



## A Study on Khadi and Village Industries Sector

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**Abstract:** *Khadi & Village Industries has been identified as one of the major organizations in the decentralized sector for generating sustainable non –farm employment opportunities in rural areas at a low per capita investment. . The khadi and village industries programme holds great potential for generating gainful employment opportunities for the rural poor, arresting migration of rural unskilled workers to urban areas and for promoting the strategy of sustainable development. It can also be a viable and effective social safety net to enable the poor to ward off the adverse impacts of structural adjustment and economic reforms on their wellbeing. It may be necessary to constitute a Committee to examine the feasibility of the proposed model and to suggest suitable measures for restructuring of KVIC and its various activities, so that the primary objective of the scheme is realised with justifiable level of fiscal support.*

**Key words:** *Khadi, Village Industries, Micro, Small and Medium Enterprises*

### Introduction

The role of Micro, Small and Medium Enterprises (MSMEs) in the economic and social development of the country is well established. The MSME sector is a nursery of entrepreneurship, often driven by individual creativity and innovation. This sector contributes 8 per cent of the country's GDP, 45 per cent of the manufactured output and 40 per cent of its exports. The MSMEs provide employment to about 60 million persons through over 26 million enterprises producing over six thousand products. The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries. The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion. It would be an understatement to say that MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of

technology employed. Cutting across all sections of production and services, MSME sector is truly a strategic asset for the economy of the country.

Micro, Small and Medium Enterprises (MSME) sector has emerged as a highly vibrant and dynamic sector of the Indian economy over the last five decades. MSMEs not only play crucial role in providing large employment opportunities at comparatively lower capital cost than large industries but also help in industrialization of rural & backward areas, thereby, reducing regional imbalances, assuring more equitable distribution of national income and wealth. MSMEs are complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country<sup>1</sup>.

### Khadi sector

Khadi & Village Industries Commission (KVIC) established under the Khadi and Village Industries



Commission Act, 1956 (61 of 1956), is a statutory organization under the aegis of the M/o MSME, engaged in promoting and developing Khadi and Village Industries (KVI) for providing employment opportunities in the rural areas, thereby strengthening the rural economy. KVIC has been identified as one of the major organizations in the decentralized sector for generating sustainable non-farm employment opportunities in rural areas at a low per capita investment. It undertakes activities like skill improvement, transfer of technology, research & development, marketing etc. and helps in generating employment/self-employment opportunities in rural areas. Khadi is the proud legacy of our national freedom movement and the father of the nation. Khadi and Village Industries (KVI) 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<sup>2</sup>.

To realize the growth potential of KVI sector, it is necessary that production, value addition and sale grow sustainably. The XII plan approach paper requires that manufacturing sector grows at 11-12% annually and an overall growth of 9-10% is realized<sup>3</sup>. Accordingly,

keeping an eye on the sectoral growth potential and the requirement of plan mandate, a growth of 13% has been envisaged for khadi and village industries production (khadi-11%, village industries-13%). During the first four years of XI plan period, KVI production has grown 9.1% annually as is evident. Considering this, the growth target of 13% for KVI production is ambitious but achievable<sup>4</sup>. Value addition is taken as a major thrust area in order to make khadi activities attractive and economically viable. KVIC had set an objective of achieving 70% value addition. This will need to be enhanced to 100% and will need to be monitored through an appropriate measurement mechanism.

#### **Budgetary Support to KVIC**

The Union Government through the M/o MSME provides funds to KVIC for undertaking its various activities under Plan and Non-Plan heads. These funds are provided primarily by way of grants and loans and KVIC in turn reallocates them to its implementing agencies, namely the State KVIBs; institutions registered under the Societies Registration Act, 1860 and cooperative societies registered under the Cooperative Acts of the State Governments; implementing banks, District Industries Centers etc. The Commission's administrative expenditure including pension payments is met out of Non-plan Government budgetary support. The details of funds provided from budgetary sources (both under Plan and Non-plan head) during the last ten years and those earmarked in the Budget Estimate 2012-13 are given in table 1.

**Table 1: Budgetary Support to KVIC**

Year	Allocation		Funds Released	
	Plan	Non plan	Plan	Non plan
2003-04	394.67	84.87	340.55	83.36
2004-05	444.75	83.75	423.60	63.70
2005-06	462.00	84.91	460.99	83.90
2006-07	560.82	84.82	558.56	84.76
2007-08	592.93	84.82	589.82	83.91
2008-09	1104.95	107.63	1104.94	107.62
2009-10	919.20	192.41	836.00	192.38
2010-11	1543.96	172.64	1452.46	171.64
2011-12	1494.22	185.22	1258.46	184.72
2012-13	1607.11	195.58	1008.05@	117.00@
Mean	912.46	127.67	803.34	117.30
CV	53.84	40.28	48.09	40.73
LGR	16.77	11.82	13.70	10.00
R2	0.89	0.79	0.74	0.55
t-value	8.033**	5.486**	4.816**	3.142*

\*\*significant at 1 per cent level; \*significant at 5 per cent level;

Source: Micro, Small and Medium Enterprises, Annual Report, 2012-13

It is observed from the table 1 that Budgetary Support to KVIC increased consistently plan from Rs. 340.55, non plan Rs. 84.87crore during the year 2003-04 and plan Rs. 1008.05, non plan Rs. 117.00crore during the year 2012-03. It is striking to observe that the budgetary support to khadi village industries commission has oscillated between a minimum of Rs.83.36 crore, and a maximum of Rs. 84.91crore during the pre-reform period. In absolute terms, the budgetary support to KVIC in funds allocation has increased from Rs.394.67crore in 2003-04 to Rs.592.93crore in the year 2006-07 during the post-period the budgetary support to KVIC in funds allocation has ranged between a minimum of Rs.107.63crore and maximum of Rs.195.58 crore. In absolute terms, the budgetary support to KVIC plan allocation was Rs.1104.95crore in 2008-09

to plan allocation Rs. 1607.11crore in 2012-13.

### Physical Performance

KVI sector has registered a growth of around 9.96% in 2011-12 over the performance of previous year. The total KVI production during 2012-03(up to 31<sup>st</sup> December 2012) is estimated at Rs.18, 017.61crore (Khadi Rs.569.30crore and V.I. Rs.17, 448.31crore) as against Rs.21, 852.04crore (Khadi Rs.716.98crore and V.I. Rs.21, 135.06crore) in 2011-12. Similarly, estimated sales of KVI products up to 31<sup>st</sup> December 2012 also increased to Rs. 21,111.51crore (Khadi Rs.790.78crore and V.I. Rs. 20,320.73crore) in 2012-13 as against Rs.26, 797.13crore (Khadi Rs.967.87crore and V.I. Rs.25, 829.26crore) of the previous year (up to 31<sup>st</sup> December 2011).

The total cumulative employment in the KVI sector is estimated to have



also increased to 121.73 lakh persons (10.69 lakh in Khadi and 111.04 lakh in V.I.) BY 31 December,2012 as against 119.10lakh persons (10.45 lakh in Khadi and 108.65 lakh in V.I.) of corresponding

period of previous year. The performance of KVI sector in respect of productions, sales and employment during the last ten years and in 2012-13 is shown in table 2.

**Table 2: Performance of Khadi & Village Industries Sector**

Year	Production (Value Rs.crore)		Sales (Value Rs.crore)		Cumulative Employment (lakh persons)	
	Khadi	VI	Khadi	VI	Khadi	VI
2003-04	482.23	12957.47	641.82	19954.52	8.87	79.81
2004-05	421.82	11348.25	521.64	17951.28	8.76	67.38
2005-06	364.43	12312.43	543.45	16548.98	8.42	79.96
2006-07	491.52	13527.19	663.19	18888.21	8.84	80.08
2007-08	543.39	16134.32	724.39	20819.09	9.16	90.11
2008-09	585.25	16753.62	799.60	21948.58	9.50	94.41
2009-10	484.45	11730.60	762.55	21470.48	9.77	95.19
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
Mean	533.24	15254.61	733.26	20860.69	9.46	91.03
CV	20.26	22.13	19.90	13.78	8.23	15.65
LGR	7.62	5.51	5.54	3.17	2.56	4.91
R2	0.71	0.57	0.71	0.48	0.89	0.90
t-value	3.203*	3.240*	4.439**	2.736*	7.941**	8.644**

Source: Micro, Small and Medium Enterprises, Annual Report, 2012-13.

**Major Schemes being implemented by KVIC**

- |  |   |
|--|---|
| <p>(a) Prime Minister's Employment Generation Programme (PMEGP)</p> <p>(b) Workshed Scheme for Khadi Artisans</p> <p>(c) Scheme for Enhancing Productivity &amp; Competitiveness of Khadi Industry and Artisans</p> <p>(d) Strengthening Infrastructure of Existing Weak Khadi Institutions and Assistance for Marketing Infrastructure</p> <p>(e) Khadi Reform and Development Programme (KRDP)</p> <p>(f) Interest Subsidy Eligibility Certificate (ISEC) Scheme</p> | <p>(g) Market Development Assistance (MDA)</p> <p>(h) Product Development, Design Intervention and Packaging (PRODIP)</p> <p>(i) Rural Industries Service Centres (RISC)</p> <p>(j) Khadi Karigar Janashree Bima Yojana</p> <p>(k) Exhibitions</p> <p>(l) Quality Control and Brand Promotion</p> <p>(m) Research and Development</p> |
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### Interest Subsidy Eligibility Certificate (ISEC) Scheme

The Interest Subsidy Eligibility Certificate (ISEC) Scheme is an important mechanism of funding khadi programme undertaken by khadi institutions. It was introduced in May 1977 to mobilize funds from banking institutions for filling the gap between the actual fund requirements and availability of funds from budgetary sources. Under the ISEC Scheme, credit at a concessional rate of interest of 4% per annum for working capital, is made available as per the requirement of the institutions. The difference between the actual lending rate and 4% is paid by the Central Government through KVIC to

the lending banks and funds for this purpose are provided under the khadi grant head to KVIC. The Institutions registered with the KVIC/State Khadi and Village Industries Boards (KVIBs) can avail of financing under the ISEC Scheme. Initially, the entire KVI sector was covered under the Scheme. However, with the introduction of REGP for village industries (VI) in 1995 and PMEGP in 2008, the Scheme now supports only the khadi and the poly vastra sector. The extent of credit flow to the institutions under the Scheme during the past ten years and in 2012-13 is depicted in table 3.

**Table 3: Credit Flow under ISEC Scheme**

(Rs.crore)

Year	Credit Flow to Khadi and Polyvastra Institutions	Subsidy Provided by KVIC
2003-04	256.51	28.48
2004-05	231.86	14.79
2005-06	219.89	10.14
2006-07	233.62	10.62
2007-08	226.12	17.61
2003-04	244.85	27.54
2009-10	279.02	25.00
2010-11	275.52	29.09
2011-12	305.03	35.56
2012-13	305.08	10.46
Paired Sample t-test	t-value= 26.063 p=0.000** Table value= 2.62	

Source: Micro, Small and Medium Enterprises, Annual Report,2012-13

The table 3 quite obviously show that the credit flow to khadi and polyvastra institutions increased from 219.89 in 2005-06 to 305.08 in 2012-13. But, Prior to 2009-10, there was continuous increase in the credit flow to khadi and polyvastra institutions from

226.12 in 2007-08 to 279.02 in 2009-10. By and large, there is an increasing trend in the credit flow to khadi and polyvastra institutions. The subsidy provided by KVIC also increased from 10.46 in 2012-13 to 35.56 subsidy provided by KVIC



shown an ever increasing trend from 2003-04 to 2012-13.

### Product Development, Design Intervention and Packaging (PRODIP)

The Product Development, Design Intervention and Packaging (PRODIP) Scheme was launched in November 2002 as a small intervention with a view to selectively improving the quality of khadi products and also to diversify into new products. It also seeks to improve the marketability of khadi by enlisting the support of professional designers approved by the National Institute of Design (NID). Under this scheme, financial assistance is provided

to the institutions or entrepreneurs affiliated to the KVIC or State KVIBs up to Rs. 2 lakh per project per year or 75 per cent of the project cost whichever is less. In the case of individual entrepreneurs, the quantum of assistance<sup>3</sup> is up to Rs. 1lakh or 75 per cent of the project cost whichever is less. The internal studies conducted by KVIC have indicated that production and sales have increased approximately by 13 per cent and 21 per cent respectively in the case of the projects taken up under Product Development, Design Intervention and Packaging (PRODIP). The progress made under this scheme during the last ten years is given in table 4.

Table 4: Progress under Product Development, Design Intervention and Packaging

Year	Total No. of KVI Projects Assisted
2003-04	121
2004-05	69
2005-06	116
2006-07	162
2007-08	124
2008-09	256
2009-10	119
2010-11	169
2011-12	175
2012-13	122
Mean	143.30
CV	35.20
CGR	5.00
R2	0.19
t-value	1.129*

\*- Not significant; **Source:** Micro, Small and Medium Enterprises, Annual Report, 2012-13

The table includes shows that the KVIC assisted the lowest number of projects at 69 is 2004-05 and the highest number of

projects at 256 in 2008-09. Later on, it declined the assisting the projects



including products development, design intervention and packaging.

### Rural Industries Service Centres (RISE)

KVIC has also taken up another small intervention called "Rural Industries Service Centers (RISC)" Scheme from 2004-05 onwards for providing infrastructural support and services to the selected units with a view to upgrading their production capacity, skill up gradation and market promotion. RISC, inter alia, provide testing facilities by establishing laboratories for ensuring quality of products; improved machinery/equipment to be utilized as common facilities by nearby units/artisans for enhancing production capacity or value addition of the product attractive and appropriate packaging facilities and machinery to the local units/artisans for better marketing of their products training facilities for

upgrading artisans' skills in order to increase their earnings and new designs and diversified products in consultation with experts/agencies for value addition of rural manufacturing units.

This scheme is being implemented through KVIC/KVIBs, National level/State level Khadi and VI Federations, Khadi and VI Institutions affiliated to KVIC and KVIBs and NGOs which have already worked for the implementation of the programmes relating to rural industries. Under this scheme, financial assistance for establishing smaller projects costing up to Rs. 5 lakh each is provided to KVI units while in bigger projects, such assistance is up to Rs. 25 lakh. Each project costing up to Rs. 5 lakh is expected to provide benefit to at least 25 individuals. The number of projects assisted under this programme during the last ten years is given in the table 5.

**Table 5: Number of Projects Assisted Rural Industries Service Centres**

Year	Total No. of KVI Projects Assisted
2003-04	56
2004-05	63
2005-06	68
2006-07	72
2007-08	76
2003-04	54
2009-10	18
2010-11	18
2011-12	10
2012-13	08
Mean	44.30
CV	62.01
CGR	-25.00
R2	0.754
t-value	-4.149**

\*\* significant at 1 per cent level; Source: Micro, Small and Medium Enterprises, Annual report, 2012-13



The table 5 presents that the KVI assisted projects for rural industries services centres varying from 08 in 2012-13 to 76 in 2007-08. It also shows that the assistance rapidly increased from 2003-04 to 2007-08 and later on the assistance to projects rapidly curtailed.

### Government Supplies

KVIC has been supplying its products under the 'Rate Contract' of Director General of Supplies and Disposal (DGS&D) to various Government

Departments/Agencies. Based upon DGS&D Rate Contract, the items like dasuti khadi, dungari cloth, dusters, long cloth, bunting cloth and sheeting cloth etc., are being supplied to Government Agencies and bed rolls, curtains, pillow covers, "kulhars" (earthen cup) etc., are being made available to the Indian Railways. The position of the supplies made by KVIC to Government Offices during in the year 2012-13 is given in the table 6.

**Table 6: Khadi Village Industries Supplies to Governmental Agencies**

(Rs. crore)

Year	Amount of Government Supplies
2003-04	25.35
2004-05	23.43
2005-06	26.21
2006-07	29.10
2007-08	33.99
2003-04	31.82
2009-10	21.36
2010-11	30.28
2011-12	29.94
2012-13	19.69
<b>Mean</b>	<b>27.12</b>
<b>CV</b>	<b>4.68</b>
<b>CGR</b>	<b>-0.01</b>
<b>R2</b>	<b>0.007</b>
<b>t-value</b>	<b>-0.116*</b>

\* - Not significant

**Source:** Micro, Small and Medium Enterprises, Annual Report, 2012-13

It is obviously observed from the table that KVIC supplied to government agencies varying from Rs. 19.69 crores in 2012-13 to Rs. 33.99 crores in 2007-08. The KVIC supplies to government agencies increased from 2003-04 to 2007-08 and decreased later on.

### Central Sliver plants

Khadi institutions and State KVI Boards are implementing khadi programmes of KVIC. Around 25 per cent of the working capital given to them is meant for raw material. In order to ensure that khadi institutions maintain regular spinning work for artisans and to improve the quality of raw material in khadi sector, KVIC continued to operate



its six central Sliver Plants (CSPs) at Kuttur, Chitradurga, Sehore, Raibareilly, Etah and Hajipur. The performance of these sliver plants in terms of production

and supply to the khadi institutions during the last ten years and in 2012-13 are given in the below table7.

**Table 7: Performance of the Central Sliver Plants**

Year	Production		Supply	
	Quantity	Value	Quantity	Value
2003-04	22.14	19.63	21.86	19.34
2004-05	21.74	18.12	20.62	18.93
2005-06	24.46	21.32	25.94	22.36
2006-07	29.86	26.91	32.73	27.18
2007-08	33.96	33.26	30.13	29.53
2003-04	24.51	24.98	23.73	24.03
2009-10	35.27	35.70	35.46	35.82
2010-11	32.98	42.88	34.17	41.14
2011-12	29.63	48.81	24.98	42.76
2012-13	14.42	22.21	18.96	29.60
Mean	26.90	29.38	26.86	29.07
CV	24.47	35.49	21.96	29.25
CGR	0.79	7.50	1.07	7.78
R2	0.009	0.41	0.021	0.649
t-value	0.278@	2.359*	0.421@	3.851*

@- Not significant; \*significant at 5 per cent level

**Source:** Micro, Small and Medium Enterprises, Annual Report, 2012-13

The table 7 shows the performance of central silver plants in terms of production and supply. The production in quantity ranges from 14.42 in 2012-13 to 35.27 in 2009-10. But the value varies from year to year and ranges from 18.12 in 2004-05 to 48.81 in 2011-12. The supply in quantity varies from 18.96 in 2012-13 to 35.46 in 2009-10. Similarly the value varies from 18.93 in 2004-05 to 42.76 showing variation in the value of supply in different years.

### Conclusion

The khadi and village industries programme holds great potential for generating gainful employment opportunities for the rural poor, arresting migration of rural unskilled workers to urban areas and for promoting the strategy of sustainable development. It can also be a viable and effective social safety net to enable the poor to ward off the adverse impacts of structural



adjustment and economic reforms on their wellbeing. However, this potential cannot be realised without addressing some basic weaknesses with regard to the design and implementation of the programme and without making it fiscally sustainable. It may be necessary to constitute a Committee to examine the feasibility of the proposed model and to suggest suitable measures for restructuring of KVIC and its various activities, so that the primary objective of the scheme is realised with justifiable level of fiscal support. It is learnt that some specialist organisations are already studying various aspects of the scheme. The Committee may look into the findings of these reviews/studies.

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