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The Khadi and Village Industries in Globalized India: Role, Challenges, and Future Ahead

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Abstract

Indian economy in its path of development has done the leap frogging from agriculture to service sector bypassing industrial sector. But still there exists a serious structural flaw in Indian economy. The agriculture sector which contributes just 14.1 percent to GDP employs 52.85 percent, which is higher than employment generated by industry and service sector put together, which together contributes 85.9 percent to GDP. The surplus labour in agriculture can be absorbed by the establishment and revival of Khadi and village industries as it creates employment at low per capita investment. The important objectives of establishing Khadi and village industries in India are: 1) providing employment to the ruralities 2) producing saleable articles 3) creating self reliance amongst the poor and 4) Building up of social rural community spirit. The Khadi and Village industry has registered a significant increase in terms of production and sales even during globalization period. The KVI undoubtedly is facing a stiff competition in the globalization period, but it has shown the signs of withstanding it without consistency! The KVI industry produced Rs. 4519.31 crore worth products in 1997-98 which increased to Rs. 18018.29 crore worth products in 2012-13. It had reached the height of Rs. 21852.04 crore in 2011-12. The corresponding sales also increased from Rs. 5065.20 crore in 1997-98 to Rs. 21111.51 crore in 2012-13. The record sale of Rs. 26860.13 crore was reported in 2011-12. Khadi and Village industries provided 56.5 lakh persons employment in 1997-98 which has increased to 121.73 lakh person employment in 2012-13. But the Khadi and Village industries has a long way to go as it suffer from too much of reliance on budgetary sources, lack of adopting new market techniques, lack of product innovativeness, could not market the brand image utilizing the India's national heritage, etc. Moreover it has the potential to solve the unemployment problem of rural India to a greater extent. If we ignore the khadi and village industry, it is at our own risk!

Keywords: Khadi and Village industries, Globalization, Agriculture, Surplus labour, Relevance,

Employment potential, Gandhi, J.C. Kumarappa.

“It's (KHADI) one great merit is that it solves, as nothing else can, the economic problem of India and removes starvation”

“Village economy cannot be complete without the essential village industries such as hand grinding, soap making, paper making, match box making, oil pressing etc. When we have become village minded, we will not want imitations of the west or machine made products, but we will develop a true national taste in keeping with the vision of a new India in which pauperism, starvation & idleness will be unknown”.

- Mahatma Gandhi

Introduction

India is still an agrarian village economy. As majority of Indians live in villages and depend on agriculture for its livelihood. India has 6,38,588 villages, where 83.3 crore (68.84%) population lived (Census 2011). Agriculture share to GDP has decreased considerably from 56 percent in 1950-51 to 14.1 percent in 2011-12 (Economic survey 2012-13), but agriculture remains to be the principle source of livelihood for more than 52.85 percent of its population (NSSO 2009-10). Indian economy in its path of development has done the leap frogging from agriculture to service sector by passing industrial sector. Indian economy's growth in post reform period is spear headed by service sector growth. But there is a serious structural flaw in the growth of Indian economy. Service sector contributes 58.2 percent in 2011-12 to GDP; but barely employs 24.4 percent of the workforce; industrial sector contributed 27.7 percent to GDP and employs 22.75 percent of the workforce. But agriculture sector which just contributes 14.1 percent to GDP has employed more than industry and service put together.

The surplus labour in agriculture was expected to be absorbed by industry and services as the economy develops, but unfortunately though the economy grew, industry and service did not absorb the surplus labour to the expected level. The surplus labour stayed in agriculture decreasing the productivity of agriculture. Agriculture is in cross roads as the condition of farmers and their agriculture is highly pathetic and deplorable. 'Almost every sector has failed the government, the political class, intellectuals, planners, human right group, a once activist judiciary and the media' (Sainath. P 2007).

The overburdened agriculture can be relieved by providing the alternative employment avenues to the surplus labour. Gandhi visualized the village economy, where everyone is given access to work and the means to earn a living; so that they are able to have basic necessities of life. "If we want the millions to earn a few paises by doing honest and honorable work, the only possible instrument to present them with, in our country, is the gentle and graceful spinning wheel." [Gandhi, 1925]

Gandhi advocated Khadi and village industries for rural India. For Gandhi 'Khadi' is the Sun of the village system around which all other village industries revolve (Harijan, 16-11-1934)

Definition of Village industry

The rural industries are defined on the basis of what they actually do. The broad feature of village industries are 1) located in rural India 2) limited market and linkages 3) abundant labour availability, but scarcity of capital 4) concentrates and focus on locally available raw materials and skills 5) uses low technology

The match box making, brick making, beedi making, pulses and cereals processing industry, gur and Khandsari industry, palmgur industry, fruit and vegetable processing industry, village oil industry, leather industry, non edible oil and soap industry, plastic industry, medical plants industry, bee keeping industry, minor forest based industries, handmade paper industry, fiber industry, biotechnology, carpentry and blacksmith are the examples of village industries.

Objectives

The major objective of this paper is to:

1. To examine the relevance and role of the Khadi and Village Industries
2. To identify the challenges faced by the Khadi and Village Industries in Globalized India
3. To anticipate the future scope for the growth of Khadi and Village Industries
4. To suggest the policy solutions to revive Khadi and village industries

The relevance and role of Khadi and Village industries

"Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries are two national heritages of India. One of the most significant aspects of Khadi and Village Industries (KVI) in Indian economy is that it creates employment at a very low per capita investment. The KVI Sector not only serves the basic needs of processed goods of the vast rural sector of the country, but also provides sustainable employment to rural artisans. Khadi and Village Industries today represent an exquisite, heritage product, which is 'ethnic' as well as ethical. It has a potentially strong clientele among the middle and upper echelons of the society" [MSME working group report, 2012]

The Khadi and village industries continue to be more relevant in the globalized India. India is now reaping the benefits of demographic dividend. The average age of today's India is 24 years. India should provide /facilitate its youths to get the jobs, so that their energy is channelized in right direction towards economic development of nation. The already existing surplus labour and the new entrants to the job markets must be provided jobs; otherwise it would prove disaster to the economy. Globalized India has welcomed FDI established SEZ, but it cannot provide jobs to all those who demand the jobs, except by developing and encouraging the MSME, Khadi and Village industries. Establishing and encouraging the Khadi and village industries will also solve the adverse impact of migration of rural labour to urban areas and cause seivour strain and stress on the urban infrastructure. Gandhi sees it from other angle "It's a tragedy of the first magnitude that millions of people have ceased to use their hands as hands. Nature has bestowed upon us this great gift which

is out hands. If the craze for machinery methods continues, it is highly likely that a time will come when we shall be so incapacitated and weak that we shall begin to course ourselves for having forgotten the use of the living machines give to us by God. Millions cannot keep fit by games and athletics and why should they exchange the useful productive hardy occupations for the useless". If Khadi and village industries are revived, encouraged and established in rural India, it will provide employment to lakh of unemployed youths in rural India.

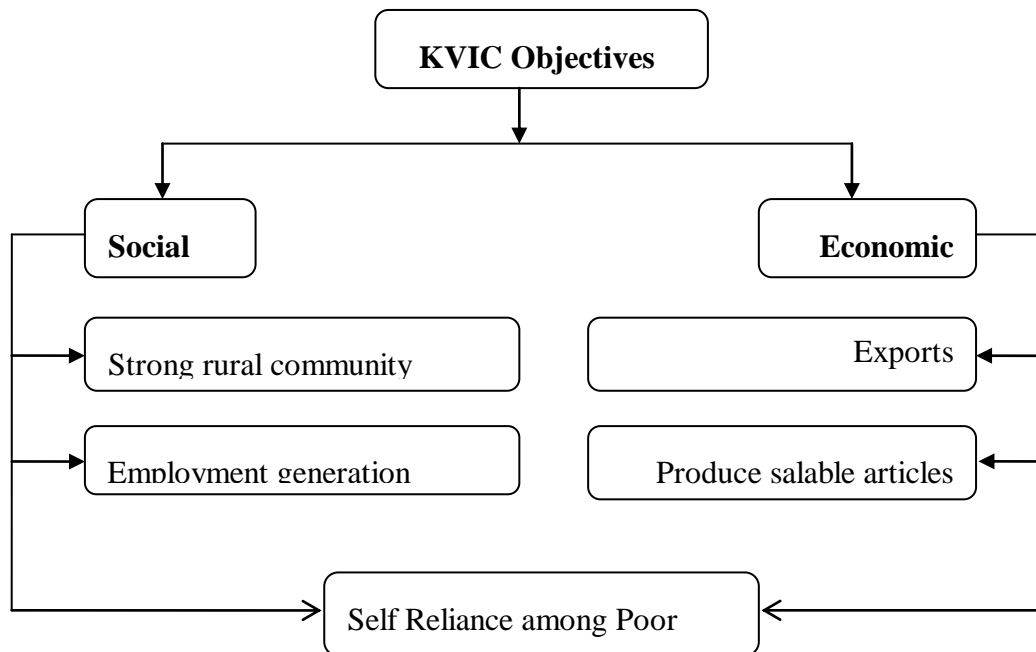
It will also enable to absorb the surplus labour from agriculture sector and also provide supplementary employment to agricultural workers who face the problem of season unemployment. The employment increases their income, purchasing power and savings, which in turn increases the demand for goods. The increased demand for goods will boost the manufacturing sectors. The simple Keynesian multiplier works and the rural economy will become vibrant economy which attracts more investment. Hence investment in Khadi and village industries in rural India will change the face of rural India into a developed economy.

Mechanization is good when the hands are too few for the work intended to be accomplished. It is an evil, when there are more hands than required for the work, as is the case in India. The problem of unemployment in rural India can be tackled by developing village and cottage industries (Gandhi). These industries are labour intensive industries which are capital saving industries. Moreover, they take the employment opportunities to the doors of the unemployed and ideally fit in to the rural conditions. It is also required in order to protect the interest of thrift and dignity of manual labour and for the protection of rural artisans.

Khadi and Village Industries

The Government of India in order to encourage Khadi and Village Industries has created 'The Khadi and Village Industries Commission (KVIC) is a statutory body created by an Act of Parliament 'Khadi and Village Industries Commission Act of 1957. It has taken over the work of the earlier 'all India Khadi and Village Industries Board'.

The important objectives of the Khadi and Village Industries are 1) providing employment to the ruralities 2) producing saleable articles 3) creating self reliance amongst the poor and 4) Building up of social rural community spirit. The objectives are depicted in the below chart:



The KVIC is apex body to promote village industries in India. Hence it is vested with the responsibility of planning, promotion, organization and implementation of all those programs for the development of khadi and village industries in the rural areas in coordination with other agencies engaged in rural development at national and state level.

The government of India introduced the Khadi and Village Industries Commission (Amendment) Bill, 2005, in the Lok Sabha on August 22. The Bill altered the definition of "village industry" by raising its fixed income cut off level from Rs. 15,000 to Rs. 1 lakh. Besides the change in definition, it has several provisions relating to the efficient administration of KVIC, which is the country's largest rural development supporting agency, RBI (2010) considers KVIC, in tune with micro enterprises for sanctioning of loan under priority

sector. Hence KVIC in manufacturing sector should not exceed Rs. 25 lakh investment in plant and machinery and it should not exceed Rs.10 lakh investment in equipment in service sector.

The development programmes of the KVIC are implemented in all the states and Union Territories. KVI Boards which are statutory organizations are established under State Laws,. At present there are 33 KVI boards in India. The state Khadi and village boards implement about 90 percent of village industries programme. They receive funds from KVIC and respective state government.

Performance of KVI: Production and Sales

There are five types of Khadi namely cotton, muslin, woolen, silk and polyvasta (mixture of polyester and cotton). Khadi units are classified as 1) exclusive spinning units 2) exclusive weaving units 3) spinning and weaving units. The khadi units also take up dyeing, starching of threads and other related tasks also. Village industries output of goods varies depending on the unit.

The Khadi and village sector has registered a significant increase in terms of production and sales during the globalization period. The KVI undoubtedly is facing a stiff competition in the globalization period, but it has successfully shown the signs of withstanding it, but lacks consistency! The following table 1 gives the information about the production and sales from KVI.

Table No. 1: Performance of KVI sector

Year	Production (Rs. Crore)		Sales (Rs. Crore)		Cumulative Employment (in lakh persons)	
	Khadi	Village industry	Khadi	Village industry	Khadi	Village industry
1997-98	624.10	3895.21	745.90	4319.38	14.01	42.49
2001-02	416.69	7140.52	527.86	8383.49	8.48	54.16
2003-04	451.93	9263.98	589.96	11000.00	8.61	62.57
2006-07	491.52	13527.19	663.19	18888.21	8.84	80.08
2007-08	543.39	161.34.32	724.39	20819.09	9.16	90.11
2009-10	628.98	17508.00	867.01	23254.53	9.81	98.72
2010-11	673.01	19198.85	917.26	24875.73	10.15	103.65
2011-12	716.98	21135.06	967.87	25829.26	10.45	108.65
2012-13	569.30	17448.31	790.78	20320.73	10.69	111.04

Source: Compiled from various issues of MSME annual reports

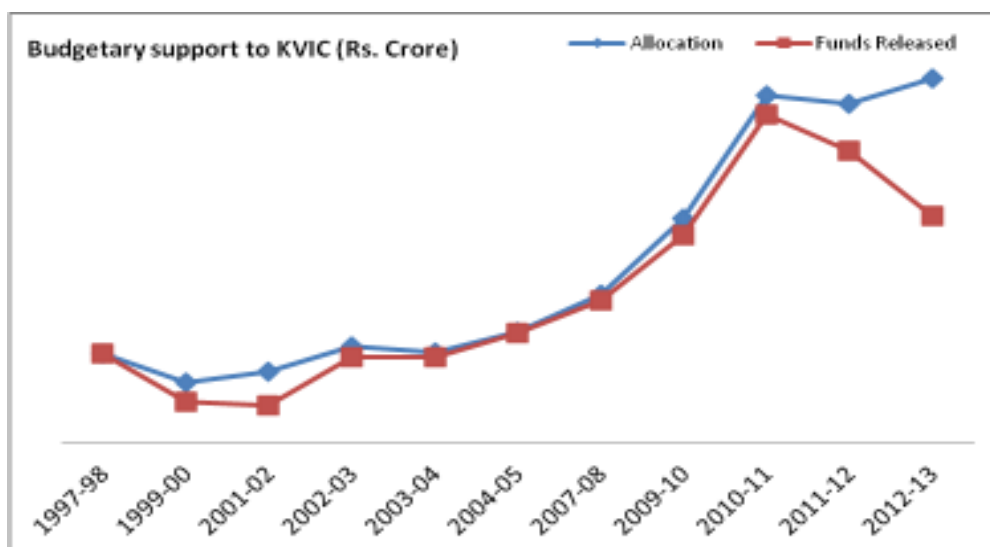
The KVI industry production was worth Rs.4519.31 crore in 1997-98 which increased to Rs.18018.29 crores in 2012-13. It had reached the height of Rs.21852.04 crore in 2011-12. The corresponding sales also increased from Rs. 5065.28 crore in 1997-98 to Rs. 21111.51 crore in 2012-13. The record sale of Rs. 26860.13 crore was reported in 2011-12.

Khadi production after reaching Rs. 624.10 crores worth of production fell significantly to 416.69 crore in 2001-02 after which it increased continuously to Rs. 716.98 crore in 2011-12, but again declined to Rs. 569.30 crore in 2012-13. Khadi production which fell in 2001-02 took almost took 8 years to reach to the level of 1997-98. On the other hand, village industries grew consistently as its production grew from Rs.3895.21 crore in 1997-98 to Rs. 21135.06 crore in 2011-12. It declined to Rs. 17448.31 Crore in 2012-13. The decline in the production of KVI can be attributed to decrease in the funds released as a part of budgetary support. Similar trends are observed in sales, as it depends on production, market and tastes of the consumers.

Budgetary support to KVI

Budgetary support is playing the crucial part in the production of Khadi and village industries. The budgetary support has become life blood of khadi and village industries. Whenever the budgetary allocation is good and the funds released exceed 80 percent.

Chart No.1 Budgetary support to KVI (Rs. Crores)



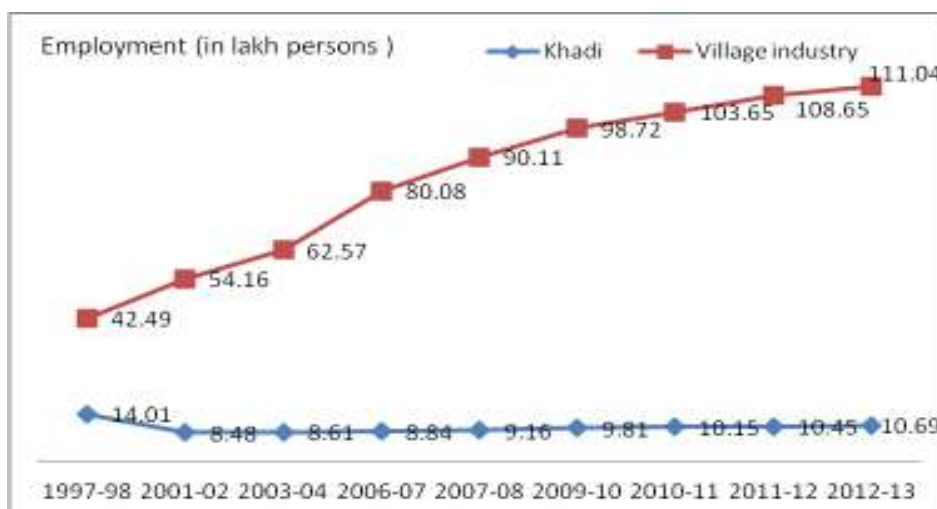
Source: compiled from various issue of MSME annual report

Khadi and village industries have shown a spectacular progress in the production and sales, whenever the funds released exceeded above 80 percent the allocation. For example in 1997-98 the funds allotted was Rs. 441.54 crore and funds released was 440.78 crore which is 99 percent of the total fund allotted, similar development can be seen in 2002-03 and 2011-12 where Khadi and village industries have done well. As a contrary when the funds released are less than 80 percent of the allotted budgetary support the Khadi and village industries have not done well. For example: The funds released were less than 67 percent of fund allotted in 1990-00, 51 percent in 2001-02, 62 percent in 2012-13, the result was that Khadi and Village industries performed badly. The majority of allocation comes from planned allocation which varied between 70 to 88 percent of the allocation.

Employment Potential

Khadi and Village industries are encouraged in rural India due to immense employment potential. Generally it is observed that the real India lives in rural India as they preserve the heritage and culture of India, but unfortunately many of them are illiterates and unemployed. Farmers artisans and craftsman contribute significantly to the rural economy, but many of them are poor. Reviving and establishing Khadi and village industries help them to get the sustainable employment. The following diagram provides the details of the employment generation of Khadi and village industries.

Chart No. 2



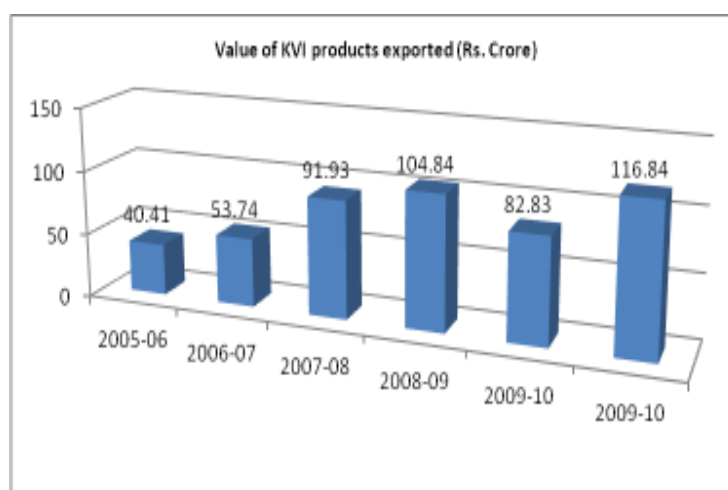
Source: compiled from various issue of MSME annual report

Khadi industries generated 14.01 lakh employment opportunities in 1997-98 which decreased to 10.69 lakh persons in 2012-13, whereas the village industry generated employment to 42.49 lakh persons in 1997-98 which increased to 111.04 lakh persons in 2012-13. During XI five year plan period the Khadi and village industries provided employment opportunities to 16.07 lakh person (pib.nic.in)

Exports

Ministry of Commerce, Government of India, has accorded deemed 'export promotion council' for promoting KVI products. KVIC has developed a linkage with National Institute of Fashion Technology (NIFT) Mumbai, to avail professional expertise in the area of design and fashion. KVIC is working on MoU to get professional expertise from Indian Institute of Foreign trade. Gradually the exports of khadi and village industries are gaining the momentum, though it has got a long way to make its mark! The value of khadi and village industries products exported was Rs. 40.41 crore in 2005-06, which reached to Rs.116.84 crore by 2010-11. The following chart depicts the KVI products exported from India.

Chart No. 3



Source: compiled from various issue of MSME annual report

Globalization and Khadi and Village Industries

The opening up of the markets of the developing economies like India has given more advantage to developed countries to conquer the developing economies market. The modern technology, hidden subsidies given by their countries and marketing skills help them to conquer Indian markets. Further the developed worlds impose restrictions on the areas where developing countries have an edge over them. Indian government, for time being, has to provide suitable safety nets for MSME and KVI.

The government of India should be more proactive in protecting the rural India from the negative externalities of globalization. It forces us to say that the government which forgets the real India is the biggest threat. It will apt to quote Dr J.C Kumarappa "The trend of events seems to be such that we shall end by hanging ourselves with scientific ropes" Khadi to stand on its own legs and compete with MNCs need the government support. Government is gradually cutting its subsidies obeying to the pressures of developed countries under trade distortion clause of WTO. The major portion of the budgetary support given to the KVI is for disbursement of rebates on retail sales of Khadi and to subsidy on village industries. In the past the working fund given to khadi industry was interest free. But at present 4 to 6 % of interest is charged on the working fund also. Earlier Government gave loans from plan provisions, but of late, plan provision has depleted and the Khadi sector is being financed by the consortium of banks (CBC) which expects working fund to be repaid in installments, along with interest. The government of India should not forget that Khadi is not mere cloth. It is a process of social-economic reconstruction of our society. As long as the government continues to proclaim that their primary objective is the welfare of the people, it has to continue to support to Khadi and village industries.

Generally the supporters of globalization ridicule the support to MSME and Khadi and village industries and advice that they should either withstand competition in market or perish. But they intelligently forget the amount of subsidies an MNCs, FDI get in the form of excise concessions, customs duty relief and sales tax waivers. The tax relief given by the Tamil Nadu government to Ford company was enormous. For example; when Ford Company started its plant near Chennai in Tamil Nadu, it was given recurring incentives of about \$378 million (in 1996 prices). Ford promised of creating 900 jobs, does it mean government gave Rs. 41 lakh 20 thousand to create each job! Even today the amount of incentives the foreign investor /MNCs get is huge! Despite taking huge concessions and subsidies they also get concessions on acquiring land, subsidized water supply! But still they make a loud huge and cry over subsidies to khadi and village industries and MSMEs.

Weaknesses

The main reasons for the poor performance in khadi production as listed out by Tenth Five Year Plan Document (2002) still hold good today

1. Uncertainty over the continuation of the rebate policy for khadi, which upset the production schedule and output of khadi producers;
2. High stock of unsold khadi and
3. Mismatch in khadi production;
4. The project finance approach adopted in place of existing pattern approach for village industries units took the rural entrepreneurs some time to get used to;
5. There was a shortfall in availing funds from banks and budgetary resources

The other reasons for the poor performance of khadi and village industries are

- 1) Too much of reliance on budgetary sources,
- 2) Lack of adopting new market techniques
- 3) Unable to reduce the cost of production
- 4) Lack of product innovation and
- 5) Could not market the brand image utilizing the Indian's national heritage.

Future Ahead

Gandhi's many noble principles are buried with him, to be remembered only twice a year. Let his holistic development strategy of village based industries do not meet the same fate. If properly utilized Khadi and village industries will change the face of rural India into a vibrant dynamic economy. More research should undergo in the field to reduce the cost of production of products from khadi and village. For example the selling price of khadi is higher than the mill made cloth as it is hand spun and hand woven, but still the means can be found, how it can be produced competitively.

The Government decision to register "Khadi" as a brand name as well as domain name is a welcome decision. The KVIC has advised to register "Khadi" as a geographical indication. Today many new products, new designs are being developed with the help of National Institute of Design and National Institute of Fashion Technology. Packaging of Khadi products is improved. A mechanism to ensure quality of Khadi products is also evolved in the overall strategy that awaits bright future for KVIC.

Thrust area

The report of the working group on MSMEs growth for 12th Five year plan (2012-17) highlights the major thrust area of value addition in Khadi namely

- 1) Focusing on eco-friendly and natural products of the sector.
- 2) Identification and development of heritage village covering KVI activities.

- 3) Integrated inputs relating to credit, technology, marketing intervention, capacity building, innovations, skill development, infrastructure support, etc. to be provided under cluster approach.
- 4) Identification of surplus land with KVIC and KVI Institutions and work out action plan for effective utilization of land.
- 5) Innovations in design, technology product development and processes.
- 6) Developing KVI products for users of all age group.
- 7) Introducing interventions and promotional measures to increase the market share of KVI products to provide more employment opportunities for rural folk.
- 8) Make departmental sales outlets and Central Sliver Plants vibrant and centers for generating surplus.

Policy Initiatives

- 1) To come out with viable technology to reduce the cost of production of khadi and village industries products
- 2) The cloth required by Government departments like schools Hospitals & Jails, should be purchased only from the Khadi industries.
- 3) The government employees of all the departments should be compulsorily asked to wear khadi clothes at least twice in a week
- 4) Marketing techniques should be suitably adopted
- 5) Khadi & village industries should be encouraged in villages and no MNCs or big firms should not be allowed to produce those products produced by Khadi & Village industries
- 6) Khadhi Plazas are to be set up in all the cities similar to Bangalore and Guwahati to support marketing of KVI

Conclusion

Efforts must be made to improve the quality and value of khadi production by focusing upon design inputs and improving the quality of khadi cloth. The government must also provide adequate finance, tax exemptions, particularly in sales tax, octroi, purchase tax, etc to khadhi and village industries till it can stand on its own and face globalization.

When the issue of climate change is dominating the economic policies the clean and green techniques of production has to be promoted. Hence khadi and village industries have to be promoted. Moreover it has the potential solve the unemployment problem of rural India to a greater extent. If we ignore the khadi and village industry it is at our own risk!

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