



खादी ग्रामोद्योग आयोग
KHADI AND VILLAGE
INDUSTRIES COMMISSION

सूक्ष्म लघु और मध्यम उद्यम मंत्रालय, भारत सरकार
Ministry of Micro, Small & Medium Enterprises, Govt. of India,
सुधार कार्यान्वयन प्रभाग
REFORM IMPLEMENTATION DIVISION

No. RID/KRDP/3rd Tranche conditions /2017-18/

Date: 31.10.2017

Under Secretary,
Govt. of India,
Ministry of MSME,
Udyog Bhavan,
New Delhi – 110 011.

Sub : Compliance of 3rd tranche conditions under KRDP for implementation of benefit chart - regarding

Sir,

Kindly refer to the 3rd Tranche restructured conditions under KRDP which requires to be compiled as per the timeline of ADB.

In this regard, it is to inform that the 7th tranche condition states that "KVIC shall have monitored and assessed the effectiveness of the implementation of the benefit chart" have been fulfilled by KVIC. The status is as follows :

Finalised restructured tranche condition	Evidence	Status as on 31 th Oct 2017
KVIC shall have monitored and assessed the effectiveness of the implementation of the benefit chart	Assessment Report on implementation of benefit chart	Completed. Assessment report on implementation of benefit chart prepared

The assessment report on the implementation of benefit chart as evidence of compliance is enclosed.

It is, therefore, requested to kindly forward the documents to ADB for further needful action.

Yours faithfully,


Dy. Chief Executive Officer (RID)

31/10/17

Encl: As above

Copy to :

- 1) The JS, MSME, New Delhi.
- 2) The Senior Project Officer (Urban) ADB, New Delhi.
- 3) Shri Vivek Mathur, Senior Officer, MSME, New Delhi



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Khadi Reform and Development Programme

Assessment Report

**KVIC shall have monitored and assessed the effectiveness
of the implementation of the benefit chart**

October 2017



कामये दुर्वत्प्रानाम् ।
प्राणिनाम् आतिनाशनम् ॥

Khadi and Village Industry Commission

**Ministry of Micro Small and Medium Enterprises,
Government of India**



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1. Background

The Khadi sector has traditionally depended on subsidies (Interest Subsidy Eligibility Certificate) and Market Development Assistance (MDA) for its activities. In order to make the sector self-sustainable, it was envisaged under Khadi Reform Development Program, that the reforms would be introduced for rationalizing the financial assistance such that there would be gradual phasing out of subsidies. It was also envisaged that a focus shall be on the development of better and improved products and selling it at market linked prices to generate profit / surplus, which could be utilised for the development of the artisans and the Khadi Institutions.

2. Need for Benefit Chart

The conventional product pricing strategy which the KIs follow was based on the **Cost Chart** which did not take into account the potential market price of the product. The cost charts were prepared for individual product based on cost chart principles and the products are sold on the basis of the same principle irrespective of their potential marketable pricing. Prices were revised once in every 2-3 years which did not reflect the actual cost at any given point of time. Hence, it was observed that majority of the artisans, specifically spinners, were not even earning minimum wages for their sustenance. Also, there was no accountability on the cost incurred by KIs on administrative overheads as these were included as a standard % of prime cost across all KIs. Further, the availability of incentive on production meant that KIs and artisans produced even items which were difficult to be sold in market even at cost chart pricing. To address the above-mentioned shortfalls, the concept of market-linked pricing was introduced from 1 April 2011.

A market survey was conducted by KVIC in 2011 which indicated that many of the KVI products had immense potential to sell at a higher price. Hence with the introduction of market linked pricing the Khadi products and with certain improvement in quality, design and packaging and targeted promotion; a set of products can be sold at a price higher than the cost. The surplus generated from selling the premium products could be utilized for enhancing artisan and karyakarta's earnings and undertake production and marketing reforms.

With the products being sold at market prices, the Khadi Institutions shall be able to generate profit / surplus which could shall be utilized for strengthening the value chain through marketing reforms, production reforms, and incentivizing artisans thereby enhancing their earnings.

3. Introduction to Benefit Chart

The basic objective of the Benefit Chart is to enhance the earnings of the artisans, Karyakartas as well as to some extent, those who are involved in the production and sale of Khadi products, without posing as an additional financial burden on the KIs. The surplus is to be partly distributed among the artisans and Karyakartas and rest of it is to be utilized for marketing and development of KI. The formulae adopted for distribution of surplus is summarized in the Table below:

Objective	Percentage of surplus
For Benefit of Artisans	50%
Karyakartas/employees of KI	20%
Product Development activities like skill development, infrastructure development for production activities, marketing development and capital formation	30%

To implement the Benefit Chart, a circular was issued by KVIC in 2011, along with the comprehensive information on its objectives, working principles, operational guidelines etc. The same is attached at the Annexure.

4. Implementation of Benefit Chart

While the guideline for benefit chart was issued in 2011, there were no activities till November 2016. The informal consultations done by the State Offices indicated attributed the following key reasons for non-adoption of the guidelines.

- a) The Khadi Institutions were slow in adopting the market linked pricing and hence no generation of surplus was happening to be implemented under Benefit Chart.
- b) Khadi Institutions were finding the guidelines and the format for recording the workings of Benefit Chart to be complex in nature

KVIC decided to carry out formal orientation, awareness building and consultations with KIs at zonal level. Following consultation workshops were conducted.

Zone	Location	Date
East	Kolkata	21.12.2016
West	Ahmedabad	28.02.2017
South	Tiruppur	21.04.2017
Central	Lucknow	26.04.2017
North	Delhi	01.05.2017
East	Kolkata	12.05.2017

Some of the photographs of the workshop conducted in Gujarat, Tamil Nadu and West Bengal is provided below respectively.

Photographs of the Training





A committee was set up internally for the implementation of Benefit chart. In the first meeting of the Benefit Chart Implementation Committee held in February 2017, the following decisions were taken:-

- The Directorate of IT shall be requested to develop a Software to calculate Surplus & distribution among the stake holders as described in the Benefit Chart Guidelines
- Director (Khadi)/RID shall request State Offices to identify at least 2 premium products from the respective States in consultation with major institutions in the state within 15 days and list the problems faced by the KIs to implement the benefit chart guidelines
- KIs should maintain separate head of accounts in Balance Sheet named 'Benefit Chart Surplus Head' and distribute surplus as prescribed in the Benefit Chart guidelines
- KIs would identify the Spinners and Weavers so as to pass on the benefit of surplus as prescribed in the Benefit Chart guidelines.

Considering the above issues, the reporting systems were simplified and in March 2017, the revised format for the Benefit Chart Monthly Report was shared with KIs, State Offices and Divisional Offices, & Zonal Offices. The circular is attached as Annexure. Instructions were issued on the following:

- KIs shall maintain a separate head of account called 'Benefit Chart Surplus Account' from financial year 2017-18
- State /Divisional Directors shall identify 5 premium products in each KI which can be sold at market-linked price

- The Zonal Dy C.E.Os shall monitor the progress on monthly basis and send the report to Directorate of Khadi /RID.

A simplified revised version of the Benefit Chart guidelines were issued in July 2017. This revised guidelines contained detailed steps for the calculation and utilization of surplus. The reporting requirements were spelt out clearly and the revised reporting formats for KIs, State Offices and Divisional Offices, & Zonal Offices were also provided.

5. Assessment of Benefit Chart Implementation

The actual adoption of benefit chart principles are still in very nascent stage. There is very slow progress in actual implementation post revised guidelines in July 2017. In the period August to September 2017, benefit chart was adopted by some of the Khadi Institutions as reported by the State Offices. The first phase of assessment carried out in October 2017, wherein 37 KIs have shared the details as per the given format. The list is provided at the Annexure. Out of this 37, 28 are from South Zone, 3 from North Zone, 2 from West and 4 are from East Zone.

Key Findings

As the assessment period is only two months, it is not prudent to conclude on the effectiveness of the benefit chart principles. However, the first assessment provides us some qualitative insights on the approach needed to increase the pace of implementation and also monitoring measures needed to ensure the adoption of guidelines.

- The number of premium products for which benefit chart is implemented varies across KIs; the range is 1-11. At an average level, each of the Institutions have identified around 3 products which could be sold at a premium and thus generating surplus for the benefit chart.
- The products where market linked pricing has been introduced include silk saree, embossing saree, jangalal saree, printing saree, coloured dhoti, muslin shirting, coloured towel, kurta, pant, jacked, ladies suit, bedsheet, jeans kurta, garad, kantha etc.
- KIs in South Zone have made better progress in implementation of benefit chart as compared to other Zones. In Karnataka, 5 KIs located across Bijapur, Chitradurga, Davengere, and Chikballapur districts have implemented Benefit Chart.
- A total surplus of around INR 4 lakhs has been generated in two months period with an average of INR 11,130 surplus per institution. The surplus generated range from 2% to 97%. Around 20% of the KIs have reported surplus above 10%.
- Only 1 KI (Nabadwip Kutir Shilpa Pratisthan, West Bengal) has distributed the surplus amount for benefit of artisans, karyakartas, and utilized it for product development.

5. Next Steps

As explained earlier, the implementation of Benefit Chart principles is still in nascent stage. The assessment carried out indicate following next steps to increase the pace of implementation and increase the effectiveness of the implementation.

1. Promoting practicing of market linked pricing – Lack of implementation of market linked pricing, and subsequently its effect in generation of surplus, is found to be one of the key constraint for the benefit chart. KIs need to be encouraged to practice market-linked pricing instead of the conventional pricing based on Cost Chart. Additional workshops should be conducted to acquaint them with the concept of market-linked pricing, and its benefits of distribution of benefits across the value chain, higher surplus, etc.

2. Promotion and implementation to larger number of institutions – Currently only a small number of Institutions have been reported implementation of benefit chart. There is a clear focus needed from KVIC to increase this coverage significantly. The KIs which have not implemented it till date need to be identified and special sessions need to be conducted to build their capacities to identify premium products, ascertain market value, make surplus and distribute the benefits. The KIs which are reaping the benefits should be encouraged to share their success stories through various platforms.

3. Capacity Building: Implementation of Benefit Chart requires need based capacity building of its stakeholders. Some of the skills which the KIs karyakartas were found to be lacking in relation to accounting, reporting etc should be addressed through capacity building interventions. Also KIs should be encouraged to learn from each other.

4. Strengthening of compliance, reporting and monitoring processes – As found in the assessment, very few KIs are actively distributing the surplus as per the guidelines. Hence all the KIs should be strongly advised to follow the processes and guidelines as stated for the benefit chart. The monitoring and the reporting system should be strengthened and should be reviewed by the Zonal offices, State and Divisional Offices and KIs on a continuous basis.

5. Leveraging Technology – The web platform for KIMIS is already developed and made accessible for all the Khadi Institutions. Managing of benefit chart through KIMIS is easy and hence the same should be promoted likewise.

6. Awareness for the Consumers – A comprehensive awareness generation strategy should be developed and executed for the KVI consumers to make them aware that the surplus generated is being utilized for the social and economic empowerment of artisans and karyakartas; and strengthening of the Khadi Institutions. This in term shall encourage more and more consumers to purchase khadi products.

7. Reward and Recognition - Incentives and awards could be planned for KIs which perform well. For example, annual awards could be provided to the KI with the maximum total surplus, KI with highest surplus in each category of KVI products, KI with remarkable product development undertaken with utilization of the surplus, etc. This shall encourage participation and contribute towards the overall growth of the sector.

8. Consultation and Feedback – The KIs should be consulted and the feedback should be taken on a continuous basis for the improvement of the implementation of the Benefit Chart.

Annexure – List of the Institutions assessed for implementation of Benefit Chart

1. Udumalpet Sarvodaya Sangh
2. Nambiyur Sarvodaya Sangh
3. Coimbatore North Sarvodaya Sangh
4. Thanjavur Sarvodaya Sangh
5. Annur Sarvodaya Sangh
6. Tamilnad Sarvodaya Sangh
7. Vellakoil Sarvodaya Sangh
8. Karur Sarvodaya Sangh
9. Uthukuli Sarvodaya Sangh
10. Erode Sarvodaya Sangh
11. Thanjavur West Sarvodaya Sangh
12. Sarkarkollapatti Gram Sewa Sangh
13. Coimbatore South Sarvodaya Sangh
14. Khadi Gram Udyog Sangh Narar
15. Khadi Gramudyog Sewa Sadan, Gurgaon
16. Saraswati Khadi Gramudyong Sangh, Jind
17. Bharat Khadi Gramudyog Sangh
18. Shri Bhagyoday Seva Sangh
19. Bharat Khadi Sevak Sangha, Mushirabad
20. Nabadwip Kutir Shilpa Pratisthan
21. Jhargram Khadi & Village Industries Association
22. Satish Sarbodaya Varati, Behrampore
23. Mulanur Sarvodaya Sangh, Mulanur
24. Salem District Sarvodaya Sangh, Attur
25. Tamil Nad Sarvodaya Sangh, Tirupur
26. Thanjavur West Sarvodaya Sangh
27. Arni Sarvodaya Sangh, Arni
28. Cheingleput Distrcit Sarvodaya Sangh
29. Kethanur Sarvadaya Sangh
30. Padiyur Sarvodaya Sangh
31. Sathaymangalam Sarvodaya Sangh
32. Gandhipuram Sarvodaya Sangh, Gandhipuram
33. Khadarmangalam Sarvodaya Sangh
34. Puliampatti Sarvodaya Sangh
35. Avarampalayam Sarvodaya Sangh
36. North Arcot Sarvodaya Sangh , Vellore
37. Nilgiris District Sarvodaya Sangh

Final Report Implementation of Benefit Chart

May 2011



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Background

PricewaterhouseCoopers has been appointed as Consultants to Khadi & Village Industries Commission (KVIC) by Asian Development Bank (ADB) for Capacity Building for Reforming Khadi and Village Industry Subsector. An agreement for advisory services for thirty six months under Contract No. S/41-522 was signed between the Asian Development Bank and PricewaterhouseCoopers on September 2, 2010. The above contract requires the Consultants to support KVIC in revising the existing cost chart mechanism and implementation of Benefit Chart for the Khadi Institutions.

The Khadi Reform and Development Programme (KRDP) initiated by Asian Development Bank (ADB) with the support of Govt. of India is an effort in the direction of bringing in holistic reform measures for Khadi sub sector in order to fully realize the significant growth potential of KVI sector in terms of employment generation, enhance earnings of artisans and also to ensure positioning of Khadi in consonance with current market needs. The aim is to make Khadi industry more productive, competitive and also to strengthen its potential for creation of sustainable employment by extending an evenly balanced and need based support in all areas of Khadi activities viz. production, distribution, promotion, capacity building and sales.

KRDP envisages revision of the existing cost chart principles delinking the product pricing with the cost, introduction of market linked pricing and implementation of Benefit Chart for utilization of surplus generated from introducing market linked pricing. This report enumerates the key features of the Benefit Chart, revision in the costing mechanism required for implementation of Benefit Chart and the Guidelines for Implementation of Benefit Chart (Provided in Annexure to the report)

Cost Chart Mechanism

Existing Cost Chart Principles

The costing system followed by KVIC sponsored (and KVIB) units is based on guidelines given by KVIC, in the “Khadi Certification Guidelines”. The said system is called Cost Chart. The objective of the cost chart is to ensure economically sustainable earnings to artisans and make available Khadi at an affordable price to the customers.

The production activity for Khadi commences with the conversion of cotton and goes through the various stages of processing. Since it involves various processes such as slivering, roving, spinning, weaving, bleaching, dyeing, printing and tailoring – therefore process costing principles are being applied to derive the cost of the finished product.

The raw material procured goes through various conversion processes. At each stage value is added to the input. The output of one process becomes the input for the next process.

Input	Process	Output
Cotton	Slivering	Sliver
Sliver	Roving	Roving
Roving	Spinning	Yarn
Yarn	Weaving	Kora Cloth
Kora Cloth	Wet Processing	Printed Cloth

Processed in Sliver Plant

Processed in Khadi Producing Institutions

Various elements of cost in production and marketing of Khadi are given below

- **Raw Material:** The institutions record the raw material cost purchased from CSP at the cost chart rate. The difference between the cost chart price and actual price is adjusted in the “Price Fluctuation Reserve”. If the raw material is purchased from other than the CSPs, the raw material has to be recorded at actual rates or the cost of production if the sliver is produced in-house.
- **Conversion Charges:** The Cost Chart is based on the Standard Costing Principles. The conversion charge at each stage is fixed. At each stage the conversion charges is added to the cost of the input as per the cost chart mechanism. The conversion charge consists of the following components.
 - Artisan Wages: The spinning and weaving wages are paid as prescribed in the cost chart to the artisans and the payments are recorded in the artisans’ passbooks that are to be maintained by them. These passbooks will have quantity entries of slivers/rovings given and number of hanks and weight of hanks taken back & wages paid.
 - Artisan Welfare Fund: AWF is calculated @ of 12% of the artisan wages. The AWF is to be remitted to the Artisan Welfare Trust with the State Offices
 - Incentive: An incentive of 10% of the artisan wages is given to the artisans. The incentive wage is given at the end of each quarter/year.
- **Provisions:** In addition to the above, various provisions are also prescribed periodically. These are provisions for
 - Trade margins at 3% of the prime cost
 - Insurance at 1% of the prime cost
 - Bank interest at 4% of the prime cost
 - Depreciation at 15p per hank

- Supervision charges 10p per hank
- Maintenance 10p per hank

In addition to the above provisions, standard margin of 25% of the prime costs are prescribed for meeting establishment expenses. These provisions are determined by the Central Certification Committee (CCC) and enforced through State level cost charts.

Pricing of Khadi based on cost chart:

The pricing of the products is done on the basis of the cost as prescribed in the cost chart. Though, after the introduction of the MDA the pricing of the products at the fabric conversion stage has been delinked from the cost chart, the pricing of the product upto the fabric stage is still determined on the basis of the cost chart.

Issues with the existing cost chart mechanism

The material Cost accounted does not reflect the current actual cost paid for the raw material. The material cost should be determined at periodical intervals, say at least once in a quarter, and should be adopted for making any pricing decisions.

It is observed that majority of the artisans, specifically spinners are not earning adequate for their sustenance and is low compared to the earnings available in other avenues of employment.

The provisions allowed in the cost chart are in the nature of administrative and selling overheads incurred by the institutions. These are included as a standard % of prime cost across all KIs, irrespective of the size of the KIs. Also, these principles need to be revised periodically in line with the actual costs incurred by the KIs.

Product pricing is done on the basis of the cost chart which does not take into account the marketability of the product

Benefit Chart

What is Benefit Chart?

KVIC is conducting an extensive market survey. The market survey also includes the assessment of price range of the products similar to Khadi, sold by private organization. Based on the results of the market survey, KVIC shall circulate the price range of the various product categories within which the products of KIs could be sold in the market. This will enable the KIs to appropriately price their product in the market.

With the introduction of market linked pricing the Khadi products, with certain improvement in quality, design and packaging and targeted promotion can be sold at a price higher than the cost.

The surplus generated from selling the premium products needs to be utilized for enhancing artisan and karya karta's earnings and undertake production and marketing reforms.

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

The difference between selling price, at which the products are sold to customers, whole sellers and other alternate marketing channels, including Marketing Organization at market linked pricing and actual costing of Khadi is surplus. Such surplus shall be utilized for distribution of incentives amongst the artisans and karya kartas, undertaking production and marketing reforms and capital formation for ensuring long term sustainability. This system is termed as 'benefit chart'.

Why is Benefit Chart Required?

The under lying objective of KRDP is to ensure self sustainability of khadi activities and provide maximum financial benefits to the artisans

The current regime of cost chart pricing does not allow the KIs to explore the possibility of generating surplus to meet the aforementioned requirements.

Benefit Chart is an attempt to offer scope to the institutions to achieve self sustainability by generating possible surplus through selling of products at market linked price.

Revised Mechanism

Revision of the costing mechanism for pricing decision

Currently, standard costing system is followed for making pricing decision. The standards set for the purpose of costing, does not take into account the scale of operation of the institutions. Standards are set across the nation and KIs, irrespective of the size of operations. Also, the pricing decision is not based on the market demand and acceptability.

The pricing system should be independent of the cost of the product and be guided by the market acceptability and demand.

Product costing should be used as a tool for making product segmentation strategies and taking decision with respect to selection of products to be produced, including phasing out of the unviable products.

KVIC may consider the adoption of marginal costing principles for making strategic decision. A model cost sheet under marginal costing system has been provided in Annexure I.

Under marginal costing principle variable cost is compared to the product price to calculate the contribution of each product.

Products which give the maximum contribution should be produced the most.

Fixed cost of the institution shall be deducted from the total contribution to find out the total surplus generated by the KIs.

The surplus so calculated shall be used for the purpose of the Benefit Chart.

An IT system shall be required to calculate the contribution generated by each product and the total surplus generated by the institution

Framework for utilization of surplus under benefit Chart

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

Purpose of Utilization	% of Surplus
Enhancement of earnings of artisans and Karya Kartas	35%
Skill development of artisans and Karya Kartas	
Product design and development	35%
Marketing reforms	
Capital formation	30%

Enhancement of earnings of artisans and Karya Kartas: A fixed portion of the surplus should be distributed amongst the artisans and workers.

Skill development of artisans and Karya Kartas: For improvement of market acceptability of the Khadi products, it is very important to improve the quality. This would require training of the artisans and Karya Karta's on quality improvement. The KIs should also try to switch over from the weak product segments to the better and remunerative product segment. This would require training and skill development of artisans and Karya Karta's currently engaged in production and sale of such products. .

Product design and development: The KIs should develop and design products based on market requirement and trends. The products which are not able to compete with the other similar products in the market are required to be developed and redesigned for making them acceptable in the market so that they are atleast able to recover their cost.

Marketing reforms: It is difficult for Khadi to compete with the other sectors of the textile industry on cost only. Khadi needs to be positioned in the product differentiation segment (eco friendly, handmade, social cause, etc.) rather than the low cost segment of the textile industry. This would require major sales promotion, marketing interventions. The KIs may also utilize the Benefit Chart for appointment of expert agencies for market development and strategies and use of alternate marketing channels.

Capital formation: The fund left after achieving the aforementioned objectives may be used for capital formation to be utilized in future for expansion and mitigate risks and contingencies.

Way forward

Based on the market survey results, the consultants shall assess the potential of the Khadi products with respect to marketability and capability to fetch better market price.

The assessment will provide an estimate of the quantum of surplus which may be available after introduction of market linked pricing

The Benefit Chart shall be finalized based on the estimated quantum of such surplus available.

Annexure - Guidelines for Cost Chart & Benefit Chart

Guidelines for Cost Chart & Benefit Chart

1. Background

- 1.1. The costing system followed by KVIC sponsored (and KVIB) units is based on guidelines given by KVIC, in the “Khadi Certification Guidelines”. The said system is called Cost Chart. The objective of the cost chart is to ensure economically sustainable earnings to artisans and make available Khadi at an affordable price to the customers.
- 1.2. The production activity for Khadi commences with the conversion of cotton and goes through the various stages of processing. Since it involves various processes such as slivering, roving, spinning, weaving, bleaching, dyeing, printing and tailoring – therefore process costing principles are being applied to derive the cost of the finished product.
- 1.3. The raw material procured goes through various conversion processes. At each stage value is added to the input. The output of one process becomes the input for the next process.
- 1.4. Various elements of cost in production and marketing of Khadi are given below
 - 1.4.1. **Raw Material:** The institutions record the raw material cost purchased from CSP at the cost chart rate. The difference between the cost chart price and actual price is adjusted in the “Price Fluctuation Reserve”. If the raw material is purchased from other than the CSPs, the raw material has to be recorded at actual rates or the cost of production if the sliver is produced in-house.
 - 1.4.2. **Conversion Charges:** The Cost Chart is based on the Standard Costing Principles. The **conversion** charge at each stage is fixed. At each stage the conversion charges is added to the cost of the input as per the cost chart mechanism. The conversion charge consists of the following components.
 - a) **Artisan Wages:** The spinning and weaving wages are paid as prescribed in the cost chart to the artisans and the payments are recorded in the artisans’ passbooks that are to be maintained by them. These passbooks will have quantity entries of slivers/rovings given and number of hanks and weight of hanks taken back & wages paid.
 - b) **Artisan Welfare Fund:** AWF is calculated @ of 12% of the artisan wages. The AWF is to be remitted to the Artisan Welfare Trust with the State Offices
 - c) **Incentive:** An incentive of 10% of the artisan wages is given to the artisans. The incentive wage is given at the end of each quarter/year.
 - 1.4.3. **Provisions:** In addition to the above, various provisions are also prescribed periodically. These **are** provisions for
 - a) Trade margins at 3% of the prime cost
 - b) Insurance at 1% of the prime cost
 - c) Bank interest at 4% of the prime cost
 - d) Depreciation at 15p per hank
 - e) Supervision charges 10p per hank

- f) Maintenance 10p per hank
- 1.4.4. In addition to the above provisions, standard margin of 25% of the prime costs are prescribed for meeting establishment expenses.
- 1.4.5. These provisions are **determined** by the Central Certification Committee (CCC) and enforced through State level cost charts.
- 1.5. **Pricing of Khadi based on cost chart:** The pricing of the products is done on the basis of the cost as prescribed in the cost chart. Though, after the introduction of the MDA the pricing of the products at the fabric conversion stage has been delinked from the cost chart, the pricing of the product upto the fabric stage is still determined on the basis of the cost chart.

2. Issues with the existing cost chart mechanism

- 2.1. The material Cost accounted does not reflect the current actual cost paid for the raw material. The material cost should be determined at periodical intervals, say at least once in a quarter, and should be adopted for making any pricing decisions.
- 2.2. It is observed that majority of the artisans, specifically spinners are not earning adequate for their sustenance and is low compared to the earnings available in other avenues of employment.
- 2.3. The provisions allowed in the cost chart are in the nature of administrative and selling overheads incurred by the institutions. These are included as a standard % of prime cost across all KIs, irrespective of the size of the KIs. Also, these principles need to be revised periodically in line with the actual costs incurred by the KIs.
- 2.4. Product pricing is done on the basis of the cost chart which does not take into account the marketability of the product

3. Requirement for Benefit Chart

- 3.1. KVIC is conducting an extensive market survey. The market survey also includes the assessment of price range of the products similar to Khadi, sold by private organization. Based on the results of the market survey, KVIC shall circulate the price range of the various product categories within which the products of KIs could be sold in the market. This will enable the KIs to appropriately price their product in the market.
- 3.2. With the introduction of market linked pricing the Khadi products, with certain improvement in quality, design and packaging and targeted promotion can be sold at a price higher than the cost.
- 3.3. The surplus generated from selling the premium products needs to be utilized for enhancing artisan and karya karta's earnings and undertake production and marketing reforms.
- 3.4. KVIC envisages introducing the benefit chart which will form the guiding principle for utilization of the surplus generated from selling the products by the Khadi Institutions to customers, whole sellers and other alternate marketing channels, including Marketing Organization at market linked pricing.
- 3.5. The difference between selling price, at which the products are sold to customers, whole sellers and other alternate marketing channels, including Marketing Organization at market linked pricing and actual costing of Khadi is surplus. Such

surplus shall be utilized for distribution of incentives amongst the artisans and karya kartas, undertaking production and marketing reforms and capital formation for ensuring long term sustainability. This system is termed as 'benefit chart'.

- 3.6. The under lying objective of KRDP is to ensure self sustainability of khadi activities and provide maximum financial benefits to the artisans
- 3.7. The current regime of cost chart pricing does not allow the KIs to explore the possibility of generating surplus to meet the aforementioned requirements.
- 3.8. Benefit Chart is an attempt to offer scope to the institutions to achieve self sustainability by generating possible surplus through selling of products at market linked price.

4. Revision of the costing mechanism for pricing decision

- 4.1. Currently, standard costing system is followed for making pricing decision. The standards set for the purpose of costing, does not take into account the scale of operation of the institutions. Standards are set across the nation and KIs, irrespective of the size of operations. Also, the pricing decision is not based on the market demand and acceptability.
- 4.2. The pricing system should be independent of the cost of the product and be guided by the market acceptability and demand.
- 4.3. Product costing should be used as a tool for making product segmentation strategies and taking decision with respect to selection of products to be produced, including phasing out of the unviable products.
- 4.4. KVIC may consider the adoption of marginal costing principles for making strategic decision. A model cost sheet under marginal costing system has been provided in Annexure I.
- 4.5. Under marginal costing principle variable cost is compared to the product price to calculate the contribution of each product.
- 4.6. Products which give the maximum contribution should be produced the most.
- 4.7. Fixed cost of the institution shall be deducted from the total contribution to find out the total surplus generated by the KIs.
- 4.8. The surplus so calculated shall be used for the purpose of the Benefit Chart.
- 4.9. An IT system shall be required to calculate the contribution generated by each product and the total surplus generated by the institution

5. Framework for utilization of surplus under benefit Chart

- 5.1. The surplus so calculated should be utilized for the following purposes:

Sl No	Purpose of Utilization	% of Surplus
1.	Enhancement of earnings of artisans and Karya Karta's	35%
2.	Skill development of artisans and Karya Karta's	
3.	Product design and development	35%
4.	Marketing reforms	
5.	Capital formation	30%

- 5.2. **Enhancement of earnings of artisans and Karya Karta's:** A fixed portion of the surplus should be distributed amongst the artisans and workers.

- 5.3. **Skill development of artisans and Karya Karta's:** For improvement of market acceptability of the Khadi products, it is very important to improve the quality. This would require training of the artisans and Karya Karta's on quality improvement. The KIs should also try to switch over from the weak product segments to the better and remunerative product segment. This would require training and skill development of artisans and Karya Karta's currently engaged in production and sale of such products. .
- 5.4. **Product design and development:** The KIs should develop and design products based on market requirement and trends. The products which are not able to compete with the other similar products in the market are required to be developed and redesigned for making them acceptable in the market so that they are atleast able to recover their cost.
- 5.5. **Marketing reforms:** It is difficult for Khadi to compete with the other sectors of the textile industry on cost only. Khadi needs to be positioned in the product differentiation segment (eco friendly, handmade, social cause, etc.) rather than the low cost segment of the textile industry. This would require major sales promotion, marketing interventions. The KIs may also utilize the Benefit Chart for appointment of expert agencies for market development and strategies and use of alternate marketing channels.
- 5.6. **Capital formation:** The fund left after achieving the aforementioned objectives may be used for capital formation to be utilized in future for expansion and mitigate risks and contingencies.

Annexure I – Model Cost Sheet under Marginal Costing Technique

Step 1 – Calucation of Contribution Per Unit

The contribution per unit is calculated by deducting the per unit variable cost of producing and selling a product from its selling price. All cost items which vary with the increase and decrease in production and selling shall be termed as variable costs. It shall be required to ascertain the per unit cost incurred in producing and selling a particular product. Contribution per unit shall be calculated for each product as given in the table below

Particulars	Rs. Per unit	Rs. Per unit
Selling Price		XXX
Variable Cost		
A) Direct material	XX	
Less: Credit for Wastages	XX	
Net Material Cost	XX	
B) Direct Labour Cost (This includes wages paid to spinners, weavers, processors etc and the incentives paid to them who are directly working under production)	XX	
C) Direct Expenses		
Other Material like Processing Charges	XX	
Other direct expenses paid if any	XX	
I) Total Prime Cost (A +B +C)	XXX	XXX
Variable Production Cost		
a. Power	XX	
b. Repairs and Maintenance (Production)	XX	
c. Water, Steam, Fuel and other variable Costs	XX	
d. Any other production expenses which varies according to the number of units produced		
II) Total Variable Production Cost (a+b+c)	XXX	XXX
Variable Selling Cost		
a. Transportation	XX	
b. Commission/ Incentive etc paid on Sale.	XX	
c. Any other Selling Expenses which varies according to number of units sold	XX	
III) Total Variable Selling Cost (a+b+c)	XXX	XXX
Total Variable Cost (I+II+III)		XXX
Contribution = Selling Price – Total Variable Cost.		XXX

The contribution per unit shall be calculated for all the products sold/produced by the KIs. The contribution per unit for all products should be compared. The KIs should make efforts to produce those products more where the contribution per unit is maximum. The KIs should also try to shift the production of those products where the contribution per unit is least.

Step 2 – Calculation of Total Contribution

The contribution of each product shall be calculated separately. Total contribution shall be calculated by multiplying the contribution per unit as calculated in the table above with the total number of units sold as given in the table below

Sl No	Particulars	Product A	Product B	Product C	Product D	Total
1	Contribution Per unit					
2	Number of units sold					
3	Total Contribution					

Step 3 – Calculation of Surplus

Surplus shall be calculated by deducting fixed cost from the total contribution as calculated in the table above. The elements of fixed cost shall be as given below

Fixed Cost

- a. Other Indirect Employees Cost including Salaries to Administration Staff.
- b. Rents Rates & Taxes
- c. Depreciation
- d. Repairs & Maintenance (Building & Other Assets)
- e. Interest on Loans
- f. Other Administration/ Establishment Expenses.
- g. Selling Expenses like Show Room, Rent and other show room expenses including show room staff and their salaries)

Surplus = Total Contribution – Fixed Cost

I. Prime Cost

- a. **Direct Material Cost** is the cost of material which can be directly allocated to a product.

Raw materials consumed for production for a product which are identifiable in the product form the direct material cost. Direct Material cost includes cost of procurement, freight inwards, taxes & duties, insurance, etc directly attributable to the acquisition. Trade discounts, rebates, and other similar items are deducted in determining the costs of direct material. While calculating direct material cost the standard wastage should be deducted.

While determining the material cost, the realizable value of wastages obtained in the process should be credited and the net cost of direct material should be considered for cost.

- b. **Direct Labour Cost** is the cost of wages of those workers who are directly linked with the production process of the khadi products. Here, the wages of the workers include the wages, incentives and Artisans Welfare Fund of the spinners, weavers, other artisans and karyakartas involved in the production of Khadi.

- c. **Direct Expenses** are the expenses other than direct material or direct labour which can be identified or linked with the cost object.

Examples of direct expenses are

- Hiring charges for tools and equipments for a cost object.
- Job processing charges paid to outside agencies for processing of yarn/cloth
- Dyes and chemicals, sizing materials, packing materials and other direct expenses which can be identifiable to a particular product.

- II. **Variable Production Cost** means, indirect cost involved in the production processes which changes according to the production activity, if more production is involved these costs will also be more. If no activity, then the cost will be nil. The examples of variable production cost are:

- Power/ Electricity – used, if any, in the production process and processing of cloth or yarn.
- Repairs and maintenance of charkas, looms, and other machinery used in the production activity
- Water, steam, fuels such as coal, wood, etc consumed.
- Wages and other benefits paid to the supervisors and other artisans directly involved in the production activity.

Variable Production Cost also includes indirect material consumed like oil grease etc, these expenses could be collected by means of pooling of indirect items of expenses from books of accounts, and supportive records and to be allocated to all the products manufactured based on the prime cost.

- III. **Variable Selling Expenses** consists of transportation, commission or incentives paid on sales, and any other selling expenses which increases or decreases according to activity.

- IV. **Fixed Cost** is the cost which does not vary with the change in the volume of activity in the short run. These costs are not affected by temporary fluctuation in activity of an enterprise. These are also known as period costs.

Examples for fixed cost : salaries, rent, audit fees, depreciation, repairs and maintenance of office building and other asset, interest on loans, other administrative / establishment expenses, etc.

Fixed selling expenses like showroom rent, salaries to showroom staff, advertisement relating to sales and sales promotion, freight and forwarding charges, insurance etc.

The basis of allocation of fixed costs to various products manufactured should be on the basis of the sales value. This can be allocated based on the sale value of the product. The fixed expenditure based on the profit and loss account can be allocated to different products based on the budgeted sales value of the products manufactured.

Selling price – is the price at which the products are sold in the market, after deducting discounts, rebates etc. which is the net realizable value of the product.

Contribution is the difference between the net realizable value less the total variable cost (prime cost consisting of Direct material, direct labor and direct expenses + variable production and selling overheads).

Creating Relationship that Creates Value

'This report has been prepared in accordance with the terms of our engagement with the client. We do not accept or assume any liability or duty of care for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent 'in writing.'

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कामये दुर्यतप्रानाम्।
प्राणिनाम् आतिनाशनम्॥



सत्यमेव जयते

खादी और ग्रामोद्योग आयोग

KHADI AND VILLAGE INDUSTRIES COMMISSION

सूक्ष्म, लघु और मध्यम उद्यम मंत्रालय, भारत सरकार

Ministry of Micro, Small & Medium Enterprises, Govt. of India,

सुधार कार्यान्वयन प्रभाग

REFORM IMPLEMENTATION DIVISION

No.RID/KRDP/ MLP-BC/3rdTranche /207/2016-17/

Date: 26.03.2017

The State /Divisional Directors
Khadi & V.I.Commission
State/Divisional Offices

Sub: Implementation of Benefit Chart and phasing out the production incentives and assess the impact on sale of the Khadi products as a part of KRDP tranche conditions – reg.

Ref: - (i) This Directorate Circular dt: 28.04.2011, 24.05.2011
dt:22/23.09.2015 and 23.03.2017

(3) State Directors Conference held on 20.01.2017.

(4) 2nd meeting minutes of the Benefit Chart Committee in the Cabin of Dy.C.E.O (Khadi/ROID) held on 24.03.2017.

Sir

Kindly refer to this Directorate letter dated: 23.03.2017, wherein it was requested to identify 5 premium products, which can be sold in Market linked price in consultation with major Khadi institutions in order to comply the 3rd tranche conditions set by ADB under KRDP in implementation of Benefit chart latest by July 2017.

In this connection, it is to inform that the 2nd meeting of the implementation of Benefit Char meeting was held on 24.03.2017 in the cabin of Dy.C.E.O (Khadi/RID).

In the said meeting, it was decided the following action points: -

- i) It was decided that the KIs should maintain a separate head of account called 'Benefit Chart Surplus Account' from financial year 2017-18.
- ii) State /Divisional Directors shall identify 5 premium products in each KIs which can be sold at Market linked price.
- iii) The Zonal Dy C.E.O's would monitor the progress on monthly basis and send the report to Directorate of Khadi /RID.

All State/Divisional Directors are requested to note the same and complete the task latest by 15.04.2017 and report to Directorate of RID & Director (Khadi) so as to appraise the latest position to the Ministry and ADB.

Kindly treat this as Most **URGENT AND TAKE TIME BOUND ACTION.**

Yours faithfully

Dy, Chief Executive Officer (Khadi/RID),
KVIC, Mumbai

Copy: -1. All Zonal Dy.C.E.O's – for monitoring and arrange to furnish the report as per enclosed format

2. The Director (Khadi) - for monitoring & follow up action

For institution's

Benefit Chart Monthly Report

State office: _____

Month: _____

Name of Khadi Institution: _____

Sr. no.	Name of the Premium Product	Code no.	Sale value as per Cost Chart	Sales value of goods sold in Market rate	Surplus earned
1					
2					
3.					
4.					
5.					

Secretary

To

State/Divisional Offices

FOR SO/DO

Benefit Chart Monthly Report

State office: _____

Month: _____

No. of Khadi Institution implementing Benefit Chart: _____

Sr. no.	Name of the Institutions	Name of the Premium Product	Code no.	Sale value as per Cost Chart	Sales value of goods sold in Market rate	Surplus earned
1						
2						
3.						
4.						
5.						

State/Divisional Director

To

The Zonal Dy. C.E.O's
The Director (Khadi)
The Director (RID)

For Zonal Offices

Benefit Chart Monthly Report

Name of the Zonal office: _____ Month: _____

No. of Khadi Institution implementing Benefit Chart in the Zone: _____

Sr. no.	Name of the Institutions	Name of the Premium Product	Code no.	Sale value as per Cost Chart	Sales value of goods sold in Market rate	Surplus earned
a) State/Divisional Office:-						
1						
2						
3.						
4.						
5.						

Zonal Dy. C.E.O

To

The OSD to C.E.Os
The Dy. C.E.O (Khadi)
The Director (Khadi)
The Director (RID)



KHADI AND VILLAGE INDUSTRIES COMMISSION
DIRECTORATE OF REFORM IMPLEMENTATION DIVISION
3 IRLA ROAD, VILE PARLE (WEST), MUMBAI – 56.
Phone/Fax: 022-26711593; email: kvicrid@gmail.com Website: www.kvic.org.in

No.RID/KRDP/MLP-BC/207/2016-17

Date: 04.07.2017

CIRCULAR

Sub: Revised Guidelines for Implementation of Benefit Chart

This is in continuation to the Circular No: RID/KRDP/ MLP-BC/207/2011-12 dated 24/05/2011 on market linked pricing of Khadi and Khadi products, allowing the Khadi Institutions(KIs) full flexibility in pricing of Khadi and its products. With the introduction of market linked pricing the Khadi products, with certain improvement in quality, design and packaging and targeted promotion, can be sold at a price higher than the cost.

Objective of Market Linked Pricing:-

After the introduction of market linked pricing mechanism, the surplus generated from selling the premium products needs to be utilized for enhancing artisan earnings and karyakartas' earnings and undertake production and marketing reforms. To enable the distribution of surplus to the artisans, KVIC envisages to introduce the Benefit Chart. Benefit Chart forms the guiding principle for utilization of the surplus generated from market linked pricing.

Modification in Benefit Chart:-

The benefit chart introduced earlier was found to be complex by the KIs, hence a simplified version has been introduced.

Surplus under benefit chart is defined as the difference between market-linked pricing and the total cost of the product as per the cost chart. Following formula needs to be followed for calculation of surplus:

Total value (cost) of the product= Prime cost + Trade Expenses + Insurance + Bank Interest + Establishment expenses (as per cost chart)

Surplus = Actual Selling Price (Market Linked) - Total cost of the product derived using the above mentioned definition.

Total distributable surplus= Total surplus on all products sold using market linked price

Distribution of surplus to be done as under:

Objective	Percentage of Total distributable surplus
For Benefit of Artisans	50%
Karyakartas/employees of KI	20%
Product Development i.e. Skill Development, Infrastructure Development for Production activities (designing, Innovation, Value addition etc.,) Marketing Development and Capital formation	30%

Total Surplus accrued will be credited to 'Benefit Chart Fund Account' in the balance sheet from 'Financial year 2017-18'

To begin with each KI will identify at least 5 premium products and determine the market price of the premium products. KIs will calculate total surplus on 5 premium products and transfer the surplus to 'Benefit Chart Fund Account' as per monthly report.

KIs will submit the monthly report to State/ Divisional Office. State/Divisional office will consolidate the reports for all KIs in their zone and share with zonal office. Zonal offices will submit a consolidated report to KVIC, Mumbai on monthly basis. Formats for calculating the surplus are enclosed as Annexure 1 to this circular.

The revised 'Concept Note on Implementation and effectiveness of Benefit Chart' is enclosed as Annexure 2 to this circular.

All State/Divisional Directors are requested to take necessary action to communicate the contents of this circular and guidelines to all the KIs under their jurisdiction for implementation of Benefit Chart.

This is issued with the approval of CEO.

Encl: as above


Dy. Chief Executive Officer (RID)

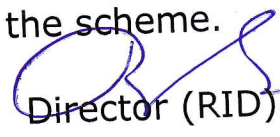
5/7/17

To

1. All State/Divisional Directors
2. All Chief Executive Officers / Secretaries / Managing Directors of State / UT KVI Boards

Copy for favour of information:

1. All Members of the Commission.
2. Chairman, Central Certification Committee
3. All Members of Central Certification Committee
4. Chairman of the Zonal Certification Committees (North Zone, East Zone, North-East Zone, South Zone, West Zone and Central Zone)
5. Zonal Dy. Chief Executive Officers (North Zone, East Zone, North-East Zone, South Zone, West Zone and Central Zone)
6. All Members of the Zonal Certification Committee
7. Director (KPM & KC)
8. Director (CCC)
9. All Programme / Industry Directors in the Central Office
10. Secretary to Hon'ble Chairperson
11. O.S.D. to Chief Executive Officer.
12. Accounts Officer to Financial Advisor
13. P.A. to Chief Vigilance Officer
14. Director (Information Technology) for placing the circular on web site.
15. Director (Publicity) with a request to publish the same in the ensuing issue of 'Jagruti' and also arrange to organize appropriate publicity to the scheme so as to reach the information to the targeted beneficiaries of the scheme.
16. Circular file.


Director (RID) 5/7/17

Formats for reporting of benefit chart

1. KIs

For institution's

Benefit Chart Monthly Report

State office: _____ Month: _____

Name of Khadi Institution: _____

Sr. no.	Name of the Premium Product	Code no.	Sale value as per Cost Chart	Sales value of goods sold in Market rate	Surplus earned
1					
2					
3					
4					
5					

Secretary

To

State/Divisional Offices

2. SO/DO

FOR SO/DO

Benefit Chart Monthly Report

State office: _____ Month: _____

No. of Khadi Institution implementing Benefit Chart: _____

Sr. no.	Name of the Institutions	Name of the Premium Product	Code no.	Sale value as per Cost Chart	Sales value of goods sold in Market rate	Surplus earned
1						
2						
3						
4						
5						

State/Divisional Director

To

The Zonal Dy. C.E.O's
The Director (Khadi)
The Director (RID)

3. Zonal Offices

Benefit Chart Monthly Report

For Zonal Offices

Name of the Zonal office: _____ Month: _____

No. of Khadi Institution implementing Benefit Chart in the Zone: _____

Sr. no.	Name of the Institutions	Name of the Premium Product	Code no.	Sale value as per Cost Chart	Sales value of goods sold in Market rate	Surplus earned
a) State/Divisional Office:-						
1.						
2.						
3.						
4.						
5.						

To
The OSD to C.E.Os
The Dy. C.E.O (Khadi)
The Director (Khadi)
The Director (RID)

Zonal Dy. C.E.O

Concept Note on Implementation and Effectiveness of Benefit Chart

1. Introduction

After the introduction of market linked pricing mechanism, the surplus generated from selling the premium products needs to be utilized for enhancing artisan earnings and reform. To enable the distribution of surplus to the artisans, KVIC envisages to introduce the Benefit Chart.

Benefit Chart will form the guiding principle for utilization of the surplus generated from market linked pricing. The surplus will be utilized towards:

- *incentivizing concerned artisans; and*
- *supporting marketing and production reforms*

2. Basic objectives of Benefit Chart

The basic objective of the Benefit Chart is to enhance the earnings of the artisans, Karyakartas as well as to some extent, those who are involved in the production and sale of Khadi products, without posing as an additional financial burden on the Khadi Institutions (KI).

The difference between the market linked pricing (sale price) and actual cost of Khadi (production price) is surplus. This is to be partly distributed among the artisans and Karyakartas and rest of it is to be utilized for marketing and development of KI. This system is referred to as Benefit Chart. For implementing the Benefit Chart, the KIs should produce a salable variety of products having demand in the market.

3. Need for introducing the Benefit Chart

The basis for introducing the concept of the Benefit Chart originates from a social cause of providing livelihood to artisans living below the poverty line. Benefit chart will enable in utilization of surplus from sale of khadi institutions towards the upliftment and retention of the crucial Khadi workforce.

4. The existing cost chart principle and shift to Benefit Chart

The costing system followed by KVIC sponsored (and KVIB) units is based on guidelines given by KVIC, in the "Khadi Certification Rules" through "Cost Chart". The objective of the cost chart is to ensure economically sustainable earnings to artisans and make available Khadi at an affordable price to the customers. Following costs are added to calculate the total value of the product:

- 4.1. Prime cost (including the conversion charges at each stage): The production activity for Khadi commences with the conversion of cotton and goes through the various stages of conversion and processing. Process costing principals are applied across various processes such as slivering, roving, spinning, weaving, bleaching, dyeing, printing and tailoring to derive the cost of the finished product. The conversion charge at each stage is fixed and is added to the cost of the input as per the cost chart mechanism.

Input	Process	Output	
Cotton	Slivering	Sliver	Processed in Sliver Plant
Sliver	Roving	Roving	
Roving	Spinning	Yarn	Processed in KI
Yarn	Weaving	Kora Cloth	
Kora Cloth	Wet Processing	Printed Cloth	

4.2.

provision charges: In addition to the conversion charge, various provisions are also prescribed by KVIC periodically for:

- Trade margins at 3% of the prime cost
- Insurance at 1% of the prime cost
- Bank interest at 4% of the prime cost
- Depreciation at 15 paise per hank

4.3. Establishment expenses: In addition to the above provisions, standard margin of 25% of the prime costs is prescribed for meeting establishment expenses.

Leading to the total value of the product, i.e. Total Value of the product = Prime cost + Trade Expenses + Insurance + Bank Interest + Establishment expenses

Surplus, as per the cost chart principal is defined as the difference between the actual Selling Price and the total cost of the product derived using the above mentioned definition.

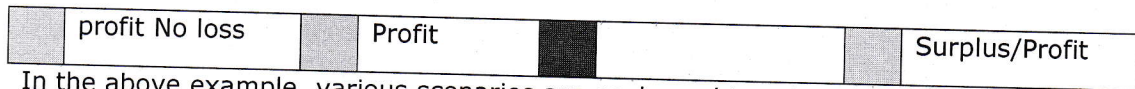
Surplus, under the benefit chart principal is defined as the difference between market-linked pricing and the total cost of the product as under the benefit chart, costing is as per the market demand

5. Process of calculating surplus under Benefit Chart

The process of calculating surplus under the benefit chart is explained with the help of an example:

Table 1. Example for calculation of surplus amongst different category of products sold by a Khadi Institution

Unit	Product A			Product B			Product C			Product D		
	Total Value of the Product	Selling price	Surplus/ Profit	Total Value of the Product	Selling price	Surplus/ Profit	Total Value of the Product	Selling price	Surplus/ Profit	Total Value of the Product	Selling price	Surplus/ Profit
1	300	300	0	600	650	50	425	450	25	800	800	0
2	300	350	50	600	620	20	425	460	35	800	800	0
3	300	350	50	600	610	10	425	420	-5	800	815	15
4	300	380	80	600	700	100	425	480	55	800	800	0
5	300	310	10	600	680	80	425	550	125	800	800	0
6	300	275	-25	600	600	0	425	500	75	800	810	10
7	300	320	20	600	640	40	425	530	105	800	800	0
8	300	315	15	600	650	50	425	460	35	800	800	0
9	300	300	0	600	610	10	425	500	75	800	800	0
10	300	340	40	600	575	-25	425	480	55	800	770	-30
	300	324	240	600	633.5	335	425	483	580	800	799.5	-5
	Average		Total	Average		Total	Average		Total	Average		Total
	Unit sold at No			Unit sold at			Unit sold at Loss			Total		



In the above example, various scenarios are envisaged to calculate surplus/profit which in turn would be used in implementation of Benefit Chart. Key components:

- Total value of the product is derived from the existing cost chart, which is usually the selling price by the Khadi Institutions to sell their products in the market.
- As per the concept of market linked pricing, the KIs have flexibility to sell the products at the market linked prices which could be higher/ lower than the 'total value of the product as per the cost chart'.
- As the final selling price is recorded by the KI, the 'surplus per unit per product' can be calculated. Further, product wise generation of surplus can also be calculated. For example, in the above mentioned illustration, the following are the key aspects:
 - For Product A, the total surplus is 240
 - For Product A, for different units the surplus could be different. For example for Unit 1, there is no surplus and where for Unit 10 (sold in a different market where the market demand is higher), there is a surplus of 40
- One of the objectives of the market linked pricing is also to clear off the inventory. To enable the same, the slow moving products may be sold at a deficit i.e. at a selling price lower than the total value of products if need be (as illustrated for Unit 6, the product is being sold at deficit of Rs.-25). For any product category wherein a deficit is seen on prolonged basis, it can be considered that market acceptability is low and hence the product may be modified or discarded over a period of time.

6. Method of utilization of surplus generated using Benefit Chart

Basis for utilization of the surplus has been devised to ensure that the Khadi workforce are provided their due share from the surplus generated. The distribution of surplus as envisaged in Benefit Chart guidelines is given below:

Benefit of Artisans	50%
Benefit of Karyakartas/ Employees of KIs	20%
Development Activities for KIs i.e. Skill Development, Infrastructure Development for Production activities, Marketing Development and Capital formation	30%

For example, the surplus calculated for the Khadi Institution in section 5 will be distributed as under:

Particulars	Total Surplus	Benefit of Artisans	Benefit of Karyakartas/ Employees of KIs	KIs (Skill Development, Production, Marketing and Capital Formation)
%	100	50%	20%	30%
Total	1150	575	230	345

7. Distribution of surplus among the Khadi workforce as per Benefit Chart

The responsibility of distribution of surplus will be with the KI. Various options can be considered for distribution of surplus. It could be done at an aggregate level (total

sales), as well as at the artisan level. Identification and record keeping of average selling price of each product produced and sold by the KI is essential for calculation of surplus generated. Different scenarios can be visualized in order to identify the best model for distributing the surplus.

7.1. Scenario 1: Distribution of surplus to all artisans

KI can decide to distribute the surplus equally amongst all the artisans involved in the process of producing the particular product. While distributing the surplus, the group contributing to a significant part of the total production could be given due consideration.

7.2. Scenario 2: Distribution of surplus to artisan supplying high demand products

KI can decide to distribute the surplus among only those artisans who work on supplying premium products/product with high market demand and profitability.

Surplus can be utilized for the following activities:

I. Artisans' Share

- To impart training to artisans in all processes of Khadi work in the workshop to enhance their skill and efficiency.
- To arrange formal, informal and vocational education for the children of artisans.
- To arrange adult education for artisans and supply of literatures for the same.
- To provide medical and hygienic aid to the artisans and to impart knowledge of health and hygiene to them.
- To open fair price shops for supply of grains and essential articles for daily needs.
- To redeem or to reduce indebtedness of the artisans.
- To provide Khadi implements to artisans at subsidized rates.
- To provide spectacles to old artisans at nominal rates.
- To provide education articles to the children of artisans at subsidized rates/free of cost.
- To provide relief to artisans during natural calamities.
- To construct work sheds for the artisans for fixing looms, provided that the ownership of the property vests with artisans.
- To render financial help to the artisans in case of emergency, death in the family, marriage, construction or repair of house etc.
- To provide minimum basic facilities like drinking water, toilet facilities and creches etc to the artisans.
- To pay life insurance and group insurance premium of artisans.
- To meet expenditure in connection with conversion of existing charkhas to New Model Charkhas.
- To utilize the fund for any other purpose resulting in the benefit of artisans with specific and prior approval of the State Office.

II. Share of Karyakartas/employees of KI

- To impart training to Karyakartas/employees in all processes of Khadi work in the workshop to enhance their skill and efficiency.
- To arrange formal, informal and vocational education for the children of Karyakartas/employees.
- To arrange adult education for Karyakartas/employees and supply of literatures for the same.
- To provide medical and hygienic aid to the Karyakartas/employees and to impart knowledge of health and hygiene to them.
- To provide relief to Karyakartas/employees during natural calamities.

- To render financial help to the Karyakartas/employees in case of emergency, death in the family, marriage, construction or repair of house etc

III. KIs share for Skill Development, Production, Marketing and Capital Formation

The share towards KIs can be utilized for Skill Development, Production, Marketing and Capital formation.

KVIC shall develop a suitable record keeping system to be used by the KIs to facilitate calculation of the surplus generated by each product as well as the total surplus generated by the KI.

8. Difference between Cost Chart and Benefit Chart and the advantages of implementing Benefit Chart

The specific differences between Cost Chart and Benefit Chart are summarized in the table given below.

Particulars	Cost Chart	Benefit Chart
Product pricing	Prices are fixed as per state-wise Cost Charts developed by KVIC, with no consideration to market demand	Prices will be market-linked, i.e. prices to be fixed by KIs considering the demand for products as well as price of competitive products in the market
Generation of surplus	Surplus, as per the Cost Chart principal, is defined as the difference between the actual selling price and the total cost of the product Surplus generated is low since market demand is not considered in product pricing	Surplus, as per the Benefit Chart principal, is defines as the difference between the demand based market pricing and the total cost of product. Total surplus generated is higher since premium products can be priced higher due to better market demand
Incentives to artisans	Very low incentives or no incentive to artisans leading to lower wages compared to other livelihood options. This is leading to a movement of artisans to alternate livelihood options and reduced number of artisans	50% of the surplus generated through benefit chart is to be provided to the artisans. Since wages will be higher, more artisans can be retained in the sector
Incentive to Karyakartas	No provision for incentives to Karyakartas	Karyakartas can also be given incentives
Product portfolio	In the cost chart principle, there is no mechanism to identify products with low market demand/no capacity to generate surplus. Therefore the product portfolio can't be altered to align it to market demand	In the benefit chart principle, the products generating no/negative surplus will be identified and replaced/ modified. This will ensure a product portfolio aligned to market demand

Particulars	Cost Chart	Benefit Chart
Sustainability	<p>Presently there is a high dependence of the KIs on MDA to sell most of their products.</p> <p>There is no mechanism to phase out MDA and sell the products without subsidizing the same <i>through MDA. This dependence</i> puts on question mark on the self-sustainability of the KIs</p>	<p>Premium products can be sold without getting subsidized by MDA, thus reducing the dependency. The KIs can determine the market demand and produce the products with high demand while phasing out the products with low demand.</p> <p>This will reduce dependency of KIs on MDA and help them become self-sustainable</p>

Given these differences, the key advantages of using Benefit Chart have been highlighted below:

- Benefit Chart will provide flexibility in product pricing as the products will be priced based on market demand i.e. market linked pricing
- Market linked pricing is expected to increase the generation of surplus which can be further utilized for making the KIs self-sustainable and increase the income of artisans
- Market linked pricing will also enable identification of high and low demand products. It is expected that the KIs will align the production as per the market demand and focus on production of high demand products
- Product wise sales data as well as surplus/profit data can be maintained. This will also enable putting in place a system of 'effort linked income' for the artisans (higher surplus for artisans working on products with high market demand)
- Products which are able to generate surplus through this process can be gradually delinked from the MDA/MMDA



खादी ग्रामोद्योग आयोग
KHADI AND VILLAGE
INDUSTRIES COMMISSION

सूक्ष्म लघु और मध्यम उद्यम मंत्रालय, भारत सरकार
Ministry of Micro, Small & Medium Enterprises, Govt. of India,
सुधार कार्यान्वयन प्रभाग
REFORM IMPLEMENTATION DIVISION

No. RID/KRDP/Assessment/2017-18/

Date: 28.10.2017

All Directors,
State/Divisional Offices,
Khadi and V.I. Commission.

Sub : Implementation of benefit chart regarding

Sir,

Your kind attention is invited to the letter No.RID/KRDP/MLP-BC/3rd tranche/207/2016-17 dated 26.03.2017 (digital ID No:59265 and 59267 dated 31.03.2017) on the subject of identifying at least 5 premium products which shou'd be sold without any subsidy. It is understood that many KIs have already started selling a few products at marked linked prices.

2. It was proposed that KIs would identify premium products/high value products and the sales of these identified products would be at market linked prices i.e. without any subsidy on the product provided by the Government. The basic idea of selling the premium products at the market demanded price is that KIs can have more surplus money in their hands for developing their production and sales infrastructure. The part of surplus earned on the selling of premium products at the market price can also be shared to the khadi artisans.

3. Therefore, all the State/Divisional Directors are requested to convene a meeting of Khadi institutions and discuss with them for identifying initially few selected premium products for selling at the market price. The State/Divisional Directors are also requested to adhere to the following time lines :

i)	Completion of discussion with KIs	:	30 th November 2017
ii)	Identification of premium products/high value products for selling at market rate	:	31 st December 2017
iii)	Formulation of strategy for selling the premium products without subsidy	:	31 st March 2018
iv)	Start selling the premium products without subsidy	:	1 st April 2018

The contents of this letter may be brought to the knowledge of all KIs.

This is issued with the approval of competent authority.

Yours faithfully,


Dy. Chief Executive Officer (RID)

31/10/17



ग्रामोदय, ३ इर्ला रोड, विले पार्ले (पश्चिम), मुंबई ४०० ०५६
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