

Small Scale & Cottage Industries, Role, Challenges, Government Initiatives

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Small Scale and Cottage Industries occupy a crucial place in India's economic structure, especially from the perspective of employment generation, inclusive growth, and balanced regional development. These industries are particularly important for UPSC as they are linked with Indian Economy, Rural Development, MSME policies, and Gandhian philosophy.

Role of Cottage Industries in Rural and Inclusive Development

- **Rural Employment Generation:** Cottage industries form an integral part of the MSME sector, which provides employment to over 11 crore people, with nearly half of the enterprises located in rural areas, absorbing surplus labour and reducing rural unemployment.
- **Poverty Reduction and Income Diversification:** These industries provide supplementary and alternative income to farming households, especially during the agricultural off-season, helping reduce rural poverty and income insecurity.
- **Women Empowerment:** Women account for over one-fifth of the MSME workforce, with a higher concentration in cottage industries such as handloom, handicrafts, khadi, and food processing, enhancing

financial independence and social status.

- **Balanced Regional Development:** By promoting decentralised production in villages and backward regions, cottage industries help reduce regional disparities and curb distress-driven rural-to-urban migration.
- **Inclusion of Marginalised Communities:** Cottage industries provide livelihood opportunities to SCs, STs, minorities, and tribal populations, integrating vulnerable groups into the mainstream economy and promoting inclusive growth.
- **Low Capital-High Employment Model:** Requiring minimal capital investment and relying on family labour, cottage industries exhibit a high labour-capital ratio, making them suitable for India's labour-surplus rural economy.
- **Sustainable and Cultural Development:** Using local raw materials, traditional skills, and low-energy processes, cottage industries preserve India's cultural heritage while supporting environmentally sustainable rural development.

Some of the Cottage Industries and their location

Cottage industries in India are closely linked to local resource availability, traditional skills, and regional socio-economic conditions, leading to their concentration in specific geographical areas.

Some of the Cottage Industries and their location	
Cottage Industry	Major Geographical Regions / Centres
Khadi Udyog	Central Plains of India, Gujarat, Madhya Pradesh
Oilseeds Processing Industry	Rajasthan, Western Madhya Pradesh, Gujarat, Maharashtra
Dairy Industry	Punjab, Haryana, Western Uttar Pradesh, Western Madhya Pradesh, Rajasthan, Gujarat, Maharashtra
Potteries, Plaster of Paris & China Clay Items	Southern Uttar Pradesh (Allahabad-Mughalsarai belt: Mirzapur, Churk, Chunar)
Woodcraft	Southern Karnataka, Uttarakhand, Himachal Pradesh, Jammu & Kashmir
Decorative Items (Animal Horns)	Northern & Central Karnataka (Belgaum district)
Leather Goods	Tamil Nadu, Karnataka, Maharashtra; small tanneries across India

Tribal Cottage Industries (baskets, mats, paper plates, umbrellas, bidis)	Chhattisgarh, Jharkhand, Odisha
Stone Sculpturing & Stone Cutting	Rajasthan
Precious Stone Cutting	Jaipur (Rajasthan), Gujarat
Coir Works	Kerala, Tamil Nadu
Painting Works	Pattachitra (Odisha), Madhubani (Bihar)
Sericulture & Silk Textiles	North-East India, Tamil Nadu, Karnataka, tribal regions
Wooden Textiles & Carpet Making	Jammu & Kashmir, Himachal Pradesh, Tibetan refugee camps; Bhadohi (Uttar Pradesh)
Glass Industry	Scattered nationwide; concentrated in Ferozabad and Naini (Prayagraj), Uttar Pradesh
Gem Cutting	Surat (Gujarat)
Pearl Industry	Surat, Mumbai
Brassware	Moradabad (Uttar Pradesh)
Nirmal Handicrafts	Andhra Pradesh
Ivory Carving	Thiruvananthapuram, Jaipur
Tendu Industry (Bidi Making)	Madhya Pradesh, Odisha, Maharashtra, Andhra Pradesh
Lac Industry (Medicine, Wax, Cosmetics)	Chota Nagpur Plateau region, Madhya Pradesh, Odisha, Chhattisgarh

Challenges Faced by Small Scale and Cottage Industries

Despite policy support, both SSIs and cottage industries face several structural challenges that hinder their growth.

Input Stage Challenges

- Lack of timely, adequate, and low-cost credit
- Limited access to formal banking and financial institutions
- Infrastructural bottlenecks, especially irregular power supply
- Difficulty in procurement of raw materials due to limited funds and policy bias towards large industries

Processing Stage Challenges

- Dependence on traditional and obsolete technology, reducing productivity and competitiveness
- Under-utilisation of capacity due to financial, technological, and skill constraints
- Limited scope for expansion and modernisation

Output Stage Challenges

- Absence of organised markets and weak marketing networks
- Lack of branding, quality standardisation, and certification
- Poor monitoring and facilitation by government agencies
- High incidence of sickness and non-recovery of dues

Globalisation, liberalisation, and privatisation since 1990 have intensified competition from large-scale industries and imports. As a result, many artisans have abandoned traditional occupations, leading to the decline of knowledge-based cottage industries.

Government Initiatives and Reforms

1. Khadi and Village Industries Commission (KVIC)

- **Statutory Status:** KVIC is a statutory body established under the Khadi and Village Industries Commission Act, 1956 and has been operational since 1957.
- **Nodal Agency:** It functions under the **Ministry of Micro, Small and Medium Enterprises (MSME)** and acts as the apex institution for khadi and village industries in India.
- **Core Objective:** Promotion of **employment generation, self-reliance, and sustainable rural development** through cottage and village industries.
- **Functions:**
 - Planning and promotion of khadi and village industries in rural areas
 - Skill development and training of artisans
 - Supply of raw materials through common facility centres
 - Financial assistance and subsidies
 - Marketing support through khadi outlets, exhibitions, and fairs
- **Socio-economic Role:** KVIC supports Gandhian ideals of decentralised production, women empowerment, and use of eco-friendly, locally available resources.

2. Credit-Related Schemes for Cottage Industries

3. a) **Pradhan Mantri Mudra Yojana (PMMY)**

- **Launch Year:** 2015
- **Objective:** To provide **collateral-free loans** to micro and cottage enterprises engaged in manufacturing, trading, and service activities.
- **Loan Categories:**
 - *Shishu* – small start-ups
 - *Kishore* – expanding enterprises
 - *Tarun* – well-established units
- **Significance for Cottage Industries:** Enables artisans and household units to access institutional credit, reducing dependence on moneylenders.

1. b) Priority Sector Lending (PSL)

- **Policy Mandate:** RBI mandates banks to allocate a fixed portion of lending to priority sectors.
- **MSMEs as Priority Sector:** Cottage and village industries fall under MSMEs, ensuring **timely and affordable credit availability**.
- **Sectors Covered:**
 - Agriculture
 - MSMEs
 - Export Credit
 - Education
 - Housing
 - Social Infrastructure
 - Renewable Energy
- **Impact:** Improves financial inclusion and sustains rural entrepreneurship.

1. c) Stand-Up India Scheme

- **Launch Year:** 2016
- **Target Groups:** Scheduled Castes (SC), Scheduled Tribes (ST), and Women entrepreneurs.
- **Purpose:** Promote **greenfield enterprises** in the non-farm sector, including cottage industries.
- **Economic Impact:** Encourages social equity, inclusive growth, and diversification of rural livelihoods.

3. Skill Development and Training Programmes

4. a) Skill India Mission

- **Launch Year:** 2015
- **Umbrella Programme:** Covers multiple skill development schemes aimed at enhancing employability and productivity.
- **Focus Areas for Cottage Industries:**
 - Upgradation of traditional skills
 - Introduction of modern tools and techniques
 - Market-oriented training
- **Outcome:** Enhances income levels of artisans and ensures sustainability of traditional crafts.

1. b) Management Development Programmes (MDPs)

- **Objective:** Improve productivity and profitability of cottage and small-scale entrepreneurs.
- **Training Components:**
 - Industrial and marketing management
 - Financial and inventory control
 - Human resource development
 - Information technology and e-commerce
- **Significance:** Helps traditional artisans transition into entrepreneurial roles, improving decision-making and competitiveness.

4. Marketing and Promotion Measures

- Government-supported exhibitions, fairs, and emporiums help artisans reach wider markets.
- Promotion of **e-commerce platforms** enables cottage industries to access national and global consumers.
- Branding and quality certification initiatives improve product visibility and consumer trust.

Way Forward

To unlock the full potential of small-scale and cottage industries, a multi-dimensional strategy is required.

- **Technology upgradation** through affordable and appropriate modern tools
- **Strengthening rural credit systems** via cooperatives and regional rural banks
- **Digital and e-commerce integration** to expand market access beyond local boundaries
- **Branding, quality certification, and design support** to enhance competitiveness
- **Frequent exhibitions, fairs, and market linkage programmes** for artisans
- **Cluster-based development** to achieve economies of scale without losing traditional character

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