THE POTENTIAL OF COTTAGE INDUSTRY TRADE

INTRODUCTION

A cottage industry is a small business engaged in manufacturing and operated from the owner’s homes. Cottage industries form an important part of the Indian economy. Being a developing economy, cottage industries create employment opportunities and drive incomes, preserve local customs and traditions and popularise them by producing unique local products, allow flexibility to owners and workers, and so on. This industry caters to multiple sectors such as handloom, handicrafts and textiles. Starting and operating a cottage industry business requires low capital and other resources, which allows many families to start such businesses. However, given the lower capital investment, these industries operate using cheap and outdated technology. This may lead to higher costs as well as more time to produce a single unit. Due to this, cottage industries face competition from larger firms using modern technology and efficient means of production.

Nonetheless, many cottage industries still stand strong. Products made by popular cottage industry businesses are recognised as a brand and known for their quality. Additionally, products made by machines and similar modern technology may lack the exquisiteness of some cottage industry products such as Banarasi saree, a popular cottage industry product in Varanasi. This leads to sustainability of demand, enabling growth in the industry.
As of 2020, around 65% of Indians were living in rural areas; of these, majority have low incomes and resources. Cottage industries are an important source of earning for them. These industries support many Indians, lifting them from poverty. Cottage industries also increase India’s export potential. Due to mainly these factors, the cottage industry is called the backbone of India’s economy.

FEATURES OF COTTAGE INDUSTRIES

A cottage industry is structured as a small home-based business run by the owner and their family. Some features of such businesses are given below.

▶ **Home-Based:** Cottage industry businesses are generally operated from the owner’s home itself, without any separate office or factory. This is especially due to the low availability of resources at the owner’s disposal while setting up the business. This work-from-home model helps reduce costs by saving on rent, besides increasing the flexibility to work.

▶ **Low Cost:** The cost required for starting a cottage industry unit is low. Such businesses make use of simple tools and conventional means of production involving significant human labour. This also helps in keeping the costs of operations low.

▶ **Involvement of Family Members:** Cottage industries are generally run by the owner’s family members; On the other hand, small-scale businesses may hire workers. This is a major difference between the two types of businesses. Cottage industry businesses may be run as a Hindu Undivided Family (HUF) where all the family members have a stake in the business. A home-based business allows flexible schedules for family members as they may work on the production, do some household chores and then continue with the business work. Outside workers may or may not be hired, depending on the scale on which the business is being run. This also helps in keeping the money in the family.

▶ **Cater to Local Markets:** Cottage industries, being small, generally cater to the local or regional markets. Given the significant time and resources needed to produce a single unit, production is limited. Additionally, many business owners are reluctant to take the efforts needed to market their products outside their local territory and thus do not need to develop complex supply chains. However, this is changing. Many cottage industries are exporting their products and serving global markets. The increasing use of the internet and social media is helping improve marketing and expanding the reach of products. Many cottage industry businesses now boast a global customer base.

▶ **Low Technology Usage:** Cottage industries are known for handmade goods. The use of technology among cottage industries is limited. Also, the technology used is generally indigenous and may be obsolete. Overall, cottage industries are labour-driven. The government is encouraging cottage industries to increase the usage of
technology as it reduces cost and increases efficiency. As part of this, the government has announced multiple schemes to provide cottage industries with easier access to loans; training on entrepreneurship, marketing and other fields of business; subsidies and so on.

► **Skilled Labour:** The goods produced by cottage industries require skilled labour and a high level of specialisation. Many products, as well as the designs, created by these industries, are highly complex and thus may be difficult to produce using machines. Skilled people teach their children and other unskilled family members. Thus, the skills and business are passed from one generation to the next, making the cottage industry a tradition in the family. This is an important factor that helps keep many cottage industries alive in face of cut-throat competition from cheaper products.

► **Self-Help Groups:** Self-Help Groups (SHGs) are groups of a few women with similar socio-economic backgrounds. SHGs also operate cottage industries. Some popular businesses run by SHGs are Sarvodaya Women Entrepreneurs Cottage Industries and Lijijat Papad. SHGs provide training to members and even help them during economic difficulties. This helps create a sense of unity and purpose in the group. This type of women’s entrepreneurship has created employment opportunities among women, boosting the income levels of families. Cottage industries have, thus, given economic freedom, to the women in these groups.

**ADVANTAGES OF COTTAGE INDUSTRY**

Cottage industries provide multiple advantages to the owners, customers as well as economy.

**Advantages to Owners**

Cottage industry units provide the following advantages to owners:

► **Flexibility:** Cottage industries offer flexibility to owners in terms of working timings, goods to produce as well as methods of production, as the owner has complete control over the business. Furthermore, the owner has the flexibility to work from home.

► **Ease of Commencement:** Cottage industries require low capital outlay which enables families with low incomes also to start a business. Generally, the tools required for production and the raw materials are simple and available locally, which further simplifies operations and reduces the requirement of funds.

► **Government Support:** TThe government is aware of the importance of cottage industries and has announced multiple reforms to help such business units. These initiatives include providing entrepreneur training on topics such as marketing and operations, financial assistance, tax benefits to businesses and investors, and operational support. In addition, cottage industries enjoy relaxed government regulations and face less regulatory burden. This enables owners to focus on business operations.

**Advantages to Customers**

Cottage industries also provide advantages to customers, as given below.

► **Unique Product Portfolio:** Customers can enjoy the unique and artistic products made by cottage industries. For example, silk weaving is a popular cottage industry and India is one of the largest silk producers in the world. Silk fabrics produced by such businesses have high demand among customers for use on special occasions.

► **Fresh Products:** Customers know that the products made by cottage industries are fresh and locally made. This enhances consumer confidence as customers generally associate freshness of a product with quality.

**Advantages to Economy**

Cottage industries provide various advantages to the economy, as mentioned below.

► **Employment Opportunities:** Cottage
industries have created many employment opportunities. Such industries are especially located in rural areas where unemployment may be higher. A cottage industry keeps people gainfully employed. Additionally, when the firm grows, the owner may hire more people, creating more employment opportunities.

**Preservation of Local Traditions and Culture:** Cottage industries produce a host of artistic products such as wooden toys, idols and metal handicrafts. Continuing to produce such products retains the artist in the people producing them. Additionally, the art is passed on to future generations. Thus, cottage industries help in preserving the local traditions and cultures.

**EXPORTS FROM COTTAGE INDUSTRIES**

Cottage industries are major contributors to exports. Indian cottage industries are increasingly becoming global, due to factors such as access to mobile phones, social media and the internet; increasing awareness among producers; and high demand for Indian goods in foreign markets. Between FY20 and FY21, the share of exports of micro, small and medium enterprises (MSMEs) by value stood at 49.4%, nearly half of total exports. India’s exports are growing rapidly, and MSME exports, too, are rising in line with the total exports. Between 2020 and 2021, the country’s goods exports stood nearly at a record US$ 420 billion, while services exports stood at US$ 250 billion. Goods exports were 5% higher than the government’s ambitious target of US$ 400 billion and 40% higher compared to the previous financial year. While the targets for 2022-23 have not been set, they are expected to be more ambitious compared to the previous year. The government expects MSMEs to significantly help in meeting these targets.

### Share of MSME-Related Products to India’s Total Exports

<table>
<thead>
<tr>
<th>Year</th>
<th>Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020-21</td>
<td>49.4%</td>
</tr>
<tr>
<td>2019-20</td>
<td>49.8%</td>
</tr>
<tr>
<td>2018-19</td>
<td>48.1%</td>
</tr>
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</table>

Source: PIB
GOVERNMENT INITIATIVES

Cottage industries are crucial to the Indian economy. Encouraging people to start cottage industries will benefit the entire nation. To help these industries grow, it is necessary to help them improve their efficiency and competitive advantage, among other things. Accordingly, the government has launched several initiatives. Some of the initiatives are mentioned below.

- **One District, One Product:** The One District, One Product (ODOP) initiative was launched to incentivise districts to unlock their potential, create employment opportunities and boost the overall socio-cultural and economic growth. Under this, at least one product from each district would be selected based on broad criteria including recognisability of the district with the ODOP product, many workers involved in the creation of that product, marketing linkages and ODOP processing infrastructure in the district. Firms producing the product are provided with help in the form of subsidies, capital funding, marketing and branding support, entrepreneur training and so on. Some of the popular products selected under the scheme are soft toys from Jhansi, Uttar Pradesh (UP); handicraft items from Gorakhpur, UP; millets from Thane, Maharashtra; and Kashmiri Ila mirch from Kulgam, Jammu and Kashmir. Currently, 106 products have been selected across 103 districts in 27 states. The ODOP team is taking efforts to identify new products across all districts in India.

- **Khadi and Village Industries Commission (KVIC):** The KVIC aims to develop khadi and village industries to generate employment opportunities. It coordinates with other agencies for rural development. Its functions include creating a reserve of raw materials and supplying them to producers, setting up common service facilities to process these raw materials, helping with the marketing of KV goods as well as training artisans working in these industries. The KVIC also partner with marketing firms to increase the sale and promote the marketing of goods sold by such industries. One of the objectives of the KVIC is to promote research on the equipment used and production techniques. The KVIC must also assist individuals and industries by guiding them through the supply of prototypes and designs, and by providing other technical information. The commission must also ensure quality control and set quality standards to ensure the products are of good quality.

Khadi is a fabric made from cotton but may include wool or silk. The fabric stays warm in winters and cool in summers. Khadi played an important role in India’s independence movement. When cheap foreign garments started flooding Indian markets during the British Raj, Mahatma Gandhi started an organisation to encourage handloom weaving, marking the birth of the Khadi movement. He, himself, spun with a charkha, a spinning wheel for producing the khadi cloth; he also encouraged people to be self-reliant and urged them to boycott foreign-made clothes. Today, the Indian government is also encouraging Indians to wear khadi clothes and be self-reliant.

- **Districts as Export Hubs Scheme:** This scheme enables farmers and MSMEs to benefit from exports and international...
markets and increase focus on self-sufficiency, led by district-led export growth. This will improve investments in districts to enhance manufacturing capabilities, promote innovation and growth, and increase exports. Products with export potential from districts are identified and plans are made to boost export. Products may include goods or services. Committees such as the District Export Promotion Committees (DEPCs) are created at the district level and the State Export Promotion Committees (SEPCs) are created at the state level. The DEPC is responsible for organising a plan and identifying products with export potential. The plan may include necessary policy reforms, providing support to local industry and identifying bottlenecks and other issues in meeting the target. The scheme is aimed at ensuring double-digit growth in exports from 500 districts over the next three to five years.

<table>
<thead>
<tr>
<th>Product Name</th>
<th>Loan Up to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shishu</td>
<td>Up to Rs. 50,000 (US$ 655.7)</td>
</tr>
<tr>
<td>Kishor</td>
<td>Above Rs. 50,000 (US$ 655.7) and up to Rs. 5 lakh (US$ 6,557.4)</td>
</tr>
<tr>
<td>Tarun</td>
<td>Above Rs. 5 lakh (US$ 6,557.3) and up to Rs. 10 lakh (US$ 13,114.8)</td>
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</tbody>
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MUDRA loan is granted for multiple purposes including the following (among others):
- To buy transport vehicles such as auto rickshaws, tractors, power tillers and two wheelers for commercial purposes
- To undertake social and personal service activities (repair shops, gymnasium, boutiques and medicine shops)
- To manufacture food products such as jelly, pickle, sweet; and set up cold storages and small service food stalls
- To start micro units (under Equipment Finance Scheme)
- To undertake activities related to agriculture (bee keeping, poultry, dairy and agribusiness centres)
- To set up kirana shops, other small shops, grocery stores, etc. (under working capital loans).

**Pradhan Mantri Mudra Yojana (PMMY):** Under the PMMY scheme, a non-banking financial company (NBFC) was incorporated under the name Micro Units Development and Refinance Agency Ltd (MUDRA). MUDRA aims to promote and help MSMEs in India by providing credit to non-farm and non-corporate MSMEs. Under this scheme, MSMEs can approach commercial banks, small finance banks, regional rural banks, NBFC and microfinance institutions, or even apply online on the portal; the loans disbursed are classified as MUDRA loans. Depending on the funding requirements and size of the MSMEs, three categories of loans were formulated, as listed below.

**Prime Minister Employment Generation Programme (PMEGP):** The PMEGP scheme was launched in 2008 and is implemented by the KVIC at the national level. The scheme was launched to provide financial assistance for setting up new businesses and creating employment opportunities. Another objective of this scheme was to generate sustainable employment opportunities for unemployed youth and traditional artisans to stop occupational migration. Under this scheme, subsidies and loans are granted to entrepreneurs. The entrepreneur needs to finance 5–10% of the project while the balance amount will be financed by the bank on approving the application. Support services are also provided in the form of entrepreneurship development programmes (EDP), awareness camps, exhibitions and workshops.
To ease the application process, the government introduced an online one-page form on the portal. The portal is also mobile friendly – several people who do not have access to computers but only phones can easily apply for the scheme. Model projects of KVI and model village industries have been linked to the e-portal. The government transfers margin money directly to the financing branches through the online portal.

In April 2022, the government announced the launch of 1.03 lakh new manufacturing and service enterprises under this scheme. This has led to the creation of 8.25 lakh employment opportunities over the past financial year. These units were set up at a total capital outlay of almost Rs. 12,000 crore (US$ 1.6 billion). Out of this amount, KVIC’s margin money subsidy disbursal stood at Rs. 2,978 crore (US$ 390.6 million); approximately Rs. 9,000 crore (US$ 1.2 billion) was disbursed by different banks. Furthermore, the number of business units established since 2014–15 has grown by 114%, employment opportunities have risen by 131% and margin money distribution has increased by 165%.

Credit Guarantee Fund Trust: This initiative aims to extend credit guarantees to MSMEs which will enable them to access credit from banks. The scheme was launched by the Ministry of MSME, Government of India. The government, along with SIDBI, set up the Credit Guarantee help to credit-worthy micro and small enterprises, and guarantee the part of the loan not covered by the collateral. The guarantee covers 50-85% of the amount taken on credit, depending on factors like the loan amount, the firm’s location and so on. In case of default, the fund will pay the loan amount covered by the guarantee. Furthermore, for loan amounts up to Rs 2 lakh (US$ 2,623), the guarantee is given without any collateral or third-party guarantee. This scheme has helped several cottage industries and other small businesses obtain access to funding for expansion, working capital requirements and so on. Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE), a fund designed to achieve the objectives of this scheme by providing

- **A Scheme for Promotion of Innovation, Rural Industry & Entrepreneurship (ASPIRE):** This scheme was launched by the Ministry of MSME, Government of India, to establish a network of technology centres and incubation centres to promote entrepreneurship and incentivise start-ups to innovate in the agriculture and allied activities sectors. The scheme aims to create employment opportunities, promote entrepreneurship culture, promote innovation, strengthen the competitiveness of MSMEs and so on. Under the scheme, livelihood business incubators would be set up to impart skill development and incubation programmes to promote employment generation and entrepreneurship focused on rural and underserved areas. The scheme provides a one-time grant of 100%
of the cost of plant and machinery, excluding land and infrastructure, or up to Rs. 1 crore (US$ 1.3 million), whichever amount is lower. For incubation centres under the public private partnership (PPP) mode, a grant of 50% of the cost of plant and machinery, excluding land and infrastructure, or Rs. 50 lakhs (US$ 0.7 million), whichever is lower, would be granted. Assistance and training will also be provided to the incubates.

**Start-up India Action Plan:** In line with the growing importance of start-ups and innovation in today's world, the government announced the Start-up India Action Plan for creating a strong and sustainable start-up ecosystem to promote innovation and encourage start-ups to generate employment opportunities and drive economic growth. The programmes announced in this scheme are managed by the Start-up India Team, a dedicated team reporting to the Department for Industrial Policy and Promotion (DPIIT). The plan focuses on three main areas:

- **Simplification and Handholding:** Objectives in this area include reducing the compliance burden on start-ups, providing an all-encompassing platform in the form of a portal and a mobile app; conducting mentorship programmes; allowing start-ups to work with governments, private equity and venture capital investors; setting up public procurement quotas for start-ups; and facilitating winding up of business, among others.

- **Funding Support and Incentives:** Objectives in this area include providing funding support in the form of equity investments, credit guarantees for venture debt as well as certain tax exemptions to start-ups and start-up investors.

- **Industry-Academia Partnership and Incubation:** In this area, the objectives include providing training, setting up incubators and research parks, and organising start-up fests for start-ups.

**POPULAR PRODUCTS PRODUCED BY THE INDIAN COTTAGE INDUSTRY**

India is a land of art and culture which are highly influenced by the diverse mix of population, various invasions as well as trade and globalisation. Products from India’s cottage industry reflect the varied art and culture. Various types of goods are produced by the cottage industry. These include fabrics such as khadi, muslin, silk and cotton; precious items such as idols, jewellery, statues and gems; and food items such as oils, honey and spices. These products have significant demand across the world which explains their high contribution to exports. In India, websites such as cottage emporium and HHEC promote artistic cottage industry products such as paintings, sarees, mugs, pottery, toys and carpets. Some of the well-known products produced by the cottage industry are given below.

**Production Share of Silk Varieties**

![Image: Production Share of Silk Varieties]

Source: Vikaspedia
Silk and Sericulture: Silk is a very elegant fabric with high durability, soft texture, and high absorbance, and is light weight. Due to these reasons, it is called the “Queen of Textiles”. India’s silk trade dates back to the 15th century and India is the only country which produces all five known commercial types of silk – Mulberry, Oak tasar, Tropical tasar, Muga and Eri. The industry is a large employer; as per Vikaspedia, an encyclopaedia initiative by the government, it employs around 87 lakh people in the semi-urban and rural areas of the country. Most of them are from the economically weaker sections of the society. India’s art- and culture-bound market, coupled with the diversity of silk garments, has enabled the country to become the second largest of silk.

Mulberry sericulture is practised in Karnataka, Andhra Pradesh, West Bengal, Assam, Tamil Nadu and Jharkhand. Northeast India contributes nearly 18% to silk production by producing four out of five varieties – Mulberry, Oak tasar, Eri and Muga. Among the varieties of silk produced in 2020-21, Mulberry contributed the largest at 70.7%. The total raw silk production was around 33,739 MT and export earnings during the year stood at Rs. 1,419 crore (US$ 186.1 million). Some of the popular varieties of silk/silk fabrics are Baluchari Saree of West Bengal, Arani Silk of Tamil Nadu, Kancheepuram Silk of Tamil Nadu, Mysore Silk of Karnataka and Chanderi Fabric of Madhya Pradesh.

Handicrafts: Handicrafts are crucial to India’s economy as they are a large employment generator as well as a large contributor to exports. The sector is highly fragmented with over 67,000 exporters and over 70 lakh artisans promoting the art and culture of India across the world. Handicrafts include products such as woodware, art metal ware, crocheted and embroidered goods, scarves, hand printed textiles and imitation jewellery. Handicraft exports stood at US$ 1.6 billion between April-August 2021, compared to US$ 3.3 billion in FY21. The top importing countries are the US, the UK, the UAE, Germany and France.

Handlooms: The handloom industry features various designs, highlighting a rich and diverse history and culture; these designs are manufactured by multiple techniques. The design and weave also depend on the place where it is produced and the climate of that location. The fabrics are worked over to produce complex intricate designs and delicate embroidery. As per a paper published by the FICCI Ladies Organisation (FICCI FLO), the industry employs nearly 4.3 million people. Most of the employees are from lower income families and rural and semi-urban areas; nearly 77% of them are women.

The industry is known for its unique designs. Currently, the trend is to mix old designs with newer techniques to create new products. The industry has nearly 2.4 million looms of diverse designs, which suggests a large production capacity. This explains the fact that approximately 15% of India’s cloth production comes from the handloom industry. Production of hand-woven fabric in India constitutes nearly 95% of the global hand-woven production.
**Bee Keeping:** Bees are crucial for nature. Bees play an important role in pollination, and thereby, in plant reproduction. They convert nectar from flowers to honey and store it in hives. Honey has a growing demand; it is used as a sweetener as well as for medical purposes. Due to this, beekeeping has emerged as a profitable occupation. Honey and wax are the two products produced through beekeeping. Beekeeping has several advantages such as low start-up costs, positive ecological consequences and good demand and market potential; moreover, it provides additional income.

**Floriculture:** Floriculture or farming of flowers involves growing flowers to perfection and marketing them. The products may include plants for direct sale, for applications in the perfume, cosmetic and pharmaceutical industries. Floriculture is practised by many small and marginal farmers as an additional source of income and self-employment. The industry is growing rapidly in India as increasing awareness, higher standard of living and the need for people to live in environmentally friendly areas boost demand. India’s share in the international flower market, which was at approximately Rs. 90,000 crore (US$ 11.8 billion), has significant room for growth. Domestic demand is growing by more than 25% every year. As per IMARC group, a market research firm, the Indian floriculture market is expected to expand to US$ 661 billion by 2026, at a compounded annual growth rate of 19.2% between 2021-26. Demand may increase further due to the shift in trend towards tropical flowers which can prove advantageous to India, given the diversity. As per Agriculture and Processed Food Products Export Development (APEDA), a government agency, during FY20, the area under floriculture cultivation stood at 3,05,000 hectares, with a production of 762 thousand tonnes of cut flowers and 2,301 thousand tonnes of loose flowers. Andhra Pradesh, Tamil Nadu and Madhya Pradesh are the largest producers. Total exports in FY21 stood at US$ 77.8 million; there are over 300 export-oriented units in the country.

**THE ROAD AHEAD**

Cottage industries form an important part of Indian society and the economy. These industries are highly fragmented but...
contribute significantly to employment and exports, thus forming the country’s backbone. Additionally, cottage industries produce products of art and culture reflecting the rich and diverse history of India. These industries are crucial for the country to achieve self-reliance. Despite facing many challenges such as heavy competition from larger companies and lockdowns caused by the pandemic, the cottage industry stands strong. The government recognises the importance of such businesses and has announced several initiatives to provide them with funds, training and so on. The government is further trying to improve the competitiveness of these industries and focuses on making India a global ‘manufacturing hub’. Given the strength and vast potential, India’s cottage industries seem to be well poised for strong growth.