

## CONTRIBUTION OF COTTAGE AND SMALL SCALE INDUSTRIES FOR BOOSTING NEPALESE ECONOMY

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### ABSTRACT

This study aims to examine how the cottage and small scale industries (CSIs) boosting the national economy of Nepal. As per various studies, CSIs play a great role for empowering Nepalese economy in terms of employment generation, resources mobilization, capital mobilization as well as import substitution of Nepalese foreign trade. The study has explored the contribution of these industries in the diversified areas. Development and promotion of cottage and small industries enhance significant impact on national economy having drastic effects on job creation and resources utilization in Nepal. Descriptive and analytical research design has been applied to analyse the data by using simple statistical tools. The results show that there have been positive influences on employment generation and capital mobilization in Nepalese economy. The study demands that there should be paid more attention toward the development of CSIs for increasing contribution of these industries boosting national economy.

**Keywords:** capital investment - economic progress - employment generation - contribution on development - descriptive statistics.

### INTRODUCTION

The industrial sector has played an important role in economic development. This sector improves income growth, stabilize payment problem and creates productive employment. Developing countries benefit more from using labour force compared to capital. This allows them to produce labour-intensive goods at lesser prices than that of developed countries. The cottage and small industries contribute a notable role in the developing countries' economies like that of Nepal. These industries are

important sources of employment in rural and urban Nepal and they operate on traditional labour intensive methods of productions.

The majority of the cottage industries have strong influences from countries' traditions, art, and culture. They mobilize local raw materials and skills. In Nepal, the Industrial Enterprise Act (1992) has defined the traditional industries utilizing a specific skill, art, and culture known as cottage industries having fixed asset of up to an amount of thirty million rupees known as small scale industries. Since by definition, cottage and small-scale industries operate with less capital and are relatively labour intensive. They generate more employment per investment in comparison to that of medium and large-scale industries. Enterprises and industries seem to be similar organizations in most of the countries. The industrial policy 2010 has categorized industries into five headings: micro-enterprises, cottage industries, small scale industries, medium scale industries, and large scale industries.

Hassan and Ahmad (2016) have stated that the contribution of micro and small enterprises (MSEs) to employment, income, poverty reduction, entrepreneurship, and innovation is important. The development of micro and small businesses helps to increase per capita income, job creation and providing income opportunities for low-income groups, and economic development. The small scale industries specialized in the manufacture of consumer goods, and the labor force is mainly active as farmers, carpenters, blacksmiths, potters, craftsmen and cotton fabric craftsmen. As an essential medium for efficient use of locally available skills and resources, they can significantly contribute to creating opportunities in rural areas to contain unidentified urbanization trends (Hasan *et al.* 2017).

Thus, cottage and small scale industries create primary employment opportunities with relatively low capital investment, facilitate more impartial distribution of national income, and enable effective mobilization of idle capital and human skills. It promotes balanced regional development in addition to the growth of villages, small towns, and economically vulnerable areas.

## **LITERATURE REVIEW**

Industrial development is crucial to the overall diversity of development in developing countries in Asia. This was particularly true for the industrial sector's impact on employment and export growth. It is evident that the industrial sector's contribution to development is closely

linked to the progress of cottage and small-scale industries. It is argued that the rapid growth of industrial manufacturing would not solve the problems of unemployment in most developing countries and should be focused on the agricultural sector as the best means to increase food production and employment (Morawetz 1974).

Rashid (1984) has sought to promote small industries by creating appropriate institutions, such as centralized and then decentralized locations. The objective was to use local resources, increase employment and save foreign currency by avoiding the import of highly developed capital goods. As long as the rural development program focused on rural industry, its purpose was to encourage the production of goods based on agricultural output.

Tulus (1991) has focused on Indonesian socio-economic issues and was able to regain interest in the role of small industries. In this article, much attention is paid to the important issues of proper measures to support small industries. Harvie (2003) investigated the potential contribution of the general microfinance role to SME subsets, micro enterprises, and regional economic recovery and poverty reduction. Micro enterprises provide employment to a large proportion of Nepalese workers by providing required goods and services. They account for over 60% of all regional businesses around 50% of jobs. As women's participation in developing countries in the region increases, more and more women are relying on micro-enterprises for survival.

Kharel (2005) has analysed that cottage and small scale industries could be the important means for generating employment, mobilizing local resources and supporting economic growth of Nepal. MEDEP/UNDP(2010) has analysed the impacts of the micro-enterprises supported by MEDED on education, health and sanitation, income and employment, training services and problems. The study found that improvement in social condition of the entrepreneurs was seen in the forms of increasing enrolment of students at school and college levels, food consumption pattern, clothes, access to private clinics. There has been less impact on using latrine. The micro-enterprises were found to be successful among the rural poor and such programs need to continue and the coverage should be expanded.

Nath (2014) said the small industry sector is an important aspect for developing countries striving for higher growth during capital shortage, infrastructure and resource depletion. The development of the industrial

sector relies on the efforts from all governments, financial institutions and entrepreneurs. There would be political intervention by the state to promote this sector, both before independence and after India's independence was secured. As per the study, Indian economy is heavily influenced by the development and expansion of small industries contributing a significant proportion in the national economy.

Hassan and Ahmad (2016) pointed a number of policy suggestions which may improve the contribution of micro enterprises and deduce that micro enterprises have an important role in reducing unemployment as well as creating income. MSEs play an important role in creating employment in Nepal and relieving poverty. However, these roles are often unnoticed because most micro and small businesses are permanent, decentralized, and part of their scope of activity. Their contribution is important and forces policy makers, scholars and others to see MSE as a means of grassroots economic development (ILO 2005). It is justified that medium and small enterprises holds a contributory position in the world economy.

Naya (1985) stated that industrialization strategies that promote the development of efficient small industries in developing countries will bring some benefits. Such industries may begin to absorb resources that may be used in the relatively inefficient household industry without reducing employment. By creating components for large companies and exports, SMEs can also help improve the overall quality of the workforce and promote the latest technology. SMEs provide a test center for the development of entrepreneurship, which is generally considered a relatively rare factor in developing countries. For these reasons, it may be desirable to reform policies beyond simple price adjustments to encourage small industries, and to promote small industries that may be justified as part of the overall industrialization strategy.

Tasneem and Biswas (2016) focused on the role of homework in economic development for the contribution of each sector to Bangladesh's economic development. They find a satisfying contribution to job creation and meet local requirements. The study further pointed that these industries created significant jobs to the rural as well as urban people.

Khan (2018) conducted a critical review of Pakistan's home and small industries. The study concluded that Pakistan's domestic and small industries can afford to create employment opportunities and improve their

trade balance. According to critic reviews, Pakistan was initially weakly industrialized, but gradually developed and set up various companies to promote domestic and small industries. The government should create a peaceful environment in the industrial area for the development of household and small industries.

Khan (2020) has analyzed the performance of small scale industries which guided to the policy makers to understand external and internal environment of small scale industries export. The overall results showed that growth respect to unit establishment, production, employment and export recorded remarkably in the study period. The researcher has also showed that these industries had been creating remarkable number jobs to the unemployed people and enhances productivity.

By reviewing the various research documents, it has been declared that cottage and small scale industries as well as micro and small enterprises play a significant role for generating employment and mobilization of capital. Similarly, these industries contribute to alleviating poverty and local resources mobilization. According to various studies, the household and small industries are believed to contribute to the economy in different ways. In connection with Nepal, it is necessary to carry out research on the contribution of household and small industries to the economy. Nepal needs to be given higher priority for the establishment and regulations of these industries.

## **STUDY OBJECTIVES**

The over arching goal of this article is to examine the policy concerns surrounding Nepal's cottage and small-scale enterprises. The following are the precise objectives:

- i. To evaluate the exiting province wise situation of cottage and small scale industries of Nepal.
- ii. To examine the effect of CSIs to generate employment and capital investment.

## **RESEARCH METHOD**

The research is both descriptive and analytical. As a result, the descriptive research design was used. In both descriptive and analytical research designs, many tables, diagrams, and examples have been supplied as necessary. The influence of cottage and small-scale enterprises on employment and capital investment on industrial growth has also been

studied using econometric and statistical methods and models. The contribution of cottage and small scale enterprises in Nepal has been studied using both published and unpublished relevant material. The issue was examined using data from various government and non-government groups. The Ministry of Finance's economic survey, statistics from the Department of Industry (2018) and other publications were the main sources of statistical data.

### **MODEL SPECIFICATION**

The formation of economic model will clarify the answer to the question of what role small and cottage industries have played in Nepal's economy. This regression model will be useful for looking at capital investment in small and cottage industries in Nepal and its impact on employment rates. Because the number of establishments of small and cottage industries is increasing day by day and its investment is also increasing. It can be easily estimated that this has had a positive effect on the employment rate. Smaller units also play an important role in the overall economic development of the country. The same small unit is also the capital investment in small and cottage industries of Nepal.

To evaluate the influence of cottage and small-scale industries, as well as capital investment, on employment factors expressed in given equations:

The impact of capital investment (CI) on CSIs is estimated using the following formula:

$$CSI_s_t = \alpha_0 + \beta_1 CI_t + \varepsilon_t \quad (i)$$

Where, 3CSIs are the cottage and small industries. The  $\alpha_0$  is constant;  $\beta_1$  is coefficient parameter. The registration of cottage and small industries (CSIs) is expected to increase due to increase in capital investment (CI).

The impact of cottage and small industries (CSIs) on employment (E) is estimated by:

$$E_t = \alpha_0 + \beta_1 CSI_s_t + \varepsilon_t \quad (ii)$$

Where, E is the employment created having the establishment of cottage and small scale industries. CSIs are the cottage and small scale industries. The  $\alpha_0$  is constant;  $\beta_1$  is coefficient parameter. Employment has been supposed to be increased due to increase in the cottage and small industries.

## RESULTS AND DISCUSSION

### Existing status of cottage and small scale industries

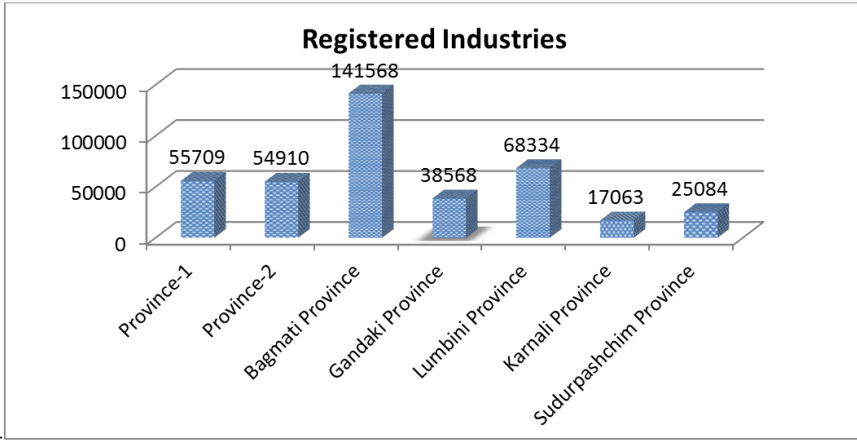
For poverty reduction, the Enterprise Development Program and Micro Enterprise Development Program are in place, with the goal of establishing tiny, cottage, and small-scale enterprises employing local labor, skills, raw materials, and resources. There have been 10,674 new micro-enterprises founded and 9,660 micro-enterprises improved thus far. By upgrading enterprises, entrepreneurship development has aided in the formation of entrepreneurial businesses for women, Dalits, Janajatis, Madhesis, youth, and other disadvantaged groups and communities living below the poverty line, as well as self-employment and job creation.

**Table 1:** Details of cottage and small scale industries

Provinces	Registered industries	Employment
Province-1	55709	389405
Province-2	54910	382820
Bagmati Province	141568	990560
Gandaki Province	38568	269590
Lumbini Province	68334	477654
Karnali Province	17063	119270
Sudurpashchim Province	25084	178753
<b>Total</b>	<b>4,01,236</b>	<b>28,08,052</b>

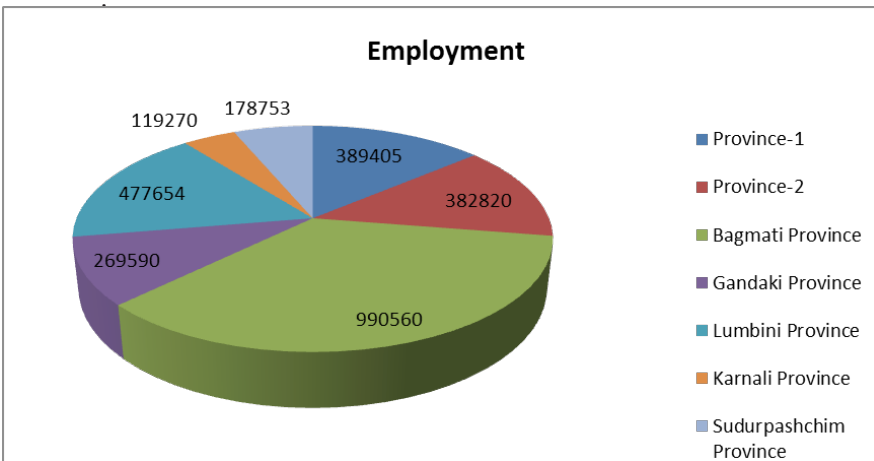
Source: *Economic survey 2019/20.*

Table 1 shows that as of March 20, 2019, a total of 4 lakh 1,236 micro, cottage, and small scale industries have been registered, with a projected workforce of 28 lakh 8 thousand 52. The anticipated employment generation per industry is estimated to be in the range of 7. In terms of provinces, Bagmati province has the most registered industries (35%), Lumbini province has 17%, and Province-1 and Province-2 have 14% and 14% of micro, cottage, and small scale enterprises, respectively. Karnali has the fewest registered small, household, and small scale enterprises at 4%.



**Figure-1:** Province-wise micro, cottage and small scale industries

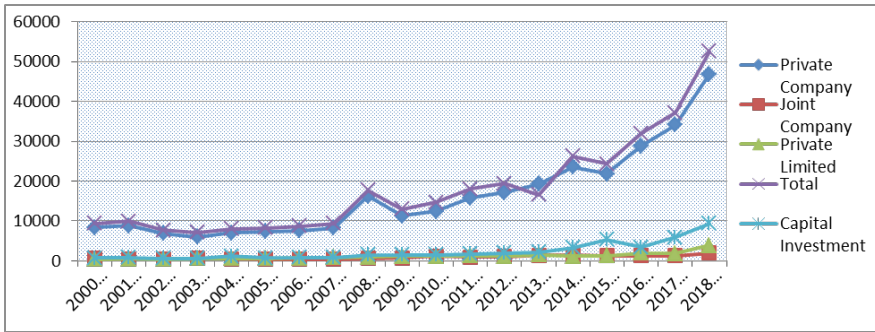
Figure 1 shows the province-by-province registration of micro, cottage, and small businesses until July 2019. The biggest number of micro, cottage, and small businesses are registered in Bagmati province, while the lowest number of micro, cottage, and small businesses are registered in Karnali province.



**Figure-2:** Province-wise employment status of cottage and small scale industries

Figure 2 shows the province-by-province employment creation of micro, cottage, and small industries, with Bagmati Province having the largest number of jobs and Karnali Province having the lowest.





**Figure-3:** Registration of cottage and small scale industries and capital investment

Source: MOF. Economic surveys 2010/11 & 2019/20

Since 2000/01 to 2018/19, Figure 3 depicts the state of private companies, joint ventures, and private limited companies in Nepal’s cottage and small industries, as well as capital investment in these businesses. During the research period, there were rising trends in the registration of cottage and small industries, as well as capital investment. In the provided research period, an increase in capital investment in cottage and small businesses leads to an increase in registration of these industries.

**Table 2:** Total registration of cottage and small scale industries, capital investment and employment

Year	Total CSIs	Capital investment (Rs. in ten million)	Employment
2008/09	17722	1532	82045
2009/10	13020	1533	70561
2010/11	14658	1475	72918
2011/12	18008	1727	75110
2012/13	19383	1993	78209
2013/14	16552	2117	17038
2014/15	26269	3236	105619
2015/16	24317	5327	74010
2016/17	32039	3379	129619
2017/18	37143	5884.4	139094
2018/19	52629	9356.9	201966
<b>Total</b>	<b>4,70,681</b>	<b>50,552.8</b>	<b>28,08,052</b>

Source: Department of Industry, GON, 2019/20. Economic survey2010/11 & 2019/20.

From 2008/09 to 2018/19, Table 3 shows the total registration of cottage and small industries, capital investment, and employment generation. Capital investment in cottage and small enterprises, industrial registration, and job creation has all progressively increased in recent years. During the research period, there were a total of 4 lakh, 70 thousand 6 hundred and 81 registered industries, with a total capital investment of Rs. 50552.8 crore and a total workforce of 28 lakh 8 thousand 52. The table depicts that the growth and trends of establishment of these industries have been increasing and the flow of capital investment has also been increasing during the study periods.

### Economic impact on employment and industrial development

Capital investment (CI) has had a substantial influence on the economy's total cottage and small industries (CSIs). We can boost the gear of momentum of Nepal's industrial growth speed by increasing capital investment in these industries (Table-3).

**Table 3:** Regression between capital investments on the registration of cottage and small industries

Model summary						
Model	R	R-square	Adjusted R-square	Std. error of the estimate		
1	.939 <sup>a</sup>	.882	.869	4312.55020		
Coefficient <sup>a</sup>						
Model		Unstandardized coefficients		Standardized coefficients	t	Sig.
		B	Std.error	Beta		
1	(Constant)	9437.290	2271.597		4.154	.002
	Registration of CSIs	4.471	.545	.939	8.196	.000

a. Predictors: (Constant), Capital investment  
b. Dependent Variable: Total registration of CSIs

Source: Calculation from Table- 2.

Capital investment has a tremendous influence on Nepal's cottage and small enterprises. Cottage and small industrial registration has been regressed on capital investment using data from 2008/09 to 2018/19 in order to determine the influence of capital investment on cottage and small industrial registration.  $R^2 = 0.882$ ,  $p < 0.5$  indicates that the whole model is statistically significant. At 5% ( $p < 0.05$ ), the registration of cottage and small businesses is noteworthy. This suggests that a rise in cottage and small business registration corresponds to an increase in capital investment.

**Table 4:** Regression of the registration of cottage and small scale industries on employment

Model summary					
Model	R	R-square	Adjusted R-square	Std.error of the estimate	
1	.920 <sup>a</sup>	.847	.830	19837.62165	
Coefficient <sup>a</sup>					
Model	Unstandardized coefficients		Standardized coefficients	t	Sig.
	B	Std.error	Beta		
1	(Constant)	3212.854	14328.058		.224 .828
	Registration of CSIs	3.720	.527	.920	7.058 .000

a. Predictors: (Constant), Registration of Cottage and Small Industries(CSIs)  
 b. Dependent Variable: Employment

Source: Calculation from Table-2.

The study reveals that there is a favorable relationship between employment and registration of Nepalese cottage and small industries, based on data from 2008/09 to 2018/19. The conclusion seemed to be correct because all diagnostic metrics supported the link, as per the regression coefficient, the value of R<sup>2</sup> is 0.847 which is statistically significant at a less than 5% of P-value. The findings suggest that the registration of cottage and small enterprises had a considerable influence on employment during the research period (Table- 4).

**CONCLUSIONS**

Nepal is on the way of increasing the contribution of industrial development to the national economy by expanding the manufacturing industry and enterprise sector, making the industrial sector employment-oriented with a high return on investment for economic prosperity and reforming the legal and structural policies with a simplification process. Developing cottage and small enterprises, rather than medium and big scale industry, can help the Nepalese economy. Cottage and small-scale enterprises have an important role in producing employment, economic growth, and poverty reduction, as well as enhancing individuals’ everyday lives. These industries contribute to the country’s progress through boosting urban and rural development. During the study period in Nepal, tremendous progress was made in the growth of cottage and small enterprises, capital investment in these industries, and job creation.

An investment-friendly industrial strategy might be the fertile ground for a country's industrial growth. There should be adequate policies and environment in Nepal for the long-term growth of cottage and small enterprises. On the one hand, the country's cottage and small industries should have a supportive environment; however these businesses should also be protected against international competition. Nepal is sandwiched between two powerful countries, causing intense rivalry, necessitating incremental protection from international investor pressure. However, further efforts are needed to establish a climate that is conducive to industrial investment via political stability and industrial sustainability in the country.

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