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# Essence of Pakistan Cottage Industry

A comprehensive Report

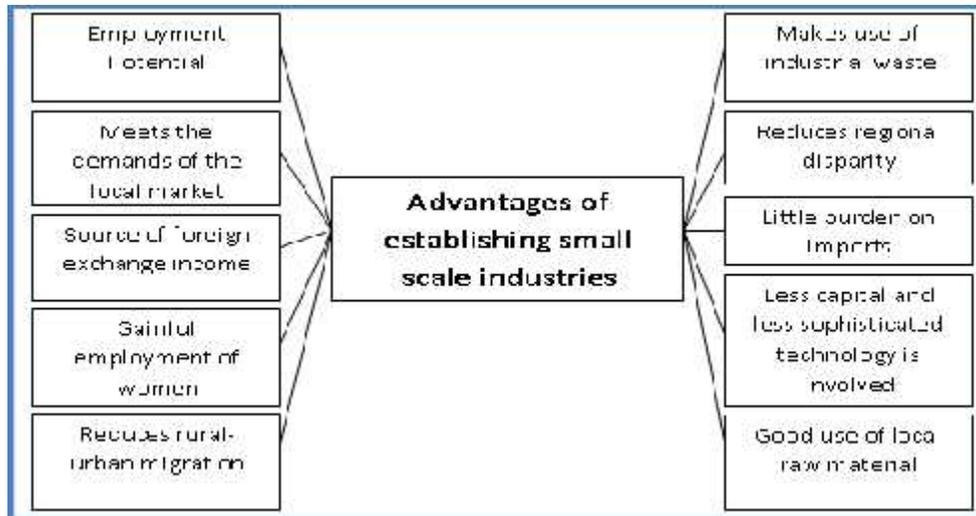


## **Essence of Pakistan Cottage Industries**

Cottage industries are defined by the amount of investment required to start, as well as the number of people employed. A cottage industry is a small-scale, decentralized manufacturing business often operated out of a home rather than a purpose-built facility. They often focus on the production of labor-intensive goods but face a significant disadvantage when competing with factory-based manufacturers that mass-produce goods. Federal Board of Revenue FBR has redefined cottage industry to include (a) does not have an industrial gas or electricity connection; (b) is located in a residential area; (c) does not have a total labour force of more than ten workers; and (d) annual turnover from all supplies does not exceed two million rupees. Cottage and small-scale industries have great scope in Pakistan. It generates employments for the nation and improve the balance of trade of the country and employing about 81 per cent of the total labour force. If given due importance to cottage industry it can act as a catalyst for the economic development of the country. They cover large number of people which effects the social structure through the possibility of absorbing rural labor, which would otherwise be unemployed during parts of the year. It also strengthens the position of women in the society as their participation increases active labor force, and allows established organizations to contact them and get the work done.

There is a web of cottage and books industries. In almost every village, there are a number of such industries depending upon the size of the village and the demand for the products. The establishment of such industry is closely related to the availability of raw material traditional skills, climatic conditions and, in several cases, the local specialization in the organized factory sector.

### **Advantages of Establishing Small Scale Industries**



Although the contribution of small-scale sector to GDP (almost 5%) does not appear to be very high, it is, nonetheless, an important sector in many other respects, especially in terms of employment generation, exports, and better linkages with other sectors of the domestic economy. It helps to generate employment for women especially in rural areas who are most vulnerable segment of our economy and reduces disparities among them. Moreover, it helps to boost exports and to earn foreign reserves.

## **Types of Cottage Industries in Pakistan**

### **1. Carpets**

In the small-scale industries, the most important is the Carpet weaving and its center are located almost all over the Pakistan. It is also significant in economic terms and they make valuable contribution in exports. Cotton is the raw material required for this industry. They also employ women for the production of fine hand-woven carpets and for the production of wool silk or a mixture of the two, as the carpets are of great significance which generates equal economic opportunities. It is valuable for gross domestic product of country.

### **2. Textiles**

Textiles are found throughout the country with a variety of design and techniques. The most famous among them are Khadar, Susi, Khes, Chunri, Boski, Karandi, Shaal, and Ajrak. The designs are invariably brightly colored with traditional emphasis on blue and red.

### **3. Embroidery**

Embroidery has developed to a fine art with distinctive regional designs and patterns.

#### **4. Jewelry**

Gold and silversmiths are one of the largest communities of craftsmen. Much of the jewelry made and sold in the cities is intricately fashioned and delicate.

#### **5. Ceramics**

Clay and terracotta pottery and utensils continue to be of great practical importance. Many of the designs of urns, pitchers, bowls, jugs, plates, and pots seen today are almost identical to those uncovered at archaeological sites around the country. Distinctive glazed blue tiles are used to decorate many of the great mosques in Pakistan.

#### **6. Cutlery**

Wazirabad is the city of cutlery industry in Pakistan. This industry is growing day by day and has share of 65 million US dollars in Export for 2010. High Quality Damascus Steel is manufactured in this city and 95% of world needs are produced here.

#### **7. Woodwork**

The Swat Valley is perhaps the most famous for its intricately carved architectural woodwork and furniture, although wood-carving is common throughout the northern mountains.

#### **8. Sports goods**

Sports goods earn about 3.7% of our total exports. The main raw material for the sports goods industry are leather and mulberry wood that are available in Punjab, but also imported PVC. Football, hockey ball, hockey sticks, cricket bats and rackets are mostly manufactured by hand. The local sports goods manufacturing industry is one of the major sources of foreign exchange earnings of Pakistan. It is centralised in and around the city of Sialkot, where it has flourished as a cottage industry with most of its production by generations of skilled craftsmen. At present, there are more than 2000 units, mostly on small scale in operation with an installed capacity of Rs. 20 billion per annum. The units are operating on single-shift basis.

Pakistan produces a wide range of sports goods, accessories, games and athletic equipment generally following the British, American and German specifications.

The Government is also enforcing on a compulsory basis, minimum quality standards for sports goods manufacture. The Pakistan Standards Institute, a government agency, has devised specific standards for different types of sports goods. The important items being produced are tennis rackets, hockey sticks, hockey balls, polo sticks, cricket bats and balls, footballs, (complete) and numerous goods used in both in-door as well out-door games.

In order to encourage the export of sports goods, the Government has taken many positive steps and has offered various incentives. Customs duty, sales tax and excise duty rebates on f.o.b. value of exported various types of sports goods are available. Another incentive is that import of restricted and tanned raw materials are also allowed on cash licenses against export of sports goods.

### **Women Participation in Cottage Industry**

Cottage Industry plays an important role in economic growth of women working from home and in rural areas as they are not encouraged to work outside their homes. In Pakistan, approximately 65 per cent of women earn their livelihood from handicraft work and has a significant impact on financial status of their households. The range of handicraft products include candle making, ajrak, ceramics, rugs, musical instruments, caps, straw products, bangles, crochet work, embroideries, carpets and woodcarving. Handicrafts sector is the only sector that is directly linked with the skills of women so there is dire need to better tap this segment.

### **Government Policies Towards Small-Scale and Cottage Industries**

The government is fully aware of the potential of cottage and small-scale industries for industrial development. The following organizations have been established to develop this sector of economy.

- ) Pakistan Small Industries Corporation (PSIC)
- ) Punjab Small Industries Corporation (PSIC)
- ) Sindh Small Industries Corporation (SSIC)
- ) The Small Industries Development Board NWFP (SIDB)

) The Directorate of Small Industries Baluchistan (DSIB)

The above organizations are taking the following measures:

- ) Establishment of industrial estates.
- ) Providing marketing facilities.
- ) Setting up of technical service centers.
- ) Establishing handicraft development centers and carpet centers.
- ) Providing per-investment counseling and guidance to newcomers.
- ) Providing local and foreign loans to small industry owners on easy installments.
- ) Encouragement for integration with the large-scale sector through subcontracting; and -  
Provision of adequate infrastructure and measures to make it accessible to the small-scale investor

## **Other Measures**

### **Exemption of Cottage Industry from Central Excise and Sales Taxes**

The government, vide Finance Act FY 19-20, has amended that industries having an annual turnover of Rs3.0 million will be considered cottage industry as opposed to Rs2.0 million thresholds proposed by the Finance Bill. To qualify as cottage industry; the maximum threshold of annual turnover had been proposed to be decreased from Rs.10 million to Rs.2 million with imposing certain other conditions. State Bank of Pakistan (SBP) has also separate prudential regulations for cottage industry, and such industrial units can avail financing at lower rates and against cash-flows, which means they do not have to provide collateral against financing.

A number of domestically produced commodities are subject to central excise duty and/or sales tax. However, such commodities are totally exempted from these taxes if they are produced by the cottage industry. The definition of the term cottage industry for tax purposes is different from that used in the ordinary language. The important conditions for a manufacturing enterprise to fall under the category of cottage industry are that the capital employed should not exceed Rs 100,000, and the number of workers on a single-shift basis should not exceed fifteen. Moreover, the owner of the cottage industry either should not own other enterprises, or if he does, the capital employed in all enterprises taken together should not exceed Rs 100,000. While the

purpose of this tax exemption was to provide relief to very small manufacturers, it is alleged that the exemption is being grossly misused and has raised issues relating to equity and efficiency. The alleged gross misuse of cottage industry exemption essentially takes place in the form of undervaluation of capital stock and underreporting of workers. It is also alleged that in some cases, because of its tax advantage, the cottage industry hits hard the organized sector by giving it undue competition

### **Credit Facilities**

Punjab government has recently launched Rs 300 million loans scheme for the revival of cottage industry in 36 districts of the province. Under the scheme, soft loans would be provided to the skilled persons on soft conditions for the revival of cottage industry through Punjab Small Industries Corporation (PSIC).

This will prove to be an important step towards provision of employment, elimination of poverty, economic progress and prosperity of the country. The government will itself do marketing of produced items of handicrafts by making a website. Three months grace period has been fixed for returning the loans being given under this scheme while four-month grace period will be fixed for the women. A country cannot make progress without empowering women so that it has been directed to include 25 per cent women under this scheme and operational cost for them will also be reduced.

### **Technical Training Facilities**

Small industries require not only financial resources for their development but also the availability of trained workers. At present, there are 293 secondary vocational institutions in the country with a total enrolment of 59,000, where technical training in various fields is provided to the students. Graduates from these institutions not only go to the industrial sector but also serve in all others sectors of the economy. In addition, technical training facilities are also provided by the provincial small industries corporation through their technical assistance and training programmes.

### **Comparative Policies in other Countries**

Small scale and cottage industrial sector have emerged as an engine of growth in several developing and developed economies of the world. In India also, they have emerged as a vibrant and dynamic sector of Indian economy by virtue of their significant contribution to GDP, industrial production and export. However, the most vital contribution of this sector is headed for employment generation which is next to agriculture. The small scale and cottage industrial sector have found their economic rationale in Mahalanobis model of economic development, which was the basis for India's second and subsequent Five-Year Plans. While the promotion of small-scale industries has been one of the major objectives of economic planning in India, the policies and strategies have undergone change from time to time.

Amongst developing countries, India was the first to display special concern for small scale and cottage industrial sector. The call of 'swadeshi' and the boycott of imported goods were synonymous with a desire to promote cottage and small-scale industries. The rationale for state encouragement to village and small industries was greatly influenced by Mahatma Gandhi's appeal to revive village-based industries and crafts, and by his identifying 'khadi' as the symbol of Indian nationalism.

The six Industrial Policy Resolutions and eleven Five Year Plans supported a continuous flow of incentives, both protective and promotional in nature; as an element of development strategy to meet socioeconomic objectives like employment generation, removal of poverty and regional disparities, optimum utilization of local resources, etc. Under section 80J of the Income Tax Act 1961, new industrial undertakings, including small-scale industries, are exempted from the payment of income- tax on their profits subject to a maximum of 6% per annum of their capital employed. This exemption in tax is allowed for a period of five years from the commencement of production. The Finance (No.2) Act of 1977 inserted a new Section 80-HHA in the Income Tax Act, 1961. The tax payers, under this Section 80-HHA, are entitled to a deduction of 20 % of the profits and gains derived by running small-scale industries in the rural areas. A comprehensive package of programmes and policy measures has been formulated by the government to accelerate the growth and productivity of small-scale sector. The support packages include a variety of promotional and protective measures like industrial estates programme, ancillarisation programme, product reservation policy, programme of technology upgradation and modernization and financial support measures, etc

Bangladesh Small and Cottage Industries Corporation (BSCIC) and SME Foundation are the organisations that are responsible for implementation of strategic goals and action plans of SME Policy. Export earnings from handicraft and cottage industries are exempted from income taxes. If production from these industries during the year is more than 15 % but less than 25% compared to previous year. Rebate of 5% on income tax payable on income derived from such industries. If production during the year exceeds 25% compared to previous year. Rebate of 10% on income tax payable on income derived from such industries.

The Ministry of Industries (MoI), responsible for evaluating progress and monitoring action plans, would provide both financial and nonfinancial supports to BSCIC and SMEF as per their needs.

According to a 2013 census, out of 7.8 million enterprises in Bangladesh, 88 per cent or 6.86 million are cottage enterprises that have created employment of 13.16 million. Even though the cottage industry is representing a large portion of the enterprises, there is no mention of it in the new SME policy. How the interest of this huge cottage industry will be addressed is not mentioned anywhere, except some of the circulars of Bangladesh Bank. Definition of Cottage, Micro, Small and Medium Enterprises as described in 'National Industrial Policy 2016' and subsequent industrial policies are acknowledged in the 'SME Policy 2019. Cottage enterprises are the ones which have investment up to Tk 10 lakh except land and building, engaging family labour and with employment of 15 persons. While micro enterprises are the ones that have investment worth between Tk 10 and Tk 75 lakh and employ 16-30 people. Number of micro enterprises, the census suggested, is 0.11 million that create employment of 0.56 million.

It is not possible to ensure SME development without bringing this large portion of the industry under the policy. These cottage and micro enterprises have immense potential to produce innovative and diversified products. By linking these cottage and micro enterprises with small, medium and large enterprises, dependency on imported items as supportive materials for finished goods could be reduced. Encouraging policies for CMSEs are essential for their development.

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 market is full of opportunity for

large and small companies alike. On January 9th of 2019, China's State Council announced RMB 200 billion (USD 29.43 billion) worth of tax cuts on small companies, affecting an estimated 95% of corporate taxpayers. Of those 95% affected, their tax burden will be from 5% to 10% less than before. Now, such companies can enjoy the same preferential CIT rate of 20 percent but will only be taxed on 25 percent of their income, with the remaining 75 percent tax-free.

Further, companies with taxable income from RMB 1 to 3 million (US\$147,290 to 441,870) can now enjoy the preferential 20 percent CIT rate on 50 percent of their income, with the other 50 percent tax-free. There are several new Value Added Tax (VAT) rules as well, centered around small-scale VAT payers. Small-scale taxpayers are exempt from paying VAT on many items.

With the new rules, small-scale level VAT taxpayers are defined as those with monthly sales under RMB 100,000 (USD 14,715) per month, up from the previous RMB 30,000 (USD 4,415). Businesses with quarterly sales of under RMB 300,000 (USD44,145) also are under the new VAT exemption. Furthermore, businesses that have had less than RMB 5 million (USD734,500) in sales over the last four quarters or 12 months can choose to transfer into the new, small business VAT requirements by December 31, 2019.

Regional governments will also now have permission to cut the VAT tax on local taxpayers by up to 50%. The tax brackets for venture capital funders will also be expanded.

All of these new tax incentives are part of a broader push by the government to boost the economy, even as there are concerns about its slowing pace. Many observers believe that tax incentives will be the primary strategy to strengthen it, instead of a wider stimulus. Regardless, they are good news for smaller-sized companies interested in market entry in China.

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.

These industrial "Plug and Play" zones considerably reduced the startup investment costs and risks for SMEs at a phase in their development where they are still too risky for bank loans. They also facilitated the development of industrial clusters allowing tremendous economies of scale and scope for Chinese industries (the emergence of clusters was further facilitated by the Chinese government's support for the development of input and output markets). In a nutshell, the

Chinese government facilitated SME development through the efficient provision of public goods and market information about sellers and providers but not subsidies. For example, firms pay market prices for the use of utilities. Most importantly, competition between firms is intense. The government does not bail out failing firms. It should also be noted that most of these zones did not preselect particular light industries, letting market forces drive the organic development of specialized clusters.

## **Conclusions**

Cottage and small-scale industries have great scope in Pakistan. It generates employments for the nation and improve the balance of trade of the country and employing about 81 per cent of the total labour force. Although the contribution of small-scale sector to GDP (almost 5%) does not appear to be very high, it is, nonetheless, an important sector in many other respects, especially in terms of employment generation, exports, and better linkages with other sectors of the domestic economy. Everybody recognizes the importance of cottage and small-scale industry, but measures taken are not enough to overcome the hurdles in the way of development of these industries. It is a disappointing fact that there are few statistics available about the small and cottage industries, with a majority being of the informal variety, disorganised and unregulated. Government has very significant role in development of this industry. They with the help of NGOs should device policy to develop leadership qualities, confidence building, gender awareness and making them understand their rights with respect to wages in commensurate with their effort and time they allocate for these activities.

## **Suggestions**

- ) Cottage industry, small traders and women entrepreneurs should be given more attention to ensure rapid development, cottage industrial zones must be established across the country and CPEC.
- ) Over 96% of businesses fall in category of cottage industry and small businesses but this sector is neglected and undocumented. Therefore, document the small-scale industries. Establish data collecting agencies and collect data periodically.
- ) As Pakistan's government seeks to achieve its aim of becoming an upper-middle-income economy by 2025, helping these industries 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’.

- ) Cottage and small-scale industries facing various problems, in the country, such as High tax, High input Cost, Fund non-availability from the bank, un-peaceful environment, bad transportation, non-availability of raw material, loadshedding, international demand of the products and lack of skilled labors. The government tries best to solve these problems while still failed in its solution. So many programs were launched for its development while still not achieved the targeted objectives. The main reason is that the government paid due attention to large scale industries and they set the industries in urban area while bring raw material from the rural sectors. These program effects fell on the city while rural communities were ignored from the benefits. Majority people from rural area migrate to city for the purpose of jobs. Free tax system should be imposed for cottage and small-scale industrialization in the country; Subsidized and support price should be arranged for input and output products in the country.
- ) 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.
- ) It is observed that investors of small-scale industry are not fully aware of the new innovations therefore stick to old methods. The craftsmen and artisans mostly inherit the knowledge and the method of production from their elders and there is no provision of learning of new techniques and training which impacts the industry. Efficient use of capital, 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.

- ) Cottage industry is mostly placed in rural areas therefore facilities like continuous availability of electricity, lack of storage place affects the production badly. They don't have any credit facility so to buy new tools and meet other expenses also slow down the process.
- ) Pakistan Microfinance Investment Company (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.
- ) Employ a website to sell nationally and internationally, but also participate in local trade shows and conferences and target boutiques or specialty shops that are known for selling high-quality artisan products.
- ) The government should increase the establishment of vocational and training institutions especially in rural areas where females can start up their own businesses.

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