MSMED Act 2006, Objectives, Classification, Govt. Schemes

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The **MSMED Act 2006 (Micro, Small and Medium Enterprises Development Act, 2006)** is a law that promotes and protects small businesses in India. It provides legal, financial, and institutional support to help MSMEs grow and become competitive. The Act ensures timely payments, easier access to credit, and better marketing opportunities for small enterprises. It also encourages formal registration and adoption of modern technology to strengthen the sector.

MSMED Act 2006 Objectives

The MSMED Act 2006 aims to support the growth and development of Micro, Small and Medium Enterprises across India. It provides legal, financial and institutional support so that MSMEs become stronger, competitive and more organised.

- Promote and develop MSMEs in all sectors.
- Improve credit access and financial support for small businesses.
- Encourage modern technology, training and skill development.

- Protect MSMEs from delayed payments by buyers.
- Support marketing, exports and better market access.
- Create institutions like the National Board for MSMEs to guide policy.
- Strengthen MSME competitiveness and reduce challenges in doing business.

Also Read: **Indian Forest Act 1927**

Definition and Classification of MSMEs

MSMEs (Micro, Small, and Medium Enterprises) in India are defined based on their investment in plant, machinery, or equipment and their annual turnover. These classifications were first updated in 2020 and further revised in 2025 to include more growing businesses under the MSME category.

All enterprises must register on the Udyam Registration Portal to be officially recognised as Micro, Small or Medium units.

Classification of MSMEs		
Enterprise Type	**Investment in Plant, Machinery, or Equipment**	**Annual Turnover**
Micro	Up to ₹2.5 crore	Up to ₹10 crore
Small	Up to ₹25 crore	Up to ₹100 crore
Medium	Up to ₹125 crore	Up to ₹500 crore

MSMED Act 2006 Features

The MSMED Act 2006 provides a strong legal structure to promote, support and protect Micro, Small and Medium Enterprises in India. It ensures easier access to credit, technology, markets, and helps MSMEs resolve payment disputes quickly.

- **Clear Classification of MSMEs:** Provides a uniform and transparent definition of Micro, Small and Medium Enterprises.
- **Promotion and Development Measures:** Guides the government to support MSMEs through finance, technology, training and market access.
- **National Board for MSMEs:** Sets up a central advisory body to review MSME policies and recommend improvements.
- **MSME Facilitation Councils:** Establishes state-level councils to resolve delayed payment issues efficiently.
- **Delayed Payment Protection:** Buyers must pay MSMEs **within 45 days** or face compound interest on late payments.

- **Technology and Skill Support:** Encourages technology upgradation, training and skill development for MSME competitiveness.
- **Udyam Registration Encouragement:** Promotes formal MSME registration to help enterprises access government schemes and benefits.

Role of the National Board for MSMEs

The National Board for Micro, Small, and Medium Enterprises (NBMSME) is the highest advisory body created under the MSMED Act 2006 to support MSME growth. It works as a bridge between the government and MSMEs to improve policies, resolve issues, and promote sector development.

- **Advises the Government on MSME Policies:** Suggests changes in laws, schemes, and programs to improve MSME competitiveness and ease of doing business.
- **Reviews Development Schemes:** Monitors major MSME schemes like credit support, infrastructure development, technology upgrades, and skill training.
- **Promotes Technology and Quality Improvement:** Encourages MSMEs to adopt modern technologies, digital tools, and quality certification systems (ISO, ZED).
- **Supports Cluster Development:** Recommends measures to develop MSME clusters for better productivity, cost reduction, and shared resources.
- **Examines Delayed Payment Issues:** Reviews the status of delayed payments and suggests corrective measures to ensure timely payments to MSMEs.
- **Strengthens MSME Access to Finance:** Advises on credit-related challenges, collateral-free loans, and interest subvention programs.
- **Coordinates Between Ministries and States:** Ensures better coordination among central ministries, state governments, and MSME bodies for effective policy implementation.

Impact of the MSMED Act on India’s MSME Sector

- The Act helped MSMEs get legal protection, easier loans, and faster payments, making business operations smoother.
- Clear definitions of Micro, Small, and Medium Enterprises improved government planning and scheme targeting.
- MSME registration became simple through the Udyam Portal, helping more small businesses join the formal system.
- Credit flow to MSMEs increased; by 2025, MSMEs receive **over 17% of total bank credit**, helping them expand and upgrade technology.
- The Act protected MSMEs from delayed payments by making it compulsory for buyers to pay within **45 days**.
- Special Facilitation Councils were set up to quickly solve payment disputes and reduce financial stress.
- The Act boosted the contribution of MSMEs to the economy: they now contribute **around 30% of GDP**, **48% of exports**, and create jobs for **over 11 crore people**.
- It encouraged technology adoption, skill development, and cluster development to help small industries stay competitive.

Government Schemes Linked to the MSMED Act

- **PMEGP (Prime Minister's Employment Generation Programme):** Offers credit-linked subsidies to set up new micro-enterprises and promotes self-employment.
- **Credit Guarantee Fund Scheme (CGTMSE):** Provides collateral-free loans to MSMEs, with the government guaranteeing a large part of the risk.
- **Mudra Yojana:** Gives loans up to ₹10 lakh to small and non-corporate businesses under Shishu, Kishor, and Tarun categories.
- **Stand-Up India:** Provides loans to SC/ST and women entrepreneurs to start new businesses.
- **Entrepreneurship & Skill Development Programme (ESDP):** Offers training programs for new and aspiring entrepreneurs.
- **Udyam Registration:** A simple and online registration process that provides official recognition and access to MSME benefits.
- **PM Vishwakarma Scheme:** Supports traditional artisans and craftspeople with training, toolkits, and easy credit.

Challenges Faced by MSMEs

- **Limited Access to Credit:** Despite government schemes, around **40% of micro and small enterprises** still struggle to get formal bank loans due to lack of collateral and high interest rates.
- **Delayed Payments:** A survey by the Ministry of MSME shows that **over 70% of MSMEs** face delayed payments from buyers, causing severe cash-flow problems.
- **Low Technology Adoption:** Only about **20–25% of MSMEs** have adopted modern machinery or digital tools, leading to lower productivity and competitiveness.
- **Skill Shortages:** Approximately **30% of MSMEs** report difficulties in finding skilled workers, affecting production quality and innovation.
- **Competition from Imports:** Cheap imports from countries like China have impacted domestic MSMEs, especially in electronics, textiles, and hardware sectors.
- **Low Formalization:** Around **60% of MSMEs** remain unregistered, missing out on government schemes, credit benefits, and official support.
- **Infrastructure Gaps:** Many MSMEs lack access to industrial clusters, testing labs, storage facilities, and technology centers, limiting growth opportunities.

Way Forward

To strengthen the MSME sector and overcome its challenges, the following measures can be taken:

- **Improve Access to Credit:** Expand collateral-free loan schemes like CGTMSE and Mudra Yojana. Currently, over **60% of micro units still struggle** to get formal finance, so better credit flow is crucial.
- **Ensure Timely Payments:** Enforce the **45-day payment rule** and strengthen Facilitation Councils to reduce delays, which affect cash flow for **70% of MSMEs**.
- **Promote Technology Adoption:** Provide subsidies and training for digital tools, modern machinery, and automation. Only **20–25% of MSMEs** currently use modern technology.

- **Skill Development and Entrepreneurship:** Expand programs like ESDP and ASPIRE to train entrepreneurs and workers, addressing the **30% skill shortage** reported by MSMEs.
- **Support Cluster and Infrastructure Development:** Invest in industrial clusters, common facilities, testing labs, and storage centers to reduce costs and improve competitiveness.
- **Increase Market Access:** Promote MSMEs through government procurement policies, export support, and marketing assistance. Currently, many small units struggle to reach national and international markets.
