

## **UNIT 3 B**

**THE MICRO, SMALL AND MEDIUM  
ENTERPRISES DEVELOPMENT ACT, 2006**

## **1948-1991**

In all the Policy Resolutions from 1948 to 1991, recognition was given to the micro and small enterprises, termed as an effective tool to expand employment opportunities, help ensure equitable distribution of the national income and facilitate effective mobilization of private sector resources of capital and skills.

The Micro, Small and Medium Enterprises Development Organisation [earlier known as Small Industries Development Organization (SIDO)] was set up in 1954 as an apex body for sustained and organised growth of micro, small and medium enterprises. Within next two years, the National Small Industries Corporation, the Khadi and Village Industries Commission and the Coir Board were also set up.

## **1991-1999**

The new Policy for Small, Tiny and Village Enterprises of August, 1991 laid the framework for government support in the context of liberalisation, which *sought to replace protection with competitiveness to infuse more vitality and growth to MSEs in the face of foreign competition and open market.*

*Supportive measures concentrated on improving infrastructure, technology and quality.* The Small Industries Development Bank of India (SIDBI) and a Technology Development and Modernisation Fund were created to accelerate financial and technical services to the sector.

A Delayed Payment Act was enacted to facilitate prompt payment of dues to MSEs and an Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries. The aim of the IID scheme was to provide developed sites with infrastructural facilities like power distribution network, water, telecommunication, drainage and pollution control facilities, roads, banks, raw materials, storage and marketing outlets, common service facilities and technological back up services etc. The scheme covered rural as well as urban areas with a provision of 50% reservation for rural areas and 50% industrial plots to be reserved for tiny sector. The scheme also provided for upgradation/strengthening of the infrastructural facilities in the existing old industrial estates.

### **1999 onwards**

The Ministry of MSME [earlier known as Ministry of Small Scale Industries and Agro & Rural Industries (SSI & ARI)] came into being from 1999 to provide focused attention to the development and promotion of the sector. The new Policy Package announced in August, 2000 sought to address the persisting problems relating to credit, infrastructure, technology and marketing more effectively. In 2006, the long-awaited enactment for this sector finally became a reality with the passage of the Micro, Small and Medium Enterprises Act. In March, 2007, a third Package for the Promotion of Micro and Small Enterprises was announced which comprises the proposals/schemes having direct impact on the promotion and development of the micro and small enterprises, particularly in view of the fast changing economic environment, wherein *to be competitive is the key of success*.

# THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006

- The Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 seeks to facilitate the development of these enterprises as also enhance their competitiveness.
- The MSMEs sector is nursery of entrepreneurship, often driven by individual creativity and innovation. The role of this sector in the economic and social development of the country is well established as it helps in employment creation, resource utilization and income generation.
- In India this act is the main legislation governing MSMEs and with the enactment of MSMED Act, 2006, the concept and classification of enterprises on the basis of investment were introduced.
- The Company Secretaries play an important role in educating the promoters and management of the MSMEs and also perform the functions like counselling of MSMEs for the rights and benefits available to them; advisory role in formation, registration, taxation and foreign direct investment; assistance in compliance with the technicalities laid down by the MSMED Act, 2006 itself like classification of industries, registration under the Act, procedure of filing of Entrepreneurs Memorandum and disclosure requirements.

- The MSME sector contributes 8 per cent of the country's GDP, 45 per cent to the manufactured output and 40 per cent to the exports.
- The MSMEs provide employment to about 60 million people through 26 million enterprises.
- The labour to capital ratio in MSMEs and the overall growth in the MSME sector is much higher than in the large industries.
- The geographic distribution of the MSMEs is also more even. Thus, MSMEs are important for the national objectives of growth with equity and inclusion.
- The MSME sector in India is highly heterogeneous in terms of the size of the enterprises, variety of products and services produced and the levels of technology employed. While one end of the MSME spectrum contains highly innovative and high growth enterprises, more than 94 per cent of MSMEs are unregistered, with a large number established in the informal or unorganized sector. Besides the growth potential of the sector and its critical role in the manufacturing and value chains, the heterogeneity and the unorganised nature of the Indian MSMEs are important aspects that need to be factored into policy making and programme implementation.



# DEFINITIONS

- Board means the National Board for Micro, Small and Medium Enterprises established under section 3
- Enterprise means an industrial undertaking or a business concern or any other establishment by whatever name called, *engaged in the manufacture of goods*, in any manner, pertaining to any industry specified in the first schedule to the Industries Development and Regulation Act 1951, or *engaged in rendering of any service*.
- **Enterprises have been classified broadly into:**
  - (i) Enterprises engaged in the **Manufacture/production of Goods** pertaining to any industry; &
  - (ii) Enterprises engaged in **providing/rendering of services**.




The MSMED Act (Section 7) classifies the Micro, Small and Medium Enterprises (MSMEs) on the basis of investment in plant and machinery for manufacturing units, and investment in equipment for service enterprises. The criterion of investment in plant and machinery\* stipulates self declaration which in turn entails verification if deemed necessary and leads to transaction costs.

**Manufacturing enterprises** have been defined in terms of investment in plant and machinery (excluding land & buildings) and further classified into:

- Micro Enterprises - investment up to INR 25 lakh.
- Small Enterprises - investment above INR 25 lakh & up to INR 5 crore
- Medium Enterprises - investment above INR 5 crore & up to INR 10 crore.

**Service enterprises** have been defined in terms of their investment in equipment (excluding land & buildings) and further classified into:

- Micro Enterprises – investment up to INR 10 lakh
  - Small Enterprises – investment above INR 10 lakh & up to INR 2 crore.
  - Medium Enterprises – investment above INR 2 crore & up to INR 5 crore.
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## Recent Amendments in MSMED in the year 2017:

- The Union Cabinet chaired by the Prime Minister Shri Narendra Modi approved change in the basis of classifying Micro, Small and Medium enterprises from ‘investment in plant & machinery/equipment’ to ‘annual turnover’. This has been done to encourage ease of doing business, make the norms of classification growth oriented and align them to the new tax regime revolving around GST (Goods & Services Tax). The consequent growth and will pave the way for increased direct and indirect employment in the MSME sector of the country.
- Section 7 of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 will accordingly be amended to define units producing goods and rendering services in terms of annual turnover as follows:
  - A micro enterprise will be defined as a unit where the annual turnover does not exceed five crore rupees;
  - A small enterprise will be defined as a unit where the annual turnover is more than five crore rupees but does not exceed Rs 75 crore;
  - A medium enterprise will be defined as a unit where the annual turnover is more than seventy five crore rupees but does not exceed Rs 250 crore.
  - Additionally, the Central Government may, by notification, vary turnover limits, which shall not exceed thrice the limits specified in Section 7 of the MSMED Act.



# CONCERNS OF MSME SECTOR

Presently, the Indian MSME`s are facing different types of problems. Most of the problems are controllable while rests are uncontrollable. Some of the concerns are as follows:

- Absence of adequate and timely banking finance
- Poor infrastructure
- Access to modern technology/non-availability of suitable technology
- Access to markets/ineffective marketing strategy
- Getting statutory clearances related to power, environment and labour
- Limited capital and knowledge
- Low production capacity
- Constraints on modernisation & expansions
- Non availability of skilled labour at affordable cost
- Follow up with various government agencies to resolve problems due to lack of man power and knowledge etc.



- Lack of credit from banks- The MSME`S are presently facing the problems of credit from the banks. The banks are not providing the adequate amount of loan to the MSME`S. The loan providing process of the banks is very long and formalistic. The owners of the MSME`S have to produce different types of documents to prove their worthiness. The banks provide on an average 50% total capital employed in fixed assets. The cost of credit is also high.
- Competition from multinational companies- In present era of globalization, the MSME`S are facing great competition from the international manufacturing companies who are proving quality goods at cheapest price. Therefore, it is very difficult to compete with the multinational companies.
- Poor infrastructure- Though, MSME`S are developing so rapidly but their infrastructure is very poor. With poor infrastructure, their production capacity is very low while production cost is very high.
- Unavailability of raw material and other inputs- For MSME`s require raw material skilled work force and other inputs, which are not available in the market. Due to unavailability of these essentials, it is very difficult to produce the products at affordable prices.
- Lack of advanced technology-The owners of MSME`S are not aware of advanced technologies of production. Their methodology of production is out-dated. The owners are using older method in the field of fabricated metal and textile.

- Lack of distribution of marketing channels-The MSME`S are not adopting the innovative channels of marketing. Their advertisement and sales promotion are comparatively weaker than the multinational companies are. The ineffective advertisement and poor marketing channels lead to a very poor selling.
- Lack of training and skill development program- The training and development programs in respect of MSME`S development concern is very low. So, skilled manpower is not being available to MSME`S. The owners are aware of the innovative methods of production. The skill developmental schemes conducted by the government are not sufficient.
- Complex labour laws and red-tape - All the laws related to the all aspects of manufacturing and service concern are very complex and compliance with these laws are practically difficult .The various decisions of factory' are depend upon the factory commissioner and inspector, so there are so many chances of red-tapism in the operation of MSME`S.



To obviate these problems, the Ministry of MSME is implementing a number of Schemes & Programmes. Furthermore, the Ministry has been interacting with various concerned Ministries/Departments/State Governments/Banks and other stake-holders to streamline the mechanism for grant of loans, simplify labour laws and other procedures to facilitate the growth of MSME units.

It is very important to empower the SME sector to utilize the limited resources (human & economic) they have in an optimum manner. The SMEs need to be educated and informed of the latest developments taking place globally and helped to acquire skills necessary to keep pace with the global developments. SMEs are now exposed to greater opportunities than ever for expansion and diversification across the sectors. Indian market is growing rapidly and Indian entrepreneurs are making remarkable progress in various Industries like Manufacturing, Precision Engineering Design, Food Processing, Pharmaceutical, Textile & Garments, Retail, IT and ITES, Agro and Service sector.

India, MSME's account for more than 80% of total number of industrial enterprises and employs over 6 crore people. As per estimates and statistics, out of 26 million MSME's, only 1.5 million are registered and remaining unregistered. The state wise distribution of MSME's is not equal because 55% of MSME's are in 6 states only, namely, Uttar Pradesh, Maharashtra, Tamil Nadu, West Bengal, Andhra Pradesh and Karnataka. Further, women own about 7% of MSME's and more than 94% of the MSME's are proprietorship or partnerships.

# NATIONAL BOARD FOR MICRO, SMALL AND MEDIUM ENTERPRISES

Section 3 empowers the Central Government to establish National Board for Micro, Small and Medium Enterprises with its head office at Delhi and consisting of:

- *The Minister in charge of the Ministry or Department of the Central Government* having administrative control of the micro, small and medium enterprises to be the ex officio Chairperson of the Board
- *The Minister of State or a Deputy Minister, if any, in the Ministry or Department of the Central Government having administrative control of the micro, small and medium enterprises* to be ex officio Vice-Chairperson of the Board. Where there is no such Minister of State or Deputy Minister, such person as may be appointed by the Central Government to be the Vice-Chairperson of the Board;
- *Six Ministers of the State Governments having administrative control of the departments of small scale industries* or, as the case may be, micro, small and medium enterprises, to be appointed by the Central Government to represent such regions of the country as may be notified by the Central Government in this behalf, ex officio;



- *Three Members of Parliament* of whom two shall be elected by the House of the People and one by the Council of States;
- *The Administrator of a Union territory* to be appointed by the Central Government, ex officio;
- *The Secretary to the Government of India in charge of the Ministry or Department of the Central Government* having administrative control of the micro, small and medium enterprises, ex officio;
- *Four Secretaries to the Government of India*, to represent the Ministries of the Central Government dealing with commerce and industry, finance, food processing industries, labour and planning to be appointed by the Central Government, ex officio;
- *The Chairman of the Board of Directors of the National Bank*, ex officio;
- *The chairman and managing director of the Board of Directors of the Small Industries Bank*, ex officio;
- *The chairman, Indian Banks Association*, ex officio;
- *One officer of the Reserve Bank, not below the rank of an Executive Director* to be appointed by the Central Government to represent the Reserve Bank;



- *Twenty persons to represent the associations of micro, small and medium enterprises, including not less than three persons representing associations of women's enterprises and not less than three persons representing associations of micro enterprises, to be appointed by the Central Government;*
- *Three persons of eminence, one each from the fields of economics, industry and science and technology, not less than one of whom shall be a woman, to be appointed by the Central Government; and*
- *Two representatives of Central Trade Union Organisations, to be appointed by the Central Government; and*
- *One officer not below the rank of Joint Secretary to the Government of India in the Ministry or Department of the Central Government having administrative control of the micro, small and medium enterprises to be appointed by the Central Government, who shall be the Member-Secretary of the Board, ex officio.*



# FUNCTIONS OF THE BOARD

Section 5 empowers the Board subject to the general directions of the Central Government to, perform all or any of the following functions, namely:

- (a) examine the factors affecting the promotion and development of micro, small and medium enterprises and review the policies and programmes of the Central Government in regard to facilitating the promotion and development and enhancing the competitiveness of such enterprises and the impact thereof on such enterprises;
- (b) make recommendations on matters referred to above or on any other matter referred to it by the Central Government which, in the opinion of that Government, is necessary or expedient for facilitating the promotion and development and enhancing the competitiveness of the micro, small and medium enterprises; and
- (c) advise the Central Government on the use of the fund





# DEVELOPMENT COMMISSIONER: MICRO, SMALL AND MEDIUM ENTERPRISES

Formerly known as Small Industries Service Institute (SISI). Office of the Development Commissioner (MSME), functions as the nodal development agency under the Ministry of Micro, Small and Medium Enterprises. It provides spectrum of services to the MSME sector. These include facilities for testing, tool making, training for entrepreneurship development, preparation of project and product profiles, technical and managerial consultancy, assistance for exports, pollution and energy audits etc.

Office of DC (MSME) provides economic information services and advises government in policy formulation for the promotion and development of small scale industries. The office has recognised the changed environment and is currently focusing on providing support in the fields of credit, marketing, technology and infrastructure to MSMEs. It functions as a catalyst for growth of MSMEs in the country.



# FUNCTIONS OF DEVELOPMENT COMMISSIONER (MSME)

- Advising the Government in policy formulation for the promotion and development of MSMEs.
- Providing techno-economic and managerial consultancy, common facilities and extensions services to MSMEs.
- Providing facilities for technology up-gradation, modernisation, quality improvement and infrastructure.
- Developing human resources through training and skill up-gradation.
- Providing economic information services.
- Maintaining a close liaison with the Central Ministries, Planning Commission, State Governments, Financial Institutions and other Organisations concerned with development of MSMEs.
- Evolving and coordinating Policies and Programs for development of MSMEs as ancillaries to large industries.



# POTENTIALS IN MSME'S

The prospectus of this sector are explained as under-

- Employment generation- There are numerous possibilities in the field of manufacturing and service rendering of MSME'S. In recent year, the MSMEs are generating different and ample amount of employment in the field of retail and manufacturing sector. The rate of employment generation extended more by promoting the Indian MSMEs.
- Customer satisfaction oriented- The MSMEs produce goods according to the needs or expectations of the customers. Primarily, the MSMEs manufacture goods considering the taste and preferences, liking and disliking of the local consumer. So, the MSMEs can be more customer satisfaction oriented.
- Minimization of regional imbalance- The MSMEs can be a good vehicle to minimize or remove the regional imbalances. The rural areas of the nation can equally developed through the running of MSME units in such areas. The MSMEs will utilize the work force of rural areas and lead to the removal of regional imbalance.



- Enhancement of export- The MSMEs can be a mean to enhance the export of India. There will be a great demand of Indian product at international level of market. The Indian items like –dari, kaleen, wooden items and other hand- made souvenir articles demanded in the world.
- Attraction to the foreign investment –Though, the Indian MSMEs are the booming field and the growth rate and return on investment is satisfactory. This sector is more responsive than other sector of economy. Therefore, this sector might be a source to attract foreign investment in India.



India benefited immensely from experience of several countries, especially in the field of technology.

However, the rich Indian experience gained in the last sixty years in the MSME sector could also be of equal use for both developing as well as developed countries. Some of the areas that offer ample opportunities for cooperation in the MSME sector are:

- Fee-based consultancy services and training in the following areas:
  - i) Capacity Building of Entrepreneurs and Technical Manpower of SMEs;
  - ii) Policy & Institutional Framework for SME Promotion, Development and Enhancing Competitiveness;
  - iii) Entrepreneurship Development; and
  - iv) Business Development Services.
- Establishment of Turnkey Projects for setting up manufacturing MSMEs on commercial terms.
- Skill up-gradation programmes in selected areas such as Sheet-Metal Technologies, Wool Processing & Weaving, Leather Technology, Plastic Technology, Wood Working, etc.



- Conducting surveys and studies to identify the tooling and related skill requirements in specific areas or regions like hilly/backward/indigenous.
- Providing turnkey assistance to set up Tool Rooms & Training Centres.
- Providing consultancy to existing manufacturing SME in upgrading their production facilities, selection of machine tools, design consultancy for tools, moulds, dies, jigs & fixtures, etc.
- Providing specialized/tailor-made training courses for specific target groups.
- Providing consultancy to existing training institutes in course design and curriculum development including trainers training programmes.
- Assistance in product design, tool design and manufacturing of intricate tooling.
- High precision tools, moulds, dies, jigs & fixtures etc. as per design/specifications of local industry.
- Product development & rapid prototyping services.

