

## **The Cottage Industry**

Small and Medium Enterprises [SMEs] are very important for any developing economies. These enterprises do not require any huge finance to run their business and also easily can be managed by the owners. Small and medium-sized enterprises are non-subsidiary, independent firms which employ less than a given number of employees. This number varies across countries. The most frequent upper limit designating an SME is 250 employees, as in the European Union.

Another very important sector for any growing economy is cottage industry which is comparatively smaller than SMEs. It is a small-scale, decentralized manufacturing business often operated out of a home rather than a purpose-built facility. Cottage industries are defined by the amount of investment required to start, as well as the number of people employed and even home residents can run all end to end this business from homes.

Cottage industries often focus on the production of labor-intensive goods but face a significant disadvantage when competing with factory-based manufacturers that mass-produce goods. SMEs and Cottage industries are linked with each other as in some products SMEs outsourced their productions to small scale manufacturers. The purpose of this outsourcing is to reduce the cost of production and reduce the production burden from SMEs facility Units.

The best and successful example of these types of industries is Chinese SMEs and Cottage industries, where only in Shenzhen City, in 2016; there were almost 1.32 million SMEs which were contributing 60% to total GDP and 70% to exports. These SMEs have very huge contribution to GDP, Taxation and Employment. The Chinese system of SME-oriented “Plug and Play” industrial zones is thus one of the most important and least well publicized factors behind China’s extraordinary competitiveness in light manufacturing industry.

In Pakistan, Small and Medium Enterprises Development Authority – SMEDA, the premier institution of the Government of Pakistan under Ministry of Industries & Production is taking care of SMEs. SMEDA was established in October 1998 to take on the challenge of developing Small & Medium Enterprises (SMEs) in Pakistan. With a futuristic approach and professional management structure it has focus on providing an enabling environment and business development services to small and medium enterprises. SMEDA is not only an SME policy-advisory body for the government of Pakistan but also facilitates other stakeholders in addressing their SME development agendas.

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As Pakistan's government seeks to achieve its aim of becoming an upper-middle-income economy by 2025, helping these companies grow is a crucial part of efforts to increase financial inclusion and reduce poverty. When the government launched Vision 2025, it emphasized the importance of a development strategy for small business, highlighting in particular the need to improve access to finance and build financial literacy skills, and to simplify regulations to make it easier for people to set up and build a successful business. Reinforcing this, the State Bank of Pakistan sees microfinance as 'pivotal for inclusive and sustainable economic growth of the country; crucial to livelihood creation; and a key driver of grass-root-level development'.

People in urban areas are also manufacturing and producing some daily use products and contributing to meet the local demand of these products. These production units are on very small scale and unregistered. The purpose to not register these units can be more but the main reason can be to save more by using domestic electricity and to avoid taxation and other hidden costs.

Government and relevant departments should encourage these cottage industries and should facilitate them to register and to improve their production with quality and international standards. SMEDA is playing very important role for SMEs but very small scale unregistered production units are totally neglected by relevant authorities. In long run, by bring them to network, these small scale production units can also generate revenue for government in form of taxation and other duties.

As part of its National Financial Inclusion Strategy, the government has created the Pakistan Microfinance Investment Company (PMIC), providing finance direct to target sectors as well as offering funding and support to other microfinance lenders. It was established as a joint initiative backed by the Pakistan Poverty Alleviation Fund (PPAF) and the UK's Department for International Development, through the non-profit organization Karandaaz Pakistan and the German development bank KfW.

PMIC should also give priority to support these cottage industry type production units at grass root level. Government should support cottage industries to develop their skills that how they can approach international market and how to compete international market competitors.

SMEDA should provide them some funds to explore international market including participation in overseas exhibitions, business management system certification, various types of product certification, overseas patent applications, international market promotion, e-commerce, overseas advertising and trademark registration, international market research, Business training, overseas acquisition technology and brand.

Relevant departments should reduce the electricity rates and taxes for their production units. This will encourage them to work hard and produce good quality products at micro level. As these units are being run by lower middle class so by giving them some relaxations and facilities, these production units can play vital role to increase GDP and it will also help them to improve their economic conditions.

Efficient use of technology and innovation is also very important to reduce the cost and to make the product attractive with good quality. Standard packing, Marketing and selling techniques can also help these small scale production units.