Trajectories of Value Chain Governance and Geographical Indications: 
Issues for Upgrading Handicraft Goods in India

Karl M. Rich
Senior Researcher, Norwegian Institute of International Affairs
Oslo, Norway

Abstract

Geographical indications (GIs) are an increasingly recognised way of trying to add value to products based on quality attributable to their traditional heritage. In India, laws regulating GIs started in 1999 and, unlike Europe, predominately cover textile and handicraft products, rather than food products. Differences in the organisation of handicraft supply chains (compared to agri-food chains) might have implications on the ways in which GIs can be successfully utilised, yet little has been written on these mechanisms. In this paper, a discussion of the Kota Doria value chain is given, based on fieldwork conducted in April 2010. While Kota Doria has had a GI in place since 2005, it has not been successful in adding-value through its presence. A discussion of the governance of the Kota Doria value chain and lessons from successful GIs in Indian handicrafts suggests an even stronger need for external support to organise these GIs appropriately.

The author would like to acknowledge valuable inputs and feedback from Anutosh Biswas, Kritika Kapil, Arne Melchior and Siddhartha Mitra in the course of this research and who contributed to the earlier policy brief. He would also like to thank Tore Gustavsson for assistance in obtaining literature used in the paper. All remaining omissions and errors are those of the author.

This paper has been produced under the project entitled “Grassroots Reachout & Networking in India on Trade & Economics” (GRANITE) – Phase 2 which is supported by the Royal Norwegian Embassy in New Delhi and Oxfam, India. The views expressed here are those of the author and therefore, in no way be taken to reflect the positions of CUTS, the Royal Norwegian Embassy and Oxfam, India.
Introduction

One of the important roles of production labels is to transmit knowledge about particular attributes to consumers prior to purchase. Darby and Karni (1973) differentiate between three types of qualities inherent in a purchase. Search qualities are those that the consumer has knowledge about prior to purchase. Experience qualities are those in which the consumer gains knowledge only after purchase. Credence qualities are qualities that the consumer may not have awareness of even after purchase, or only at significant cost to the consumer (Darby and Karni, 1973: 69). It has been argued that labels can transform credence goods into search goods (Fotopoulos and Krystallis, 2001).

GI s are an increasingly used mechanism to protect the tangible and intangible benefits associated with a product’s origin and to add value to traditional products. GI s have a long history in the agri-food sector. In Europe, protected designation of origin (PDO) and protected geographical indication (PGI) labels have been legislated to designate certain products as having protected status by virtue of production methods that are explicitly linked (PDO) or attributable to (PGI) the geographic area in which they are produced.

Geographic labelling is motivated by the notion that there are unique characteristics implicit in a product (such as food) attributable to certain production methods and location-based attributes based on where the product is made (Moran 1993; Barnham 2003; Fournier 2008; Bowen and Zapata 2009 and Bowen 2010). Verhaegen and Van Huylenbroeck (2001: 5) argue that PDO and PGI programs “typically try to establish a link between the production characteristics and the characteristics of the location and/or method or production.” In doing this, there is an implicit link between the origin of a product and its perceived quality (Ilbery and Kneafsey, 1999), with origin thus transformed through the label as quality attributes (Lacroix, Mollard and Pecqueur, 2000). It has been argued, though, that the concept of “quality” is subjective, in the sense that labels provide an indication or guarantee of tradition and authenticity, rather than a particular level of quality, given that certain attributes (particularly in the food sector) will vary due to seasonal fluctuations (Valceschini, 2000).

At the same time, GI s in food products link quality to the concept of terroir, whereby intangible aspects of the location of origin are associated with its quality (Bowen, 2010). The ability of a producer, or groups of producers, to transform a label from a mere signal of location to an attribute depends, in large part, on consumer awareness of the meaning of the label, the ability (and strength) of producers to coordinate production in order to reduce free-riding and moral hazard that could threaten the reputation of a label and institutions that can credibly certify the claims made by a label (Lacroix, Mollard, and Pecqueur, 2000; Valceschini, 2000 and Bowen 2010). This can be costly to producers. However, since it can be in the producer’s interest to deceive consumers with bogus labels, such certification (often from third parties) is sometimes necessary to mitigate the information problem between consumers and producers (McCluskey, 2000).

While GI s are commonplace in the agricultural milieu of Western Europe, their prevalence in other sectors and in other regions, particularly the developing world, is more limited, but growing. Examples outside of Europe in the agricultural sector include, inter alia, Darjeeling tea and Basmati rice from India (Jena and Grote, 2010), Boseong green tea from South Korea (Suh and MacPherson, 2007), wines from South Africa (Ponte, 2009), and Tequila from Mexico (Bowen and Zapata, 2009). International rules governing property rights under the Trade-Related Aspects of Intellectual Property Rights (TRIPs) agreement, while general in their application, place special protections on wines and spirits under Article 23 (Jena and
Grote, 2010). Outside of agriculture, the one country that has played host to a number of manufactured GIs is India.

The GI Act of 1999 (and promulgated in 2003) allows for the protection of specific goods from agriculture, manufacturing or handicrafts in which their quality and at least part of the production process is attributed to their region of origin. Between 2003 and 2008, 61 GIs were registered in India, of which 44 were textiles, handicrafts or other manufactured goods (Jena and Grote, 2010).

Manufactured or handicraft GIs in the Indian context have a number of characteristics that distinguish them from those in the agri-food sector. First, from a market perspective, competition from rivals can be fiercer, as the ability to leverage the GI to protect against like, industrially-produced goods is difficult. While legal protections exist in India and have been employed in a number of instances (e.g., Pochampally Ikat and Chanderi fabric), the prevalence of informal market sales, long supply chains with numerous intermediaries and existence of similar manufactured products (e.g., powerloom vs. handloom products) makes such prospects difficult (Das, 2010).

In such an environment, embedding the definition of quality and terroir, following the logic of Bowen (2010) becomes even more problematic when supply chain capabilities to do so are both limited and fragmented. A related point concerns the nature of production of traditional GI goods, particularly handicrafts. Many of these products are associated with the development of clusters in which production is organised among groups of small artisanal producers. Embedded within these clusters are distinctive cultural relationships that significantly influence the governance of the value chain.

In some cases, clusters can be a source of important innovation – Bishwas (2005) points out that innovation has thrived in handloom and conch sectors in West Bengal, given the structure of the labour markets in studied villages. However, in other cases, the persistence of quasi-feudal relationships between market intermediaries and producers at the upstream part of the chain, combined with atomistic, arms-length relationships between intermediaries and retailers, fragment value chains in a manner inconsistent with the sustainable valorisation of the sector and the GI, where applied.

While these fragmented types of value chain governance structures have been noted in the literature (Ponte and Gibbon 2005 and Altenburg 2006), their influence on upgrading dynamics within a given value chain, as through a GI, has not been adequately explored (Riisgaard et al. 2008 and Ponte 2009 are notable exceptions in the agri-food sector). Moreover, no analysis has considered the implications of fragmented nodal-level governance on upgrading in general.

Based on ongoing work in Rich (2011), this paper seeks to address these gaps in the literature by looking more closely at the role of governance structures in the context of industrial GI products in India. Our particular focus is the Kota Doria fabric value chain. An important, though tentative, conclusion from the analysis and related case studies of successful industrial GIs is that such types of fragmented value chains require either external state or non-state actors to help organise the chain.

This echoes the analysis made by Bowen (2010), which highlighted critical success factors for GIs, which include (i) how quality is governed in the value chain, (ii) the means by which
*terroir* is valued, and (iii) the strength of organisation of chain actors within the GI (Bowen, 2010). Driving these efforts is the need for strong collective organisation that existing handicraft GIs often lack organically. At the same time, however, analysis by Renard (2005), Neilson (2007) and Bowen and De Master (2011) cautions that external control of the value chain can reduce its local ownership and quite possibly dilute the cultural diversity that GI’s seek to protect and thus the balance between better chain governance and a sustainable GI could be a delicate one.

**Overview of Value Chain Governance**

An important concept that is addressed by global commodity chain and value chain analysis alike is the issue of governance (Gereffi, Humphrey and Sturgeon, 2005). Governance in a value-chain refers to the structure of relationships and coordination mechanisms that exist between actors in the value chain. Some authors have looked at governance from the standpoint of power relationships, with the emphasis on those actors in the value chain that are responsible for coordinating activity (Dolan and Humphrey, 2000).

Gereffi, Humphrey and Sturgeon (2005) proposed a typology of five governance structures of increasing integration of economic activities, based on (i) the complexity of transactions, (ii) ability to codify transactions, and (iii) capabilities in the supply base. These value chain structures include (a) markets, where the price mechanism organises simple, arms-length relationships; (b) modular value chains, where suppliers link with customers through customised, made-to-order goods, but where production inputs to such products need not be specialised; (iii) relational value chains, in which “mutual dependence” exists between buyers and sellers based on various types of ties; (iv) captive value chains, in which sellers rely heavily on larger buyers for sales; and (v) vertical integration or hierarchy, whereby control along the chain is subsumed by one firm or organisation (Gereffi, Humphrey and Sturgeon, 2005: 83-84).

Riisgaard et al. (2008) recently suggested a simplification of this typology to include market organisation, vertical integration and “contractualisation”, with the latter referring generally to contracts (explicit or implicit) within or between actors in the chain; Menard (1996) examined such hybrid structures at a firm level. An understanding of governance has important policy ramifications, as the mode of economic exchange and the institutions embodied within those is a potential leverage point for improvements in terms of capabilities or remedying distributional distortions in value chains.

Typically, governance is viewed from the standpoint of the chain itself, i.e., an entire chain has a market or relational form of organisation. However, Ponte and Gibbon (2005: 3) distinguish between what they term “forms of coordination” and “overall modes of governance” at the chain level. Ponte and Gibbon (2005) utilise Gereffi’s (1994) characterisation of value chains being “buyer-driven” or “producer-driven” in terms of who (termed “lead firms”) organises production and standards within the chain. This is combined with an application of conventions theory to demonstrate how different conventions that govern quality in the chain influence the organisation of the chain itself.

Ponte (2009) applied these concepts in distinguishing between different quality segments of the South African wine value chain. However, neither analysis looked more specifically at governance relationships at nodal levels, preferring instead to examine how global governance patterns broadly evolve within the chain based on differences in quality conventions.
This micro-level approach to governance, while overlooked, has important implications on both the structure of the chain and the potential for upgrading within it. Upgrading in value chain parlance refers to improvements in process, product, function and/or chain repositioning that enables producers to gain higher-value or diversify the product lines served (Bolwig et al., 2008). Where nodal governance structures are fragmented or imbued with market failures (e.g., local monopsony buying), incentives for chain actors to participate or benefit from chain participation can be reduced.

Rich, Okike and Randolph (2011) remark how incentives for avian influenza control at the production part of the chain, for instance, can be reduced where concentration among intermediaries dampens prices and thus the ability of producers to comply with disease control efforts. In many traditional value chains, whether agricultural or industrial, governance relationships are often a hybrid of market – and relationship-based forms, depending on the node in question, yet theory has been silent on how these hybrid modes of organisation influence the upgrading process.

In the next section, attention will be focussed on the Kota Doria value chain, a product in which a GI has been allocated, but where efforts to effectively use it to value-add production have been limited. The discussion will pay particular attention to governance relationships that exist in different nodes of the chain to highlight how fragmented governance patterns contribute to these constraints. We then provide a discussion of other types of more successful industrial GIs in India to give lessons (and possible caveats) associated with potential policies and leverage points to improve this value chain.

### Upgrading in Industrial GIs: Value Chains for Kota Doria

**Kota Doria** fabric consists of cotton and silk yarn woven in different combinations in warp and weft, so that they produce square check patterns. This check pattern is popularly known as *khat* and is the defining feature of the fabric which gives it a transparent look. This unique characteristic of the Doria fabric, produced on handloom, prompted the Kota Doria Development Hadauti Foundation (KDHF) to apply for a GI, with the help of the United Nations Industrial Development Organisation (UNIDO). The application was successful and Kota Doria was granted a GI in July 2005, under the Geographical Registration Act 1999. The GI covers both the area of production as well as the handloom process that creates these traditional products.

*Kota Doria* is traditionally rooted in villages in and around Kota, a city about 250 km south of Jaipur in the state of Rajasthan. It has a particular culture and gender dimension to production, with about 70 percent of those involved in the chain practicing Islam and mostly belonging to the Ansari weaver’s community. Over three-quarters of weavers are women and, as will be noted, there are important gender relationships that underpin the governance structure in the value chain. Education levels in the sector are relatively low, with many weavers failing to complete Class 8.

In spite of the existence of a GI on this product, the manufacture of an almost visually identical fabric using power looms, especially in Uttar Pradesh, is still quite common. The power loom fabric also sells on the market as Kota Doria, but for a much lower price, thus driving down the demand for authentic Kota Doria, a label which should, by law, only be

---

1 This is an area to be studied more by Rich (2011).
used for the mentioned hand made fabric from Kota, as the GI covers process as well as region of production. The competition from power looms has led to weavers of authentic Kota Doria to move to other professions. This shift is particularly apparent among the youth from weaver families; alternative employment has been found instead under the National Rural Employment Guarantee Scheme (NREGS). Female weavers have also started to move to other professions such as beedi-making. The aggregate number of weaver families has declined from 10,000 some decades ago to 1,100 weaver families at present. This has led to fears that the age-old tradition of weaving Kota Doria will soon disappear.

The production of Kota Doria is entirely household and artisanal-based. Households involved in the sector typically own one handloom, with 2-3 people in the household engaged in production. Production is low-input, low-output. Handlooms can only utilise one 30-meter bundle of yarn at a time, which is enough to produce five saris. Production takes 20-25 days to weave this bundle of yarn into simple fabric or saris and up to 30 days to produce more elaborate patterns. Prices in Kaithun for simple patterns are P1500 (30 m, 5 saris), and P2000 for elaborate ones, while those in Sultanpur are about half these values. The main inputs for Kota Doria fabric include cotton, silk and zari (fine gold threads used for embroidery). The cotton used in production is bought from Ahmedabad, Gujarat, and Mumbai, Maharashtra; the silk is bought from Bangalore, Karnataka; and the zari is purchased from Surat, Gujarat. Poor quality inputs were cited as a problem among weavers in Sultanpur. Subsidies were once provided on raw materials, but these have since been removed.

Figure 1 illustrates the value chain for Kota Doria, based on field interviews in Kaithun and Sultanpur that took place during April 2010. In Kaithun, there is significantly more production, with some 2700 weavers engaged in the sector. Traditional weavers are beholden to what are known as “master weavers” who control orders and liaise between producers and end-buyers. The relationship between master weavers and weavers is quite complex, with master weavers overwhelmingly male and who tightly control activities within the chain. All information and instruction to traditional weavers is given top-down from master weavers, who hold monopsony buying power in the village for Kota Doria. In Sultanpur, there are much fewer numbers of weavers (about 50) who also rely solely on the master weavers found in Kaithun for sales. Governance relationships in Sultanpur are particularly tenuous, because of the relatively fewer numbers of weavers there, compared to Kaithun, which allows master weavers to offer Sultanpur-based weavers a much lower price for their product.
Master weavers will sell products in one of two ways. First, some will sell directly to retailers and wholesalers in Kota, who will either sell products in Kota or will wholesale to more distant markets. Second, some sales are made door-to-door by master weavers directly to retailers in other cities. However, sales of Kota Doria seem to be opportunistic and lack coordination between master weavers and retailers. That is, retailers do not contract or establish orders with master weavers directly; rather, it is supply-pushed into the market, rather than demand-pulled. This means that master weavers are often unable to sell all supplies at any given time and this percolates down to the individual weaver, who will not be paid for any unsold production. Exports of Kota Doria, where they take place, are undertaken by larger retailers such as Anokhi, but no information was available on the scale of such foreign sales.

Upgrading and innovation in the sector seems relatively limited and indeed the fragmented nodal governance structure illustrates this quite well. Weavers, by virtue of little to no bargaining power in the chain, have little incentive to invest in new or innovative practices. Indeed, there is a trend in the market for plain saris over the elaborate varieties, which has caused some exit from the market as weavers are paid less to weave plain saris. Master weavers, in turn, rely mostly on ad hoc sales of products and have limited coordination with end-buyers. Innovation in the traditional sector is further limited by the presence of power loom ‘Kota Doria’ from Uttar Pradesh that sell at a discount in the market, further depressing traditional sales.

The establishment of a GI on Kota Doria is one type of upgrading practice that could potentially add value in the value chain, but to date has failed to protect the traditional market. As noted earlier, the idea of the law is to protect goods (and their traditional production process) with a specific reputation based on manufacture or production in an identified geographic area. The law is in the spirit of Articles 22 and 23 of the TRIPs agreement of the

---

2 See [http://ipindia.nic.in/girindia/](http://ipindia.nic.in/girindia/).
World Trade Organisation (WTO) that prevent false representation of GI products in a market; Article 23 more strictly covers protection for wines and spirits. An interesting aspect of the Indian law is that protection is provided for a period of 10 years, after which registration can be renewed. While protection of the infringement of GIs is enshrined in the law, anecdotal evidence suggests that there has been reluctance among many GI holders to seek legal action. In some instances, there has been more attention directed through media sources than specific legal remedies (e.g., *Pochampally Ikat*).³

While regulatory issues concerning the enforcement of the GI stymie such value-adding efforts, a more pressing constraint in the chain concerns the tight, near feudalistic governance relationships between weavers and master weavers that promote confrontation and mistrust instead of cooperation. Associations that exist for *Kota Doria*, such as the KHDF, are largely powerless and serve more of a social role than one shepherding the interests of the sector. Coordination between buyers and producers is absent, failing to transmit any novel input between designers and producers in the creation of new products.

**Governance and Kota Doria: Lessons from Other Indian GIs**

An important policy issue in the *Kota Doria* chain is empowering actors in the sector to improve the organisation of the chain in a way that adds value for all the participants. A critical bottleneck is breaking the dependence of the chain on the tight control of master weavers, whose buying and marketing practices stifle innovation over and beyond the presence of cheap, imitation products. These types of cultural relationships cannot be remedied overnight, but remain a key leverage point to address and overcome.

Successful examples of GI implementation do exist in the Indian context. Das (2010) highlights the cases of *Pochampally Ikat* and *Chanderi* fabric, which both registered for and obtained a GI, and which have been able to utilise the GI to add value to production. Like the *Kota Doria* value chain, both of these chains had similar governance structure prior to policy interventions and, indeed, similar social dynamics existed. The key in both chains was the presence of government (in the case of *Pochampally Ikat* through the Textiles Committee) and NGO (in the case of *Chanderi*) intervention at various points in the value chain.

In the case of *Chanderi* fabric, UNIDO and the Madhya Pradesh government worked at institutional development within the value chain, forming self-help groups aimed at improving production and marketing by independent weavers and empowering community-level associations (such as the Chanderi Development Foundation) to act as a unified voice of all weavers, including Master Weavers, to promote the sector (Das 2010). These organisations further assisted in issues such as women’s empowerment as well (Das, 2010).

By reorganising the chain in a manner aimed at explicit coordination, where relational mechanisms at the upstream, production end are linked to the joint marketing of the GI, the GI subsequently becomes a powerful tool for value-adding. Indeed, Bowen (2010), in her analysis of Comté cheese in France, notes the strength of this GI as chain actors working together to collectively establish the rules and quality constructs of the product. This, combined with French GI laws that strongly protect GIs internally and externally, and which give associations considerable autonomy to govern the label, has strengthened the GI associated with Comté cheese (Bowen, 2010).

---

³ See, for example, [http://www.thehindubusinessline.com/2009/10/03/stories/2009100350030600.htm](http://www.thehindubusinessline.com/2009/10/03/stories/2009100350030600.htm)
Another possible chain solution to improve the sector would be a reorganisation of the chain to one that is more buyer-driven, rather than producer-driven (Dolan and Humphrey, 2000). Buyer-driven chains are those in which end-buyers (typically retailers or supermarkets) establish particular standards and practices for their suppliers and products and organise the distribution channel accordingly to meet those specifications. High-end retailers such as FabIndia and Anokhi could play an important chain organisation role by working directly with weavers to supply their stores with high-quality, made-to-order products. Such products could be marketed and promoted under a Fair Trade type scheme and/or as part of each company’s corporate social responsibility (CSR) policy that could both add value for buyers and producers alike (Nadvi, 2008).

At the same time, NGOs and other civil society groups have an important role to play in this process. Trust relationships in the chain are quite low and will require some sort of “honest broker” to facilitate transactions and also smooth over cultural sensitivities that could arise as chains are organised more efficiently. Particular efforts will be needed to determine roles for master weavers in any reorganised chain. Clearly, master weavers have an expertise role that can be enhanced, but breaking down centuries-old power dynamics will be a major challenge. The case of Chanderi fabric suggests that cooperation between different chain actors can be achieved.

An important caveat is the mechanism by which external actors engage with or coordinate the chain. Successful GIs in Europe have been established through centuries of interactions, with institutions and social conventions governing the GI having evolved over a long period of time. A risk with external actors governing these chains is that the ownership of the GI is diluted or removed from the terroir of the actors in the region itself.

Neilson (2007) remarks that in the case of GI coffee in Indonesia, external actors (in this case roasting firms) have largely expropriated the GI and its quality construction to consumers, rather than it coming from farmers through collective action. Renard (2005) notes that success of Fair Trade products has often led to increased power among those managing the Fair Trade distribution channel, at the expense of producers. Similarly, Bowen and De Master (2011) point out that the institutionalisation of culture, as conceived through GI schemes, can influence the protected cultures themselves in ways that dilute or alter the products being produced. This suggests that while external actors play an important role in re-configuring fragmented value chains, they can also re-distort chains in ways that may not meet their stated aims. Further research is needed to elaborate more on this issue.

References


