

MICRO, SMALL, AND MEDIUM ENTERPRISES DEVELOPMENT LEGISLATION IN INDIA

Mr. ASHWIN¹, Dr. SAPNA S²

¹Pursuing PhD in Law

²HOD - Department of Law, CHRIST UNIVERSITY, BANGALORE

Abstract

Purpose: This article provides a comprehensive outlook of Micro, Small and Medium Enterprises Development (MSMED) Act of 2006 in India, understanding its basic structure and principles, subsequent changes in legislation, scope and information on chapters and its relevance at present

Approach: The study provides a descriptive approach on MSMED Act 2006, its amendments, and schemes. It forwards information from the statute and public sources to provide an overview of MSMED Act's structure.

Findings: This analysis resurfaces the vision of MSMED Act that it is critical for the growth of MSMEs in India through its Definitions, Chapters, Mechanism & other development initiatives. Economic changes, as reflected in the definitional changes, Non compliance results in penalties and losses of benefits, etc. are analyzed.

Research Limitations/Implications: This article is based on review of MSMED Act 2006, a statute and other legislative documents and does not involve primary data. Future exploration in this area might impact further amendments in this statute.

Practical Implications: Article will provide a window to understand MSMED Act in a nutshell which is helpful for entrepreneurs, policymakers, and financial institutions to navigate the regulatory law and ensure compliance.

Social Implications: MSME promotes the economy in unimaginable ways. MSMED Act contributes in its promotions of economic development, employments, regional upscaling etc.,. Effective understanding can promote socio-economic welfare.

Originality/Value: This article offers a comprehensive outlook of the MSMED Act of 2006, its evolution, and its continued significance in present competitive glasses.

Keywords: MSMED Act, India, Micro Enterprises, Small Enterprises, Medium Enterprises, Legislation, Amendments, Compliance, Government Scheme

Introduction

The MSMED Act was enacted to recognize the importance of MSMEs in contributing to economic growth, employment generation, and innovation. The act provides a framework for the development of these enterprises by offering various support mechanisms such as financial assistance, technology support, and market access. It categorizes enterprises based on their investment in plant and machinery or equipment: micro (up to ₹1 crore), small (₹1 crore to ₹10 crores), and medium (₹10 crores to ₹50 crores).

Key Chapters: The MSMED Act comprises several chapters that outline different aspects related to MSME development:

- Chapter I: Provides definitions related to MSMEs.

Chapter I deals with the preliminary aspects of the act like definition of the act, date of commencement, days of acceptance and deemed acceptance and certain terms like buyer, seller, enterprise etc.

- Chapter II: Discusses the establishment of a National Board for Micro Small Enterprises which advises on policies.

Chapter II provides for provisions for setting up of micro, small and medium enterprises. Also, the act provides functions of the board, powers and functions of the member secretary of the board. The members in the office include:-

A minister at the centre, Six ministers of the state government, Members of the Parliament, One administrator of Union Territory, Secretaries of the Indian government, Representatives of Industry, Finance, Food processing, Labour and planning, Chairman of the board of directors of the National Bank, Chairman & MD of SIDBI, Chairman of IBA, Twenty persons to represent micro, small and medium enterprises, Three persons of eminence from the fields of economics, industry and science and technology, Two representatives of Central Trade Unions, One ex-officio member-secretary of the board will be from the central government having administrative control of the small and medium enterprises

- Chapter III: Focuses on Defining MSMEs, also provides for constitution of advisory committees for giving advice on level of employment, nature and level of investment, promotion and diffusion of entrepreneurship etc

- Chapter IV: provides procedure and methodology for the establishment of a micro, small and medium enterprises. Also, the procedures to be followed by a person already having a micro, small or medium enterprise prior to the MSMED Act.

- Chapter V: provides for provisions of market facilities, grants of funds by the central government, procurement policy, administration and utilization of funds along with measure for promotion, development and enhancement of competitiveness of micro, small and medium enterprises.

- Chapter VI: provides provisions related to liability of buyer to make payments, measures to prevent delayed payments by the buyer to the micro, small and medium enterprises and rate at which interest is payable. This chapter also provides reference to micro and small Entrepreneurs' Facilitation Council. Also, the act provides provisions for making application for setting aside decree, interest on delayed payment, overriding effect for closure of business of micro and small enterprises.

- Chapter VII: provides provisions related to appointment of officers and other employees, imposition of penalties, procedure for formulation of rules by the central and the state government and the powers to make amendments in the act.

Understanding these chapters is crucial as they lay down the operational framework within which MSMEs must function.

Definition -

Changes and Amendments

Since its introduction in 2006, the MSMED Act has undergone several amendments aimed at enhancing its effectiveness. Notably:

Definition Updates: The definitions for micro, small, and medium enterprises have been revised periodically to reflect inflationary trends.

- Definition of MSME as per MSMED Act, 2006¹

The Micro, Small and Medium Enterprises Development Act, 2006 defines the Micro, Small, and Medium Enterprises based on:

- a. Investment in plant and machinery for those engaged in fields of manufacturing or production, the processing/preservation of goods, and
- b. Investment in equipment for enterprises involved in the provision or rendering of services.

The Micro, Small, and Medium Enterprises Development Act, 2006, advocates the provision of marketing assistance, infrastructural facilities, and backward as well as forward linkages to all Micro, Small, and Medium enterprises. According to the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 the investment made in plant and

¹ 2nd October, 2006, vide notification No. S.O. 1154(E) dated 18th July, 2006

machinery is based on the original cost while excluding land and building, and other items as specified by the Ministry of Small Scale Industries.

- New Definition of MSME

The Government of India legislated and enacted the Micro, Small, and Medium Enterprises Development (MSMED) Act, 2006, on June 16, 2006. With the passing of the Micro, Small, and Medium Enterprises Development Act 2006, a standard shift has taken place to include services in the definition of Micro, Small, and Medium Enterprises and simultaneously extend the capacity to support Medium Enterprises². The old definition and classification of Micro, Small, and Medium Enterprises (MSMEs), applicable from 02.10.2006 to 30.06.2020, was based on ceilings on investment in plants and machinery for enterprises in the manufacturing sector and on ceilings on investment in equipment in the services sector. The government of India has notified new definitions, and classification criteria of MSMEs vide Notification, dated 26.06.2020.

The recent changes in the definition of micro, small, and medium-sized enterprises (MSME) were made as a part of the Atmanirbhar Bharat Abhiyaan relief package. The investment and turnover figures have been changed to more significant values, as indicated below. MSMEs are defined based on the investment criteria in plant and machinery and turnover³.

Type	Investment in Plant and Machinery or Equipment	Turnover
Micro	Less than Rs.1 Crore	>Rs.5 Crore
Small	Less than Rs.10 Crore	>Rs.50 Crore
Medium	Less than Rs.50 Crore	> Rs.250 Crore

MSME Udyam Registration -

Any person who intends to establish a micro, small or medium enterprise may file Udyam Registration online in the Udyam Registration portal. Filing is on a self-declaration basis. There is no requirement to upload documents, papers, certificates, or proof.

On registration, an enterprise (referred to as “Udyam” in the Udyam Registration portal) will be assigned a Permanent Identity Number to be known as “Udyam Registration Number”.

An e-certificate, named “Udyam Registration Certificate” will be issued on completion of the registration process.

Government Schemes:

Various government initiatives have been launched under this act to provide easier access to credit through schemes like Marketing Promotion Schemes, Entrepreneurship and Skill Development Programme, Infrastructure Development Programme, Scheme of Surveys, Studies and Policy Research, National SC-ST-HUB, Scheme of Information, Education and

² RENU SURESH, Revised Criteria and Definition of MSME, IndiaFilings Private Limited, February 1st, 2025 - https://www.indiafilings.com/learn/revised-criteria-and-definition-of-msme/?preview_id=107725&preview_nonce=494f4fddb4&post_format=standard&_thumbnail_id=-1&preview=true

³ IndiaFilings Private Limited, Guide to the MSME Act in India, September 3rd, 2022 - <https://www.indiafilings.com/learn/guide-msmed-act-india/>

Communication, Scheme of Fund for Regeneration of Traditional Industries (SFURTI), A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship (ASPIRE), etc.

Micro, Small, and Medium Enterprises (MSMEs) play a crucial role in India's economic development, contributing significantly to employment generation and industrial output. Over the years, the Indian government has introduced various schemes aimed at promoting and supporting MSMEs. Some of the Major MSME schemes, highlighting their objectives and impacts are⁴:

1. Credit Guarantee Fund Scheme for Micro and Small Enterprises (CGTMSE) (2000; revamped in 2016)

Although launched earlier, this scheme gained momentum post-2006 with enhancements aimed at providing collateral-free credit to micro and small enterprises. The CGTMSE provides guarantees for loans extended by financial institutions to eligible MSMEs, thereby encouraging banks to lend without requiring collateral.

2. National Manufacturing Policy (2011)

This policy aimed at enhancing the share of manufacturing in GDP while creating millions of jobs through the promotion of manufacturing sectors including MSMEs. It focused on creating a conducive environment for manufacturing growth by simplifying regulations and providing incentives.

3. Make in India Initiative (2014)

Launched by Prime Minister Narendra Modi, this initiative sought to transform India into a global manufacturing hub by encouraging both domestic and foreign companies to manufacture products within India. The initiative included specific provisions for supporting MSMEs through technology transfer, skill development programs, and easier access to finance.

4. PM Mudra Yojana (2015)

The Pradhan Mantri Mudra Yojana was introduced with the objective of providing financial support to small businesses through micro-financing institutions. Under this scheme, loans up to ₹10 lakh are provided without collateral requirements which significantly benefits micro-enterprises.

5. Startup India Initiative (2016)

This initiative aims at fostering innovation among startups while also supporting existing MSMEs that are looking towards innovation as a means of growth. It includes tax exemptions for startups as well as funding support from government-backed funds.

6. Digital MSME Scheme (2017)

Recognizing the importance of digital transformation for businesses today, this scheme promotes digital literacy among entrepreneurs while facilitating access to online platforms that can help them market their products effectively.

7. Atmanirbhar Bharat Abhiyan (2020)

In response to challenges posed by the COVID-19 pandemic, this self-reliant campaign included several measures specifically targeting MSMEs such as increased credit availability under emergency credit line guarantees along with other fiscal stimulus packages designed for recovery post-pandemic.

8. DEVELOPMENT OF KHADI, VILLAGE AND COIR INDUSTRIES

Several schemes have been launched for the development of MSMEs operating under the Khadi, Village and Coir Industries in the country. These include the following:

- a. Market Promotion & Development Scheme (MPDA)

⁴ Invest India, Schemes for Msmes, Make in India, Official Website - Govt. of India - <https://www.makeinindia.com/schemes-msmes>

- b. Revamped Scheme of Fund for Regeneration of Traditional Industries (SFURTI) -
- c. Coir Vikas Yojana (CVY)
- d. Export Market Promotion (EMP)
- e. Domestic Market Promotion (DMP)
- f. Trade and Industry Related Functional Support Services (TIRFSS)
- g. Welfare Measures (Pradhan Mantri Suraksha Bima Yojana (PMSBY))

9. PM EMPLOYMENT GENERATION PROGRAMME AND OTHER CREDIT SUPPORT SCHEMES

Prime Minister Employment Generation Programme (PMEGP) - Setup with an aim to create employment opportunities for MSMEs in the country, the PMEGP is implemented by Khadi and Village Industries Commission (KVIC) at the national level while at the state and districts level, it is implemented by State KVIC Directorates, State Khadi and Village Industries Boards (KVIBs), District Industries Centres (DICs) and banks.

Credit Guarantee Trust Fund for Micro & Small Enterprises (CGTMSE) - Established by M/o MSME and Small Industries Development Bank of India (SIDBI) to provide collateral free loans (up to INR 1 cr) to individual Micro and Small Enterprises (MSEs).

Interest Subsidy Eligibility Certificate (ISEC) - The scheme was introduced as a funding mechanism for khadi programme undertaken by khadi institutions in the country. It mobilises funds from banking institutions with an aim to fill the gaps between availability of funds from budgetary sources and the actual fund requirements.

Penalties

Non-compliance with provisions outlined in the MSMED Act can lead to penalties. These may include fines or restrictions on accessing government benefits designed for compliant businesses. For instance:

- Failure to register can result in loss of eligibility for various government schemes.
- Misrepresentation regarding enterprise classification can lead not only to penalties but also legal repercussions.

As we move into 2025, it is vital that entrepreneurs remain vigilant about compliance with all aspects of this act while also leveraging available resources effectively.

Conclusion

In summary, understanding the MSMED Act of 2006 involves recognizing its foundational role in supporting India's economic landscape through micro and small enterprises. Keeping abreast of changes made over time will be essential for stakeholders looking toward future opportunities within this sector. As we approach 2025, continuous engagement with policy updates will ensure that entrepreneurs can navigate challenges effectively while maximizing their potential under this legislative framework.

References:

1. MSME Development Act 2006
2. RENU SURESH, Revised Criteria and Definition of MSME, IndiaFilings Private Limited, February 1st, 2025 - [https:// www. India filings. com/learn /revised - criteria-and-definition-of-msme/?preview_id=107725&preview_nonce=494f4fddb4&post_format=standard&_thumbnail_id=-1&preview=true](https://www.indiafilings.com/learn/revised-criteria-and-definition-of-msme/?preview_id=107725&preview_nonce=494f4fddb4&post_format=standard&_thumbnail_id=-1&preview=true)
3. IndiaFilings Private Limited, Guide to the MSME Act in India, September 3rd, 2022 - <https://www.indiafilings.com/learn/guide-msmed-act-india/>

4. Invest India, Schemes for Msmes, Make in India, Official Website - Govt. of India - <https://www.makeinindia.com/schemes-msmes>
5. Apte, J. (2023). Usefulness of VAVE for Projects in MSME Sector in India. *International Journal for Research in Applied Science and Engineering Technology*, 11(3), 554–561. <https://doi.org/10.22214/ijraset.2023.49453>
6. Hanna, A., & Rajkumar, A. D. (2024). Unraveling the MSME research potential in India: A bibliometric analysis. *Multidisciplinary Reviews*, 7(8), 2024174. <https://doi.org/10.31893/multirev.2024174>
7. Hohnoki, H. (2018). Recent Streams of Digital Manufacturing, Its Emerging Trend and Future Directions for SME in Japan (pp. 89–97). Springer. https://doi.org/10.1007/978-3-319-89563-5_6
8. Kamei, K., & Dana, L. P. (2012). Examining the impact of new policy facilitating SME succession in Japan: from a viewpoint of risk management in family business. *International Journal of Entrepreneurship and Small Business*, 16(1), 60. <https://doi.org/10.1504/ijesb.2012.046917>
9. Kumar, R., & Biswas, A. (2016). Innovative Financing and its Implications on MSME Sector in India (Vol. 2, Issue 01, pp. 421–433). *igi global*. <https://doi.org/10.4018/978-1-5225-0143-5.ch025>
10. Magar, S. (2017). CLUSTER APPROACH FOR DEVELOPMENT OF MSME SECTOR IN INDIA. *International Journal of Advanced Research*, 5(11), 414–420. <https://doi.org/10.21474/ijar01/5784>
11. Mishra, M. N., Sarkar, A., & Mohan, A. (2021). Role of Lean Six Sigma in the Indian MSMEs during COVID-19. *International Journal of Lean Six Sigma*, 12(4), 697–717. <https://doi.org/10.1108/ijlss-10-2020-0176>