Centre for Public Policy Research

Towards Sustainability:

ELEVATING KHADI AS THE FABRIC OF THE FUTURE

CPPR Policy Brief

www.cppr.in I cppr@cppr.in

Towards Sustainability: Elevating Khadi as the Fabric of the Future

Sustainable and eco-friendly textiles have a booming market globally. India is poised to play a significant role in this segment, especially with Khadi, characterising the fabric of sustainable fashion. In order to capitalise on this growth trend, India needs to undertake reformative actions to make the sector a more level-playing field. The following policy brief discusses the regulatory and policy-induced constraints of the sector and suggests amendments toward liberalising the sector by identifying practical solutions for enabling the free trade of Khadi.

1. Problem Statement

Khadi and Village Industries Commission (KVIC), a statutory body established and functioning under the Ministry of Micro, Small and Medium Enterprises (M/o MSME), is responsible for the planning, promotion, facilitation and organisation of programs for the development of Khadi and other village industries in rural areas. The Khadi sector in India is governed by archaic regulations that have disempowered local communities and their economic freedom for decades.

The regulatory market deters many players, especially those outside the KVIC purview, thereby preventing them from producing and conducting transactions in e-marketplaces that could connect them to worldwide consumers. According to regulations laid out by the Khadi Mark regulations, no textile can be sold or otherwise traded by any person or institution as Khadi or Khadi product in any form if the Khadi mark tag issued by KVIC is missing. Khadi Mark is given to only those entities which follow a set of long procedures laid down by KVIC, which are both difficult to navigate and costly to comply with. To date, KVIC has sent legal notices to more than 1000 firms that attempted to sell Khadi products without affixing the Khadi Mark. This regulatory framework restricts the scope of trade to a few approved entities, thereby creating recognisable barriers to entering the market for Khadi. These sets of regulations restrict the weavers/producers from accessing the global market.

2. Policy Recommendations for the Khadi Sector Khadi Sector

Easing the sale of Khadi products online is interlinked with many restrictive provisions existing in the legislation governing the Khadi sector. The policy recommendations, therefore, also focus on amending some KVIC provisions that have a bearing on the sale of Khadi through e-commerce. The recommendations are broadly categorised as follows -

I. **Production and Pricing of Khadi**

II. **Legislative Provisions in Khadi Sector**

III. **Business and Marketing of Khadi**

I. Production and Pricing of Khadi

1. Need for Categorisation of Khadi

Context

Based on the definition, Khadi is a handspun and handwoven cloth. However, to improve the efficiency of producing Khadi, KVIC has allowed the use of non-conventional energy in the production process. Such a concession has led to the adoption of new and improved charkhas for spinning Khadi yarn, such as the Amber Charkha, Solar Charkha and the New Model Charkha (NMC). These improved versions of the charkha loosely fit the label of "handspun" as they only require manual effort to turn the lever of the charkhas, and very little skill is required for this step. Many Khadi experts have deemed this modern interpretation of khadi as ingenuine as the fabric is no longer "handspun" and has lost its only distinctive characteristic from other fabrics, particularly handloom. Therefore, the khadi produced from these charkhas should be valued based on the time and human effort required to produce them. Many artisans use the traditional single spindle charkha to produce yarn. The human component that goes into producing khadi not only makes it symbolically valuable but also valuable in terms of labour inputs. However, in the current market scenario, this differentiation in producing khadi does not have any bearing on the final product prices. This inadvertently discourages firms from pursuing traditional means of Khadi production.

As a result, there is a need to categorise products based on the process and versions involved. This will help producers get the correct value for their khadi products and also create more transparency for the consumers. The khadi can be categorised either based on the production process, or it can be distinguished based on thread counts.

- **Categorisation based on production methods can be done in the following way -**
  I. Khadi: Fabrics that are handspun, handwoven without any form of mechanisation.
  II. NMC Spun Khadi: For fabrics that are spun using NMC.
  III. Amber Charkha Spun Khadi: For fabrics that are processed using Amber Charkha.

  Or

- **Distinguish Khadi Products Based on Counts**
  Authentic Khadi yarn which is spun by hand usually has a coarse 20 counts as opposed to mechanised Khadi with finer counts. Stating the thread counts of the yarn will give consumers greater awareness of the products they are buying.

Recommendation

Categorise Khadi based on the processes involved. It is suggested that there be a publication of a circular describing the categorization of Khadi into different categories based on the extent of mechanization in the spinning process. This would make the definition of 'Khadi' consistent with the provisions in the different legislations and make the production process of Khadi more transparent for consumers. Alternatively, Khadi can also be distinguished if the final product also mentions the thread counts of the yarn.

The impact of this would be two-pronged. One, it would provide the seller to charge the price based on the type of spinning and two, it would show the differences between the various types of spun fabrics, thereby creating awareness in the market about the product and the process undertaken for its creation.

2. Pricing of Khadi

Context

The next step to categorisation is the need to bring the right pricing mechanism for these differentiated Khadi products. Khadi in its true form is labour intensive and therefore, expensive. Due to the introduction of mechanisation along with various incentives, and subsidies received by Khadi Institutions (KIs)[1] , the prevailing market price does not capture the real cost of producing Khadi which is processed through non-mechanised means. Even in instances where traditional Khadi is priced higher, businesses have to resort to charging less relative to the efforts involved in the production, mindful of the low-cost semi-mechanised Khadi available in the market.

The market is presently dominated by KVIC where most KIs use some form of mechanisation. This floods the market with non-traditional Khadi products and uniformly determines the prices for all Khadi (including traditional Khadi that are costlier). As a result, traditional Khadi becomes uncompetitive. It is therefore crucial to differentiate and allow market forces to determine the market price based on this differentiation.

Recommendation

It is recommended to maintain Khadi's niche, where appropriate market pricing is ensured based on differentiated Khadi products where premium prices can be considered for products made through non-mechanised means. Considering the growth of a segment that is embracing conscious and sustainable fashion, there are takers for more expensive Khadi products if they are made with traditional charkhas. Khadi institutions can work with all types of equipment and brand them accordingly. Marketing the different categories of Khadi will further help increase workers' wages and sustain the industry.

[1] Khadi Institutions (KIs) are institutions that are certified by KVIC through the issuance of a valid Khadi certificate and are enlisted with KVIC for technical and financial support.

II. Legislative Provisions in Khadi

1. The extent of use of electricity/non-conventional energy

Existing provision 1. Regulation 7 under the Khadi Mark Regulation (KMR) prohibits the use of electricity directly or indirectly for plying a traditional charkha and/ or loom. 2. Section 15(2) e of KVIC Act "...to encourage and promote research in the technology used in khadi and village industries, including the use of non-conventional energy and electric power,..."
Context Khadi's production is essentially a handmade process as described by the definition of khadi which calls it a handspun and handwoven fabric. However, there is an inherent discrepancy in the understanding of the use of electricity and non-conventional energy in producing Khadi. The contradiction is to be understood and read in conjunction with the certification process provided in chapter VI (9) of KMR. The Khadi mark certification process is undergone by any entity wanting to sell Khadi while this process of certification is **exempted** for KVIC certified institutions (KIs) **as provided in chapter IV (9) of KMR.** As a part of the Khadi mark certification, Regulation 7 of the KMR 2013 prohibits the usage of electricity for plying a traditional charkha or loom. This provision is in direct contradiction to Section 15 (2) (e) of the KVIC Act which encourages the use of non-conventional energy and electricity in the Khadi and Village Industries to increase productivity and competitiveness. That is to say, the KVIC Act encourages the use of electricity while the Khadi Mark Regulations prohibit its use. This also means that private entities wanting to sell Khadi through Khadi mark certification are prohibited from using electricity. However, institutions that come under the government's KVIC purview can use electricity by the way of the KVIC Act. This is problematic in two ways - the lack of uniformity in regulation for KIs and non-KIs is against the spirit of market competition because if private entities operate using some form of mechanisation as allowed for KIs, it is considered a violation by KMR. This contradiction disallows any private entity to enter the market which inadvertently makes KVIC-certified institutions dominant in the market.
Further, there is ambiguity in the usage of electricity for plying non-traditional charkhas and looms which are not mentioned in Regulation 7 of the Khadi Mark Regulations. It raises the question of their exclusion from this provision and the reason behind it.

Recommendation:

1) An amendment clarifying the extent of the use of electricity in the production of khadi is necessary.

2) Bring uniformity in the KMR and the KVIC Act pertaining to the use of electricity for both KIs and non-KIs, in a way that is not unfavourable to those outside the KVIC purview.

2. Raw Material Procurement Policy

Existing provision

Section 15 (2) (b) of the KVIC Act states the following function of KVIC-
To [build up, directly or through specified agencies] reserves of raw materials and implements and [supply them or arrange supply of the raw materials and implements] to persons engaged or likely to be engaged in the production of handspun yarn or khadi or village industries at such rates as the Commission may decide

Context

Building up and supplying reserves is one of the functions of KVIC according to the KVIC Act. This function has been interpreted in a rigid manner as restrictions have been imposed on Central Sliver plants (CSP) and Khadi Institutions regarding the procurement of raw materials, namely, cotton, wool and silk. As directed by vide order dated 24/12/2009, Standing Order No. 1722 dated 20th August 2013 and Standing Order No. 1773 dated 5th July 2021, Departmental CSPs are directed to procure cotton from Cotton Corporation of India (CCI) only. If cotton is not available with CCI, the CSPs are allowed to purchase from the open market including government agencies such as State Level Cotton Federations, Local Regulated Market, Agricultural Producers Marketing Committee and National Agricultural Federation, etc. Purchase of cotton from the open market by the KIs and CSPs is also regulated by the Commission with the constitution of a Cotton Purchase Committee. Other compliances also include disclosure of cotton purchase for each month and at the end of the financial year, submission of certification from CCI declaring the non-availability of cotton, maintaining a proper stock register of purchases, buying insurance cover for their materials, non-cash payments for raw materials such as through RTGS/NEFT/Demand Draft only. The KIs purchasing raw material from the open market or government agencies are also required to provide proof of purchase of cotton to the State/ Divisional office within 15 days from the date of the purchase failing which their purchase shall not be considered a valid purchase.

Further, according to Standing Order no. 1722 "the Khadi Institutions which work on New Model Charkha (NMC) and produce yarn/khadi there-should procure sliver/ roving from KVIC departmental CSPs only." However, KVIC's interpretation of this function has led to the creation of an archaic procurement policy for the stakeholders operating within the KVIC purview. As such, the manufacturers of Khadi have little to no control over the quality of the fibre and the prices at which they can procure it. This model of centralised production goes against the objectives of self-reliance and rural empowerment that KVIC was instituted to uphold through the production of khadi, a fabric that was meant to sustain the rural ecosystem. Such restrictions and compliances are outdated and seriously harm the ease of doing business in the Khadi sector. Liberalising the procurement process can help stakeholders in sourcing raw materials from their seller of choice and at competitive prices. It can also ease the requirement of various compliances attached to the procurement process.

Recommendation

Deletion of the function in Section 15 (2) (b) on procurement of raw materials through the KVIC route should be optional and be left to the discretion of the producers. The procurement policy should be more flexible and allow stakeholders to procure from the open market to take advantage of competitive prices.

3. General obligations in Khadi Mark Regulations

Existing provisions

Obligations under Regulation 6 of the Khadi Mark Regulation (KMR) concerning; disclosure of location-wise quarterly returns, stock registers, raw material procurement, or maintenance of any other record.

Context

The compliances described in the general obligations require additional business resources. Moreover, KVIC has not elaborated on the justification for such compliances for businesses in the Khadi sector. Non-adherence to the compliances may also result in a "suspension or cancellation" of the Khadi mark registration according to the provision. Omission of these compliances will be beneficial for the ease of doing business as they are cumbersome and ultimately impede the sale of products under the name of Khadi through e-commerce. Moreover, sub-regulation 6(6) allows KVIC to require maintenance of "any such records as may be required'', which is an overly broad requirement.

Recommendation

1. Omission of compliances in Regulation 6, except raw materials procurement register.

4. **The certification process**

Existing provisions
1. According to Section (15) (k) of the KVIC Act, one of the functions of the KVIC is to ensure genuineness and set up standards of quality and ensure that products of khadi and village industries do conform to the said standards, including the issue of certificates or letters of recognition to the concerned persons. 2. According to Section (22) (2), certified Khadi institutions are exempted from the certification process described in Chapter 5 of the Khadi Mark Regulation, 2013.
Context
Presently certified KIs who already possess a valid Khadi certificate (issued under clause (k) of sub-section (2) of Section (15) of the Act read with sub-regulation (1) of the regulation (24) of Khadi and Village Industries Commission Regulations, 2007) are exempted (as per Section (22) (9) of the KMR,2013) from the certification process described in Chapter 5 of the Khadi Mark Regulations, 2013. Moreover, certified KIs are also exempted from paying the fees for the Khadi mark Certificate application as they have already done so during the Khadi certification process (as per SO 1724). There are mainly two issues with this. Firstly, if the certification process for the Khadi Mark Certificate and the fees attached to it are not applicable to certified Khadi institutions then the acquisition of the Khadi Mark certificate by such entities becomes a mere formality. Secondly, if the process for verification and certification is different for certified KIs and non-certified entities, there is no uniformity. The Khadi Mark Regulations explicitly lay down the parameters for certification in the legislation. However, the same is not defined for acquiring a Khadi certificate.
Recommendation
1. 1. If the process for verification and certification is different for certified KIs and non-certified entities, the same should be made transparent and well-defined to ensure uniformity. The Khadi Mark Regulations explicitly lay down the parameters for certification in the legislation and the same should be defined for acquiring a Khadi certificate.

III. Business and Marketing of Khadi

1. Opening up sale and marketing of Khadi through e-commerce

Existing provision
According to Section(15) (d) one of the functions of KVIC is to promote the sale and marketing of khadi or products of village industries or handicrafts and for this purpose forge links with established marketing agencies wherever necessary and feasible.

Context

In keeping with the primary function of KVIC of being a facilitator in thees tablishment and development of Khadi and Khadi entities, allowing Khadi institutions to expand their current marketing channels to incorporate e-commerce will go a long way in promoting the use of Khadi by the masses. Khadi businesses undertake sales activities through its twelve departmentally-run Khadi Gramodyog Bhavan and around 7050 institutional sales outlets certified by KVIC located in different parts of the country. So far, KIs have only made the use of traditional channels of sale such as exhibitions, retails shops, government supply etc.
KVIC finally made its entry into the e-commerce space with the launch of its official e-portal eKhadiIndia.com only on 1st January, 2021. While this is the right move to promote Khadi in the market, KVIC has not harnessed the popularity of other giant e-commerce platforms such as Amazon, Myntra, AJIO etc. E-commerce as a means of providing exposure to Khadi as a sustainable fabric and alternative choice for consumers has immense untapped potential. This can be harnessed by encouraging those operating within the KVIC purview to utilise these channels effectively.

To protect the interests of the artisans and stakeholders involved in the production and sale of Khadi, KVIC can consider drafting an e-commerce policy similar to that of the 'e-marketing policy of the Handicrafts Sector'. Recognising the prospects offered by the online market and the conscious youth of India, the Office of the Development Commissioner (handicrafts) has allowed multiple e-commerce platforms to promote handicrafts in partnership with the Ministry of textiles. In this regard, KVIC is far behind in entering the e-commerce market for the promotion of Khadi. Furthermore, with the launch of its own online portal for selling Khadi products, KVIC should not be averse to allowing Khadi Institutions to sell their products on other platforms.

Recommendation

1. In exercise of this provision KVIC should release a circular allowing Khadi producers and sellers/traders to utilise any e-commerce platform as a medium of sale for Khadi products.

2. KVIC should consider drafting an e-commerce policy as a framework for engaging already established platforms like Amazon, Myntra, AJIO etc. to boost its online sales and propel growth in the sector.

2. Lack of Stimulus for KIs to be profitable

Context:

The lack of innovation of KIs to upscale and market Khadi products partly stems from the lack of stimulus for KIs to go the extra mile to make profits.

There is strong institutional backing given to KIs which adds to complacency.

Government funds are directed to KIs for various schemes such as 'Interest Subsidy Eligibility Certificate (ISEC), Modified Market Development Assistance (MMDA), Aam Admi Bima Yojana for Khadi artisans, publicity and marketing support, etc. The combined effects of incentive mechanisms rendered to KIs distort the market and put other businesses at a disadvantage, effectively killing healthy competition. This kind of backing perpetuates complacency and artificially sustains failed units. There is a track record of government writing off loss-making units.

Recommendation:

1. Lease off outlets to private entrepreneurs who can operate as per KVIC guidelines and still make profits.

3. Entry barriers to businesses

Context

Potential khadi businesses may find it difficult to obtain the khadi mark certificate. Based on stakeholder consultations, the cost of khadi mark certification at ₹ 50,000 is expensive for budding businesses who have a host of other business expenses to fulfil. The cost of certification can act as a deterrent to genuine business aspirants from poor and marginalised communities, particularly artisans who may want to expand their horizons. Moreover, the procedure to obtain the khadi mark certification can be tedious and time-consuming.

Given the number of legal notices sent by KVIC to several firms, KVIC needs to alter its approach towards aspiring khadi businesses from hostility to dialogue-oriented, if it wants to popularise khadi.

Recommendation:

Allow businesses to pay a nominal fee

4. Empowering Artisans

Context

The economic emancipation of the local community via Khadi, as envisaged by Gandhi laid emphasis on value chains to be within village premises - where many different entities ranging from farmers growing cotton to weavers, spinners, and dyers, work together for the greater good. These are critical success factors that sustain Khadi production. Many of the erstwhile production centres are now at crossroads for the lack of labour due to the sector being unable to match the wages offered elsewhere. The current business setting has dissolved the previous localised production model which gave artisans greater control over their own art/skill. It has sidelined artisans to merely being daily wage workers.

While Khadi institutions play an important role in creating employment opportunities for artisans in rural areas, they have increasingly taken on the role of a "middleman". The critical steps in the production process are outsourced to spinners, weavers and other artisans, while the business aspect of the value chain including marketing and selling is undertaken by the KIs. In that sense, the social objective of KVIC should have a wider scope of 'empowering artisans' instead of only "creating employment opportunities". To truly empower artisans in the khadi sector, their path to becoming sellers of their own products should be made easier to navigate. Today, individual artisans do not need to possess a Khadi mark certificate as they sell their products through government-certified KIs. However, if artisans form their own village collective and decide to sell their own products directly to a customer base, they would have to apply for a Khadi Mark certificate.

Artisans may be discouraged from undertaking entrepreneurial activities due to this regulation.

Individual artisans should be encouraged to mobilise their resources and form cooperatives or Producer Companies that would enhance their bargaining power in the market, ensure fair wages and increase profits for its members.

Recommendation:

To effectively empower artisans in rural areas and to ensure their continued employment in the sector, KVIC needs to ease regulatory barriers in place - particularly that of mandatorily acquiring the Khadi tag to sell Khadi. Ideally keeping a Khadi mark should be voluntary in nature so that Artisans can freely form their collective to produce Khadi, without having to fear a legal tussle or navigate through cumbersome procedures. While KVIC can advertise widely about its label being the hallmark of genuineness, it should be left to the discretion of final consumers to buy Khadi with or without the label.

5. Other Recommendations

I. Innovation in Textiles

Innovation in textiles by initiating the incorporation of a variety of yarns to create Khadi fabric should be considered since Khadi is the process of making the yarn and not the inputs used to make the product.

II. Branding

Presently Khadi products are sold through a network of 8058 sales outlets of Khadi Institutions, State KVI Boards and 23 departmental sales outlets of KVIC. Different regions employ unique methods and skills in the making of Khadi, rendering a distinct regional undercurrent, and, therefore, have a unique customer base, such as the case of Ponduru Khadi. This product differentiation is not capitalised upon through branding

All the Khadi products sourced from Khadi Institutions are majorly sold in retail outlets called 'Khadi Gramudyogs' or online through the 'Khadi India' brand. Without this distinction, selling Khadi products through a single e-portal can severely hamper the competitive spirit among the Khadi Institutions. It can disincentivise them from adopting innovative designs, producing high-quality products and creating a brand identity. Securing a loyal customer base through online branding can motivate Khadi Institutions to boost their production quality and, subsequently, their sales. To this effect, KVIC can encourage KIs to establish a brand identity for their products and facilitate them in the process with training.

III. Transferable Khadi Mark

Khadi stakeholders have raised concerns about Khadi products not being accepted as Khadi even when using Khadi inputs. A solution recommended for that was the registration of the Khadi mark to be made possible online and transferable if the producer has procured inputs from registered or Khadi-marked organisations.

IV. Khadi Brand Guideline

KVIC should release Khadi brand guidelines for all organisations to follow in order to acquire the Khadi mark and provide organisations with information before they entered the market.

3. Conclusion

KVIC was established as a statutory body to overlook regulation of the khadi sector. However, over the years the provisions of the primary legislation - the KVIC Act, 1956 have been interpreted in an expansive manner. Due to these restrictive practices, businesses in the sector cannot operate efficiently and effectively. Moreover, artisans are deprived of competitive wages that they would have otherwise earned in a more open market. Due to the lack of initiatives to encourage entry into the e-commerce space many khadi sellers affiliated with KVIC operate only in the offline market. Such factors have contributed to the lack of presence of khadi in the e-commerce landscape. If steps are taken to ease KVIC's grip on the sector, the stakeholders in the sector will benefit immensely from the competitive profits and increased popularity of khadi.

Centre for
Public Policy Research

HEAD QUARTERS
Centre for Public Policy Research
First Floor, Mandoli House,
New Link Road (Opp Kochi Metro Pillar No. 821)
Elamkulam, Kochi, Kerala, India - 682020

Phone: 091 484 4043895
Email: cppr@cppr.in | Web: www.cppr.in