around khadi. HS Stands for Harmonized System and it is a six-digit identification code developed by the WCO (World Customs Organization) and is quoted every time a commodity enters or crosses any international border.

Question Probed: How to compensate the artisans and KVI institutions for exports?

Analysis #4: Ensuring Higher Financial Remuneration for Artisans & Institutions

Artisans are the biggest and most important stakeholders in the khadi success story. If exports under the khadi sector are touted as the next big thing, then artisans need to be financially compensated well. The wage has to go beyond mere minimum daily subsistence allowance to that of something which provides succor to the artisans and encourage them to put in more efforts and output in a short duration. The typical nature of the artisans in the sector is that they are not permanent employees belonging to any khadi institutions like a factory set up, rather they are part time skilled crafts-persons who operate from their dwelling units. While, the institutions do enjoy certain kind of financial strength owing to the increasing demand and sales of khadi products in the country, the artisans most of the times are meant to fend for themselves on their own. Further, when we are looking for an export market, the artisans can't be left to the whims and fancies of middlemen, merchant export houses or even the parental institutions.

FIGURE 8: Wage Distress of Textiles Workers



Source: ICRA Management Consulting Services Limited Analysis of KRDP

As per ILO Wage Report 2016-17, there has been a high social cost of global expansion of textiles as well. In terms of income, the fruits have been unevenly distributed (see Figure-8). While the retail segment of the fashion industry has grown 10 per cent year-on-year from 2012 to 2016, related wages grew at a meager four per cent. The legal minimum wage in most garment-producing countries is barely enough for a worker to live on. Many garment workers (particularly women and migrants) in developing countries work in what is known as the informal economy, with no access to employment benefits, including medical insurance and paid leave.

The Union Government has to come out with a clear policy departure that all accounts of the societies must run on a Management Information System to maintain the inventory and artisan wages at all possible times. With these policy prescriptions, and introductions of the policy on Direct Benefit Transfer (DBT), an enterprise led model replacing subsidy-led model needs to be introduced. The artisans must be provided working capital loans and finances to buy the best raw materials from the market and on production must be immediately compensated for the produce on a consistent basis. Ministry of MSME through KVIC can build a mechanism through which artisan wages must be decontrolled and institutions should be encouraged to pay higher wages to artisans based on their skill levels and craftsmanship. The only role of KVIC has to ensure no institution is resorting to undercutting or harassment of artisans by any institution. The current subsidy-driven-wage-payment has to make way to business-led-transactions. Further, skills must be developed where they don't



exist, opportunities must be provided where they are not available, income generation must be encouraged where there is no present probability and sustainable self-reliance to be built through institutions to usher in the export lead growth.

Recommendations & Way Forward

- A.** Enhance export volumes for high potential categories through facilitation of upward value stream activities:
 - I.** Cluster based development to facilitate economies of scale and developing capacities and export volumes by facilitating the below:
 - a.** Identify KVI institutions that have design and marketing capabilities to drive exports;
 - b.** Ensuring standard processes for manufacture of Village Industries products to bring in consistency across decentralized manufacturing capacities through adequate training.
 - c.** Facilitate availability of quality raw material for the given scale of operations.
 - II.** Building a detailed data base on direct and merchant exporters of KVI products to enable dialogue and trust worthiness and on the requirements of quality, standards and regulations for potential market and regular updating the latest developments.
 - III.** Ease the strain on weavers, artisans in terms of working capital requirement to ensure a pipeline of raw material is maintained by cash-strapped artisans and weavers for a continuous supply of export volumes.
 - IV.** Economical access to testing and certification for export markets that are today cumbersome in procedure in addition to being expensive and time consuming.
- B.** Marketing and Promotional Initiatives:
 - I.** Reaching out to international markets: Organize buyer-seller meet for high potential products in their respective target markets, which will enable to keep the buyers aware of the products, their design, utility and price competitiveness. Trade fairs and exhibitions remain one of the most efficient way for promotion in export markets. However, KVIC has to plan for the same well in advance and shortlist the right set of exhibitions based on target markets for promotion.
 - II.** Marketing Communication:
 - a.** Promote internet literacy of members of institutions and artisans to be trained in usage of Emails and handling of online channels and social media handles such as Facebook, Instagram, LinkedIn, etc.
 - b.** Support in marketing collaterals for use in international trade fairs or exhibitions.
 - c.** Positive communication through attention to all minute details like showing images of happy weavers and artisans, weavers talking about the pride of weaving, khadi as a fabric for social upliftment, etc. Further, depicting natural, organic and eco-friendly nature of ingredients and processes.
 - III.** Create a Niche positioning for KVI products: Khadi and Village industry products are suited to be positioned as an exclusive and niche brand by utilizing the right communication for promotion. Some of the attributes of KVI products that could aid in this niche positioning are summarized below:
 - a.** Promoting Khadi as an eco-friendly fabric with zero carbon footprint;
 - b.** Khadi as a unique fabric with adaptability for all climate types that is 100% hand spun and hand woven;
 - c.** Sustainable production practices enhancing rural livelihood;
 - d.** Natural and organic ingredients with corresponding certifications;
 - e.** Handcraft product ethos need to be highlighted.



- IV. Leveraging modern marketing avenues-E-commerce market players:** Today a significant portion of purchase of apparels and accessories including FMCG goods is moving to online based channels with large E-commerce companies enabling the same. Thus, to garner more market share and interest KVIC should implement an online strategy by leveraging existing e-commerce marketplaces. For instance, Amazon has on board various artisans and sellers in the arts and crafts segment such as Craftsvilla to elicit interest amongst direct buyers both from Business-to-Business and Business-to-Consumer categories.
- C. Increase awareness amongst KVI entities to integrate with Global Value Chain:** As identified from our primary interaction with khadi and village industry entities, there is a significant gap in awareness related to various export related parameters. The intervention of KVI entities for enhanced awareness in the following areas:
- a.** Export Market Opportunities need to be identified and dossiers of each market have to be prepared with all minute details of contacts, dates and relevant information to tap the market properly.
 - b.** Quality, Standards and Certifications: There are strict standards of export markets such as the European Union and United States of America.
 - c.** Labelling and warranty requirements: Effective use of Khadi Mark: During our interactions with exporters and manufacturers alike, the strong competition and dilution of brand due to the presence of counterfeit products were highlighted. KVIC should adopt a way to check the production and sale of non- genuine products under the brand of "Khadi Mark" to check counterfeit products.
 - d.** Tariff and Non-tariff barriers (NTBs) are ways adopted by importing country to act as deterrents to export with the aim of safeguarding their domestic producers from excess imports. In addition to high import duties that act as tariff barriers, lack of awareness of NTBs act as headwinds for KVI exports.
 - e.** Institutional Set-up: Re-engineering of the institutional set-up through setting up of a dedicated wing/ division in KVIC under Marketing Department. This set up would constantly monitor the demand and supply side factors impacting exports and act as a one-stop facilitation agency for all KVI entities wanting inputs on exports, which could provide hand holding support in: general export marketing and management; trade promotion; management of international trade fair participations; developing client-oriented market information systems; constant information gathering from fashion experts for Khadi related fashion trends and similarly from specific product experts for VIs to address issues of product improvement and modifications; provide marketing assistance including branding.
 - f.** Set up dedicated Design Houses & Hub for Designers, which would be critical nerve centres for modern, sleek and fashionable products like textiles and apparels.

D. Ensuring Financial Security of Artisans and Institutions:

- a.** Dedicated Funding of Working Capital for artisans to buy the best raw materials from the market and on production must be immediately compensated for the produce on a consistent basis.
- b.** De-control artisan wages: Institutions should be encouraged to pay higher wages to artisans based on their skill levels and craftsmanship, rather than moving through the cost-chart the archaic way.
- c.** Break the silos of exports incentive schemes: The schemes are currently being operated through different Ministries and Departments like- Ministry of Commerce & Industry, Ministry of Textiles and Ministry of MSME. However, there is hardly any convergence, as dovetailing is practically impossible as scheme guidelines are not interoperable to draw funds from one or the other.
- d.** A dedicated fund of funds for exports with a corpus of USD 50 Million could be created in the Ministry of MSME to kick start this all-important export initiative for artisans and institutions.
- e.** Exim-Bank and exports driven financing access to khadi institutions to avail easy finance for reaching out to exports markets.

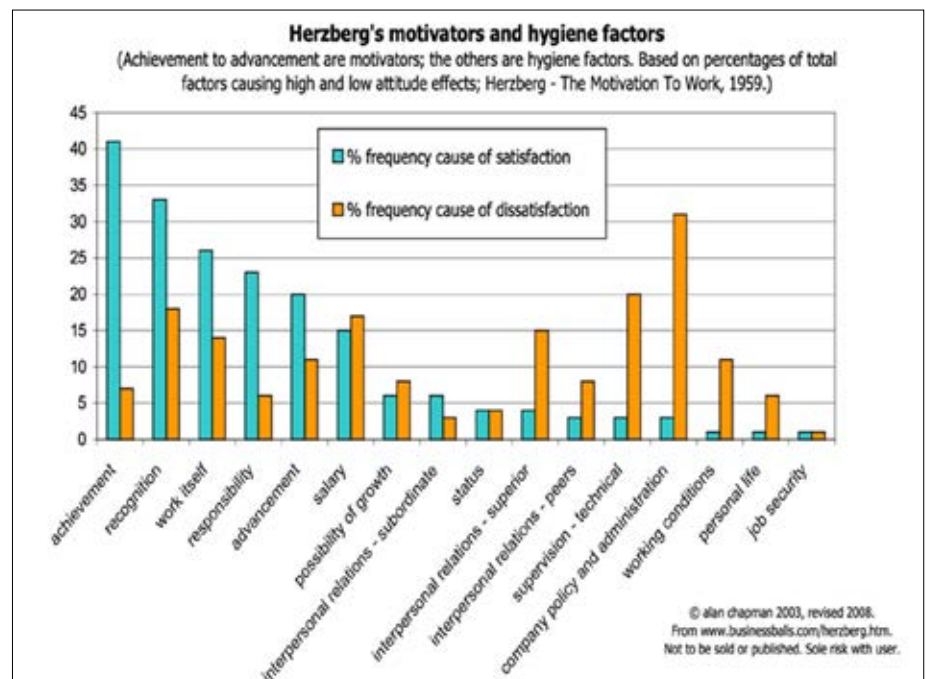
Conclusion

Rooting a revival in a skill that only India possesses, and a highly differentiated product that no other textile ecology in the world has, is the way forward. Khadi also has a deeper meaning-of being produced locally, by locals, for locals. But the time may have come for production of khadi for a wider global audience. An idea that could find resonance in the younger generation, especially among the millennials. The areas where more efforts and resources may be required are: constant skilling and re-skilling, identification of key roles, technology induction, design intervention, communication efficacy, brand building, media engagement through advertising and publicity, finance and marketing skill enhancement, supply chain management, etc. If these could be ensured in a scheduled time frame with constant monitoring and mentoring, KVIC could definitely make the paradigmatic shift to move to the next orbit.

One of the important templates before us is how to draw a comprehensive plan in order to provide seamless motivation to the personnel as well as stakeholders – artisans, khadi institutions, customers, so that the entire organization becomes thriving and financially strong to sustain any market uncertainties in future. As put forth by famous marketing Guru Peter Senge, "Organizations learn only through individuals who learn. Individual learning does not guarantee organizational learning. But without it no organizational learning occurs." (Senge, 2006, p.129), thus key personnel have to be sufficiently learned. Now, coming to the most popular theories of Maslow's 'Hierarchy of Needs' and Herzberg's 'Motivation Hygiene Theory', one can understand the importance of 'Motivators (Enrichment)' and 'Hygiene Factors (KITA)' and how they are juxtaposed with 'Intrinsic vs Extrinsic' motivations.

Figure 9 clearly delineates the factors such as 'achievement, recognition, meaningful work, responsibility, advancement of career and growth at the personal level' as the key intrinsic motivation factors, while 'organization policy, administration, supervision, relationship with superiors, work conditions, salary, relationship with peers, personal life, status and security' are the hygiene or dissatisfaction avoidance factors. If we analyze, the factors which need to be extended in a positive way for the KVIC employees and artisans, these could be to create structures for recognizing performers and providing adequate career advancement and growth to personnel and artisans at the same time, keeping the unique nature of the organization into right perspective.

FIGURE 9: Herzberg's 'Motivation Hygiene Theory'



Source: ICRA Management Consulting Services Limited Analysis of KRDP

What is critical to note here is that, in a public sector set up, the resource constraint is the biggest challenge to implement any comprehensive reform measures as differential payment for performers, fostering a team-based project execution, designing specialized job roles, designing a transparent reward system, etc. But this issue needs to be given its rightful place in the overall matrix of renewed efforts and initiatives. Similarly, diversifying into a large number of income-enhancing erstwhile marginal products such as those pertaining to Khadi and Village Industries could mark a radical shift in India's exports and usher in a financially viable and prosperous economic model for artisans, institutions and India's footprint in global export pie.



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