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# Role of Small and Cottage Industry in GDP of India

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**ABSTRACT:** Small Scale and Cottage Industries are part of the MSMEs. Small-scale industries are those where production, manufacturing, and service delivery are carried out on a modest scale. Cottage Industries are typically extremely small businesses that are founded in homes or other modest structures. While family labor is used in the cottage industry, outside labor is used in small-scale industries. Small Scale Industries and Cottage Industries are the backbones of the MSME.

**KEYWORDS-**Small Scale, Cottage, MSME, labor, GDP, India

## I. INTRODUCTION

As per the information received from Ministry of Statistics and Programme Implementation, the share of MSME Gross Value Added (GVA) in all India Gross Domestic Product (GDP) is as follows:

Year	2018-19	2019-20	2020-21
Share of MSME GVA in All India GDP (%)	30.50	30.50	26.83

As per the information received from Directorate General of Commercial Intelligence & Statistics, the share of export of specified MSME related products in all India Export is as follows:

Description	2019-20	2020-21	2021-22	2022-23 (up to Aug. 2022)
Share of export of MSME related products in All India Export (in %)	49.77	49.35	45.03	42.67

As per Udyam Registration portal, the total number of persons employed in MSMEs which are incorporated during the last 3 years and the current year is as follows.

Year	2019-20	2020-21	2021-22	2022-23 (up to 07.12.2022)
All India	65,64,458	1,12,27,745	1,30,19,919	84,23,452

As per the information received from Ministry of Statistics and Programme Implementation, the share of Manufacturing MSME Gross Value Added (GVA) in all India Manufacturing Gross Value Added (GVA) is as follows:



Year	2018-19	2019-20	2020-21
Share of manufacturing MSME GVA in All India manufacturing GVA (%)	40.60	40.67	38.47

Ministry of MSME implements various schemes/programmes for the promotion and development of Micro, Small and Medium Enterprises (MSMEs) sector across the country inter alia include Prime Minister’s Employment Generation Programme (PMEGP), Micro and Small Enterprises-Cluster Development Programme (MSE-CDP), Scheme of Fund for Regeneration of Traditional Industries (SFURTI), Credit Guarantee Scheme for Micro and Small Enterprises (CGTMSE) and A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship (ASPIRE).[1,2,3]

The Government has taken a number of recent initiatives to support MSMEs in the country, which inter alia include:

- i. Rs. 5 lakh crore Collateral Free Automatic Loans for business, including MSMEs.
- ii. Rs. 50,000 crore equity infusion through MSME Self-Reliant India Fund.
- iii. New revised criteria for classification of MSMEs.
- iv. No global tenders for procurement up to Rs. 200 crores.
- v. “Udyam Registration” for MSMEs, for Ease of Doing Business.
- vi. Launching of an online Portal “Champions” in June, 2020 to cover many aspects of e-governance including grievance redress and handholding of MSMEs.
- vii. Inclusion of Retail and Wholesale trades as MSMEs w.e.f. 02<sup>nd</sup> July, 2021.
- viii. Non-tax benefits extended for 3 years in case of an upward change in status of MSMEs.[4,5,6]

We can discuss the role and performance of small-scale and cottage industries under the following headings:

1. Expansion of small-scale sector and its share in industrial output.
2. Employment generation.
3. Relative efficiency as compared with large-scale sector.
4. Equitable distribution of national income.
5. Mobilisation of capital and entrepreneurial skills.
6. Regional dispersal of industries.
7. Less industrial disputes.
8. Contribution to export earnings.

## II,DISCUSSION

(1) Expansion of Small-Scale Sector and Contribution to Industrial Output:

As is clear from the discussion above, the definition of small-scale undertakings has changed over time. Therefore, study of the expansion of small-scale sector over a long period of time is not possible. However, a study of the data contained in Economic Survey 2001-02 gives the following results for the period 1993-94 to 2000- 01.

- (a) The number of small-scale units stood at 23.9 lakh in 1993-94 and this rose to 33.7 lakh in 2000-01. This shows that during the period eight years, the number of industrial units rose by as much as 41 percent.
- (b) The output of small-scale units was Rs. 2, 41,648 crore in 1993-94 and this rose to Rs. 4, 50,450 crore in 2000-01 (at 1993-94 prices). This shows that the output of the small-scale industries increased by as much as 86.4 percent over the period 1993-94 to 2001-02.

(2) Relative Efficiency as Compared with Large-Scale Sector:

(i) Whether large-scale industries are more efficient or small-scale industries are more efficient, is a matter of debate. The problem arises because of the fact that efficiency can be defined in many different ways. The study on this issue was



conducted by SIDBI (Small Industries Development Bank of India) Team in 1999 in association with NCAER (National Council of Applied Economic Research).

The study covers the period 1980-1994. The study reveals that the small-scale industries, by investing only 7 percent to 15 percent of the total manufacturing sector's capital, contribute to nearly one-fifth of industrial output and 35 to 40 percent of total employment in the industrial sector.

Moreover, both labour productivity and capital productivity in small-scale sector grew at a faster rate than large-scale sector during 1980-94. Thus, the small-scale sector has proved to be more efficient.[7,8,9]

**(3) Employment Generations:**

The small-scale units employed 129.80 lakh people in 1991-92 and this number has consistently risen to 185.6 lakh people in 2000-01. Given the acute problem of unemployment in India, creation of employment opportunities depend crucially on the development of small-scale and cottage industries.

There is already surplus labour in agriculture while the large-scale industrial sector, being capital-intensive in nature, has limited employment opportunities. In fact, the employment argument is the strongest argument that can be put forward in favour of small-scale and cottage, industries in India.

**(4) Equitable Distribution of National Income:**

The main arguments put forward in support of the small-scale and cottage industries is that they ensure a more equitable distribution of national income and wealth. This happens because of the following two considerations:

- (a) The ownership of small-scale industries is more widespread than the ownership of large- scale industries, and
- (b) They possess a much larger employment potential as compared to the large industries.

**(5) Regional Dispersal of Industries:**

There has been massive concentration of large-scale industries in the states of Maharashtra, West Bengal, Gujarat and Tamil Nadu. As a result, disparity in industrial development have increased. Even within these industrialized states, industries have tended to get concentrated in a few large cities like Mumbai and Chennai.

People migrate in large numbers from villages and lower order urban centres to these centres of industrial development. This swells the population of slums and create various social and personal problems. The whole urban environment gets polluted.

As against this, the small-scale industries are ostly set up to satisfy local demand and they can be dispersed overall the state very easily. They can also effect a qualitative change in the economy of a state. The most glaring example of this phenomenon is the economy of Punjab which has more small- scale industrial units than even the industrially developed state of Maharashtra.

**(6) Mobilisation of Capital and Entrepreneurial Skill:**

Small-scale industries are at a distinct advantage as far as mobilisation of capital and entrepreneurial skill is concerned. A number of entrepreneurs are spread over small towns and village industries are distributed over the entire length and breadth of the country.

Similarly, large-scale industries cannot mobilise the savings done by people in areas far flung from the urban centres. But this task can be effectively accomplished by getting up a network of small-scale and cottage industries. In addition, a large number of other resources spread over the country can be put to an effective use by the small-scale and cottage industries.

The rapid development of small-scale industries in the post-Independence period is a proof that given the necessary credit, power and technical knowledge a large quantity of latent resources of the economy can be mobilised for purposes of industrial development.[10,11,12]

**(7) Less Industrial Disputes:**

A number of supporter of small-scale and cottage industries have argued that as compared with large-scale units, these industries have less industrial disputes. While these are frequent strikes and lock-outs in large industries, small-scale and cottage industries do not face such problem.

Therefore, there is no loss of output in small-scale and cottage industries. However, this point of view is not totally correct. The fact is that workers in large scale units are organised and thus the strikes are well reported in media.



As against this workers in small scale units are unorganised and cannot resort to strike. Any worker who shows his resentment is immediately thrown out. Therefore, while in a small-scale unit relations between the employer and employees appear to be normal on the surface but in fact they may be not.

In the case of cottage industries, the question of dispute does not arise at all since the main form of labour in these industries is family labour.

(8) Contribution to Exports:

With the establishment of a large number of modern small-scale industries in the post-independence period, the contribution of the small-scale sector in export earnings has increased by leaps and bounds.

What is heartening to observe is that the bulk of the exports of the small-scale industries (in fact, around 93 percent) consists of such non-traditional items like readymade garments sports-goods, finished leather, leather products, woollen garments and knitwear, processed foods, chemicals and allied products, and a large number of engineering goods.

The total export of the small-sector industry products increased from Rs. 150 crore during 1971-72 to Rs. 48,979 crore in 1998-99. This implies, an increase in the share of small-scale industries in the total exports of the country from 9.6 percent in 1971-72 to 34.9 percent in 1998-99. The share of the small-scale sector in manufacturing exports is about 45 percent. Exports of the small scale sector are estimated at \$ 13 billion in 2000-01 which was about 30 percent of total exports in that year.

### III.RESULTS

MSMEs are important factor in India's economic growth. It is contributing economically as well as socially.

Role of MSME

1. 37% of GDP
2. MSME are contributing 30% of manufacturing output.
3. Its Export contribution is 40%.
4. MSMEs are Generating employment for 8 crore people
5. MSME has highest employment generation per capita of investment due to labour intensive nature
6. MSME are Instrument of Inclusive Growth. Most of the MSME are own by women, SC, ST, minorities
7. Backward and forward linkages of MSME are very high. IT has Forward linkages with the LSIs- Large Scale Industries
8. MSME can be set with low capital costs
9. It has competitive advantage in meeting small order quantities.

Thus MSME has very important role to play in the India's development process. [13,14,15]

What Survey Says

1. Small firms with less than 100 employees – 14% employment & 8% productivity
2. Large firms – three quarter employment & 90% productivity
3. Large firms create permanent jobs in larger numbers
4. 55-60 lakh jobs will have to be created annually over the next decade
5. Higher levels of job creation in small firms co-exist with job destruction, thereby leading to lower levels of net job creation (Li and Rama, 2015)
6. Abid Husain's committee showed in the mid-1990s that small-scale reservation was responsible for our miserable export performance, and wanted it scrapped.
7. Reserved sector only made up 6% of the total SSI production. Hence, policy did not create desired diversification

#### THE ROLE OF POLICY IN FOSTERING DWARFISM

1. India has plethora of labor laws. It exempts smaller firms from complying with these legislations.
2. Flexibility in labour laws creates a more conducive environment for growth of industry and employment generation. [Number of firms with 100 employees or more have increased at a significantly higher rate in Rajasthan than in the Rest of India.]
3. benefits provided to small scale firms irrespective of their age create perverse incentives for firms to remain dwarfs [PSL, purchase preference, credit guarantee]
4. effect of de-reservation on net job creation (negative in the case of job destruction and positive in the case of job creation) [Martin, Nataraj & Harrison]



5. MRTTP
6. Taxation
7. SSI reservation have resulted in substantial misallocation of resources and productivity losses to the Indian economy [Santana et al]
  - a. lower the average capital to labour ratio
  - b. the lower capital accumulation, the overall demand for labour and the market wage rate are much lower
  - c. inefficient allocation of managerial talent, which in turn affects productivity.
  - d. Hence high price -> Uncompetitive

#### Way Forward

1. Incentives should have sunset clause
2. Incentivizing 'infant' firms rather than 'small' firms
3. Incentive to only one owner at a time – Adhar based system
4. Focus on High Employment Elastic Sector
5. Re-orienting the policy stance to foster the growth of MSMEs and thereby greater job creation and productivity in the economy.[16,17,18]

#### Institutional mechanism

1. Procurement Policy
  2. Interest subvention
  3. Tax concessions, etc
- #### Credit
1. Mudra
  2. PSL
  3. TreDS – A digital platform where MSME can get access to capital by auctioning their trade receivables (Both banks and NBFC are allowed)
- #### Infra
1. SFURTI – Traditional Industries Infra
  2. Cluster Development Program @ 50 such clusters have been set up
- #### Technology
- ASPIRE
    - A Scheme for Promoting Innovation and Rural Entrepreneurs
  - ZED
    - Zero Defect, Zero Effect
    - For quality improvisation in MSME outputs
    - Also focus on cleaner energy
  - Technology Acquisition and Development Program
  - Skill India
  - India Inclusive Innovation Fund (I3 Fund)
    - By ministry of MSME
    - For developing innovative ideas at the grassroot level
  - National Manufacturing Competitiveness Program
- #### Marketing and procurement
1. PSUs and Central Ministries procure 20% of their requirements from MSMEs
  2. Schemes like Mahila Haats
  3. MSME Sambandh: Public Procurement Portal for MSMEs
1. Strengthen Credit Guarantee Scheme
  2. Cluster centric Approach for expansion of Bank
  3. Alternative sources of Capital – VCs / Private Equity
  4. Creation of Hostels for Industrial workers



5. Public Infra Focus on R&D for Manufacturing process (Japan)
  6. Technology Transfer
  7. CSR Incentivise
  8. Patent Creation
  9. Creation of B2B portals
  10. Establish Information Dissemination centers
  11. Marketing organisations on cluster mode
  12. Inclusion of Private sector in Procurement Policy
- Impact of Globalisation
- Trade
    - This allowed LSIs to procure inputs from Imports at low cost.
    - Growth of Import of Raw materials and intermediaries increased from 2% in 1970-1990 to 9% between 1990 and 2005
    - Thus, the dependency on MSMEs reduced
  - FDI
    - Negative – Greater competition, Competition in Labour Market ( Attracted skilled labour)
    - Positive – Greater base of MNCs led to greater demand of inputs . Also led to provision of Technology
- Impact of Privatisation
- Since, PSUs engage in Procurement from SSIs (20%) and have preferential pricing policy from MSMEs, Privatisation also had impact on MSMEs
  - Positive – Proportion of Profit making firms have gone up, hence more procurement
  - Negative – Share of PSUs have gone down
- Impact of Liberalisation
- No of items reserved for MSMEs have been progressively reduced ( 20 in 2014)
  - Positive – Greater linkages with LSI and better market information and marketing and gains due to dynamic efficiency
  - Negative – Have been exposed to greater competition
- Overall
- Gains/ Losses due to LPG have been uncertain
  - Negative
    - declined considerably in terms of units (no of SSI) ( 10 % p.a. growth in units pre-liberalization, and only 4% after)
    - and even employment (7% v/s 4%),
  - Positive
    - but has improved marginally in terms of output
    - and exports
- When we consider registered SSIs, the performance is much better; although growth of units has slowed down,
- employment growth has increased from 4% to 9%;
  - Output Increased from 4% to 27%, and
  - exports Increased from 4% to 47%
1. Credit
    - a. Declining Gross Bank Credit share
    - b. RBI report
      1. Only 5% avail funds through formal institutions
      2. 2% through informal
      3. 93% depend on self financing – same as Informal sector in India
    - c. Credit to clusters program severely underfunded – Mehrotra
  2. Small Size – Prevents from reaping the benefits of Economies of Scale
    - a. See below
    - b. Average employee size is 3
    - c. Bulk is Micro (40%)
  3. Outdated Technology
  4. Skilled Manpower shortage
  5. Weak Infrastructure



6. Marketing
  - a. Lack of Market information
  - b. Value addition and marketing of products are limited
7. Policy issues – Ease of Doing Business issues – Numerous Labour laws , Corruption  
Draft MSMEs Policy
  1. Policy mooted on the line of Prabhat Kumar committee recommendation
  2. Intended to increase the threshold of rupee investment in Small, Micro and Medium Enterprises along with the change the classification of MSMEs.
  3. Called for setting up an overarching policy-making authority headed by the Prime Minister.
  4. Raising the limit of MUDRA loans for micro units from ₹50,000 to ₹1 lakh, for small units from ₹50,000-5 lakh to ₹1-10 lakh and for medium enterprises from ₹5-10 lakh to ₹10-25 lakh.
  5. A single law for micro and small enterprises employing less than 40 persons, social security cover for micro entrepreneurs,
  6. The policy suggest reassessment of the impact of bankruptcy code on MSMEs, replication of the Telangana model for statutory clearances of start-ups, creation of land banks by State governments.[19]

#### **IV.CONCLUSION**

India has rightly been described as the land of agriculture. Agriculture is highly confined to the rural areas of the country. It has been noted that rural areas have been playing a vital role in strengthening the economic development of India by paving the way for small-scale industries and cottage industries. Also, the Government of India is promoting the small-scale industries by its policies. The theme of Small scale industries and cottage industries has been continuously growing within the roots of India.

Basically, cottage industries and small-scale industries are two very similar terms with a minute difference or distinction between them. Cottage industry is the one which is owned, operated and managed by the members of a family. On the other hand, small-scale industries are deemed as the ones where family members work together with some hired labour. Both can be considered the same in equal ways. Cottage industries and small-scale industries are today, an important instrument of development of India.

##### **Role of Small scale industries and cottage industries in Development**

It has been mentioned earlier that small-scale and cottage industries play a significant role in Indian economy. As per a report, around 60% of total innovations in India are believed to have come from small-scale industries and cottage industries.

Following are their role in the development of India:

##### **Provides employment**

This is probably the biggest benefit of small-scale industries. They provide people (primarily articles and other skilled persons) employment. People who deal with traditional arts can get easy employment utilising their skills. Unemployment is a big issue in India, does this is deemed as a role to diminish the unemployment rate in the country.

##### **Rural advancement and growth**

Previously in India, people from rural areas used to migrate to urban areas such as Metropolitan cities in search of work and employment. The emergence of small-scale industries and cottage industries have boosted the rural advancement and rural growth. It is a continuous process and people of rural areas have good scope in their towns and village itself.

##### **Use of Domestic resources**

Small-scale industries and cottage industries pave the way towards utilising and mobilizing the domestic and local resources. This gets unused resources into usage. It promotes the traditional skills and handicrafts. Today they are in a big demand in the country.

##### **Large Export**

The small-scale sector has been thoroughly active in Exports. In recent years small-scale industries and cottage industries have marked a surprising growth in exportation. This has strengthened the economy of India. Large export, as per economical terms, reduces the pressure on a country's balance of payment. Also, it helps in incrementing the Indian Foreign Exchange reserve.





#### Promotes Women growth

The kind of methodology and business ways, the cottage industry, and small-scale industry worked at is an apparent promotion of women growth. The work is style develops several craftsmanship skills in women. In addition to that, Cottage and small-scale industries devised the equal distribution of income which is considered to be a good move in Indian development.

#### Develop entrepreneurial skills

Entrepreneurship is a booming term in the corporate and non-corporate corridors of India. Developing entrepreneurship skills is a big benefit for a person as well as is a big role towards the development of any country. Small-scale industries and cottage industries let the people dealing in small sectors feel the sensation of self-reliance in the society.

As far as the development of India is concerned, small-scale industries and cottage industries have been consistently playing a major role by granting employments to labours, developing the rural areas, and exporting a good amount of goods. At the same time, it has been beneficial to people. It gives necessary craft skills and entrepreneurial spirit. Overall, it can be said that the small-scale sector enables people of the family to be self-reliable.[20]

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