



## Amendments Proposed in MSME Act

**For Prelims:** [Micro, Small, and Medium Enterprises](#), [International MSME Day](#), [Udyam Portal](#)

**For Mains:** Significance of the MSME sector for India's economic growth, Role of digitalisation and technology adoption in MSMEs, Role of MSMEs in rural development

**Source:** [IE](#)

### Why in News?

Recently, on the occasion of **International MSME Day (27th June), 2024**, the **Ministry of [Micro, Small & Medium Enterprises \(MSME\)](#)** organised the '**Udyami Bharat-MSME Day**' event and proposed amendment to **MSME Development Act, 2006** to improve dispute resolution for delayed payments and address the changing needs of the MSME sector.

- The event witnessed the launch of several initiatives by the Union Minister for MSME, including the proposed **upgradation of the Samadhan Portal**, **proposed amendments in the MSME Development Act, 2006**, the **Team Initiative** and the **Yashasvini campaign**.

### What are the Key Facts About MSME?

- **About:**
  - MSME stands for **Micro, Small and Medium Enterprises**. These are businesses that **produce, process, and preserve goods and commodities**.
- **Classification:**

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# Earlier and Revised Definition of MSMEs

## Earlier MSME Classification



**Criteria:** Investment in Plant & Machinery or Equipment

Classification	Micro	Small	Medium
Manufacturing Enterprises	Investment < ₹ 25 lac	Investment < ₹ 5 cr.	Investment < ₹ 10 cr.
Services Enterprise	Investment < ₹ 10 lac	Investment < ₹ 2 cr.	Investment < ₹ 5 cr.

## Revised MSME Classification

**Composite Criteria:** Investment and Annual Turnover

Classification	Micro	Small	Medium
Manufacturing & Services	Investment < ₹ 1 cr. & Turnover < ₹ 5 cr	Investment < ₹ 10 cr. & Turnover < ₹ 50 cr.	Investment < ₹ 20 cr. & Turnover < ₹ 100 cr.

Source: Ministry of Finance

### ■ MSME Regulation in India:

- The **Ministry of Small-Scale Industries** and the **Ministry of Agro and Rural Industries** were merged in 2007 to form the **Ministry of Micro, Small, and Medium Enterprises**.
  - This ministry develops policies, facilitates programs, and monitors implementation to support MSMEs and aid in their growth.
- The **Micro, Small, and Medium Enterprises Development Act of 2006** addresses various issues affecting MSMEs, establishes a **National Board for MSMEs**, defines the concept of "**enterprise**," and empowers the Central Government to enhance MSME competitiveness.

### ■ Significance of the MSME Sector:

- **Global:**

- According to the [United Nations](#) data, MSMEs account for up to **90% of businesses**, over **60% to 70% of jobs** worldwide, and **half of global GDP**.
- **India:**
  - **GDP Contribution and Employment Generation:** MSMEs currently contribute approximately **30%** to [India's Gross Domestic Product \(GDP\)](#), playing a crucial role in driving economic growth.
    - As per the data of **Udyam registration** portal, more than **46 million MSMEs** (second only to China's 140 million) and **over 200 million jobs** are registered with the MSME Ministry.
  - **Export Promotion:** Currently MSMEs contribute nearly **45% of India's total exports**.
    - The [Indian handicraft sector](#), which is dominated by small-scale artisans and enterprises, has a global market and generates significant export revenue for the country.
  - **Contribution to Manufacturing Output:** MSMEs contribute significantly to the country's manufacturing output, particularly in sectors like [food processing, engineering, and chemicals](#).
  - **Rural Industrialization and Inclusive Growth:** MSMEs play a pivotal role in driving rural industrialisation and promoting inclusive growth.
    - The [Khadi and Village industries sector](#), consisting of small-scale units, has been instrumental in providing employment opportunities in rural areas and empowering local communities.
  - **Innovation and Entrepreneurship:** The MSME sector fosters innovation and entrepreneurship, as it is **often easier for small businesses to adapt to changing market conditions** and introduce new products or services.

## International MSME Day 2024

- It is observed on **27th June** annually to recognise the significance of MSMEs and their contribution to the economy.
- **The theme of MSME Day 2024:**
  - The theme for MSME Day 2024 is **“Leveraging Power and Resilience of Micro-, Small and Medium-sized Enterprises (MSMEs) to Accelerate Sustainable Development and Eradicate Poverty in Times of Multiple Crises.”**
- **History and Significance:**
  - In April 2017, the [United Nations](#) designated the 27th June as Micro, Small, and Medium-sized Enterprises Day.
  - The day aims to enhance national capacities for unleashing the full potential of MSMEs in achieving [Sustainable Development Goals](#).

## What are the Key Amendments Proposed in MSME Development Act, 2006?

- **MSME Development Act, 2006:** It provides a **framework for the promotion and development of micro, small, and medium enterprises (MSMEs)** in the country.
  - **Objectives:**
    - Facilitating the promotion and development of MSMEs.
    - Enhancing the competitiveness of MSMEs.
    - Providing easy access to credit, marketing assistance, and other support services.
    - Promoting entrepreneurship and skill development.
- **Key Amendments Proposed:**
  - **Faster Payment Resolutions:** The Samadhan portal is proposed to upgrade from a grievance tracker to a **full-fledged online dispute resolution platform** for MSMEs.
    - This empowers MSMEs to **file complaints, receive responses, and participate in mediation all online**, expediting payments.
  - **Strengthened MSME Representation:** The **National Board for MSME** will include **representatives from all State Secretaries**, fostering better policymaking that

reflects ground realities and addresses MSME challenges across India.

- **Modernising the Act:** The 2006 MSME Act requires updates to address contemporary issues like **persistent delayed payments and the evolving support needs of MSMEs**. Amendments aim to **create a more responsive legal framework** for their growth.

## What are the Key Initiatives Announced by the Ministry of MSME?

- **MSME Trade Enablement & Marketing (TEAM) Initiative:** It aims to facilitate the onboarding of **5 lakh micro and small enterprises** onto the [Open Network for Digital Commerce \(ONDC\)](#).
  - The government will provide **financial assistance** for onboarding, cataloguing, account management, logistics, packaging material, and design.
  - **Half** of the beneficiary MSEs will be **women-owned enterprises**.
- **Yashasvini Campaign:** This is a series of **mass awareness campaigns** for **formalising women-owned informal micro enterprises** and providing **capacity building, training, handholding, and mentorship to women-owned enterprises**.
  - The campaigns will be organised by the Ministry of MSME in collaboration with other Central Ministries/Departments, State Governments, and Women Industry Associations, focusing on Tier 2 and 3 cities.
- **6 Pillars for the Government's MSME Initiatives:**
  - **Building a Stronger Foundation:** This pillar focuses on formalising businesses and ensuring easier access to credit, vital for the growth and stability of MSMEs.
  - **Expanding Market Reach:** The government aims to increase access to domestic and international markets for MSMEs, along with encouraging e-commerce adoption to expand their reach further.
  - **Technological Transformation:** This pillar emphasises leveraging modern technology to boost productivity and efficiency within the MSME sector.
  - **Skilling the Workforce:** Enhancing skill levels and promoting digitalisation in the service sector are crucial for MSMEs to keep pace with the evolving market.
  - **Going Global with Tradition:** The government will support traditional industries like **Khadi, Village, and Coir to help them compete in the global marketplace**.
  - **Empowering Entrepreneurs:** This pillar prioritises fostering enterprise creation among women and artisans, promoting inclusive growth within the MSME sector.

## What are the Recent Government Initiatives Related to MSMEs?

- [Raising and Accelerating MSME Performance \(RAMP\) Scheme](#)
- [Credit Guarantee Trust Fund for Micro & Small Enterprises \(CGTMSE\)](#)
- [Interest Subsidy Eligibility Certificate \(ISEC\)](#)
- [A Scheme for Promoting Innovation, Rural Industry & Entrepreneurship \(ASPIRE\)](#)
- [Credit Linked Capital Subsidy for Technology Upgradation \(CLCSS\)](#)
- [Zero Defect & Zero Effect \(ZED\)](#)
- [CHAMPIONS Portal](#)

## What are the Challenges Faced by MSMEs?

- **Limited Access to Finance and Credit:** **MSMEs** often struggle to obtain **formal financing and credit facilities**, hindering their growth and expansion.



- **Only 16%** of MSMEs have **access to formal credit**, leading many to rely on informal sources at higher costs.
- **Technological Deficiency:** There is a significant lack of technological advancements and limited digital infrastructure, which restricts their ability to innovate and compete effectively.
  - Limited access to research and development facilities and challenges in adopting **Industry 4.0 technologies** further hinder their competitiveness.
- **Market Access and Competition:** MSMEs face limited market access and intense competition from large-scale enterprises, which undermines their market share and profitability.
- **Skilled Labour Shortage:** Acquiring skilled labour and managing talent is a persistent issue, affecting the quality and efficiency of operations.
  - A report by **Assocham** estimates that India has a **skills gap of 23 million workers**, making it difficult for MSMEs to find qualified employees, which impacts productivity and innovation.
- **Economic Vulnerability:** MSMEs are particularly vulnerable to economic downturns and market fluctuations, which can significantly impact their stability and growth prospects.
  - During the **Covid-19** pandemic, around **21%** of MSMEs in India **permanently closed** due to the economic impact, making them more vulnerable to economic downturns.
- **Raw Material Shortage: MSMEs struggle with fluctuating raw material prices and limited financial capacity for bulk purchasing.**
  - This is particularly challenging for small textile units, which often face difficulties with cotton price volatility, impacting their profit margins and competitiveness.
- **Issues With Current Litigation System:** The expensive legal process makes it hard for small businesses to seek justice.
  - The current system **takes too long to resolve disputes**, worsening the financial difficulties of small businesses.
  - The **Samadhan portal** only provides information for analysis and does not help directly resolve disputes.

## Way Forward

- **Financial Empowerment and Access:** Enhance **access to formal credit** through targeted schemes, collateral relaxation, and **promoting alternative financing** options like **venture capital, angel investors**, and **peer-to-peer lending** platforms.
- **Digital Transformation and Market Expansion:** Impart **digital literacy, and technical skills**, facilitate e-commerce integration, subsidise investments in digital infrastructure, and **establish linkages with large enterprises** for subcontracting.
- **Regulatory Reforms and Skilling:** Simplify regulations, implement **single window clearance systems**, conduct regulatory impact assessments, launch **targeted skill development programs** aligned with industry needs, and promote entrepreneurship education at all levels.
  - Establish **mentorship programs** connecting successful entrepreneurs with inspiring MSME owners.
- **Infrastructure, Risk Management, and Policy Awareness: Investing in developing reliable power, transportation, and communication infrastructure for MSMEs to thrive.**
  - Develop risk management strategies like insurance schemes and encourage product/market diversification to improve resilience.
- **Global Competitiveness and Quality Enhancement:** Promoting the adoption of quality management systems, and developing export-oriented MSME clusters can enhance global competitiveness and quality.
  - **Zero Defect Zero Effect (ZED)** certification scheme, for example, has helped MSMEs improve quality and reduce environmental impact.

### **Drishhti Mains Question:**

Analyse the challenges faced by MSMEs in India and evaluate the government's initiatives in addressing these challenges.

## UPSC Civil Services Examination, Previous Year Question (PYQ):

### Prelims:

**Q.1 What is/are the recent policy initiative(s) of Government of India to promote the growth of the manufacturing sector? (2012)**

1. Setting up of National Investment and Manufacturing Zones
2. Providing the benefit of 'single window clearance'
3. Establishing the Technology Acquisition and Development Fund

**Select the correct answer using the codes given below:**

- (a) 1 only  
(b) 2 and 3 only  
(c) 1 and 3 only  
(d) 1, 2 and 3

**Ans: (d)**

**Q.2. Which of the following can aid in furthering the Government's objective of inclusive growth? (2011)**

1. Promoting Self-Help Groups
2. Promoting Micro, Small and Medium Enterprises
3. Implementing the Right to Education Act

**Select the correct answer using the codes given below:**

- (a) 1 only  
(b) 1 and 2 only  
(c) 2 and 3 only  
(d) 1, 2 and 3

**Ans: (d)**

**Q3. Consider the following statements with reference to India : (2023)**

1. According to the 'Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the 'medium enterprises' are those with investments in plant and machinery between `15 crore and `25 crore.
2. All bank loans to the Micro, Small and Medium Enterprises qualify under the priority sector.

**Which of the statements given above is/are correct?**

- (a) 1 only  
(b) 2 only  
(c) Both 1 and 2  
(d) Neither 1 nor 2

**Ans: (b)**

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### Mains:

**Q.1** "Industrial growth rate has lagged behind in the overall growth of Gross-Domestic-Product(GDP) in the post-reform period" Give reasons. How far are the recent changes in Industrial Policy capable of increasing the industrial growth rate? **(2017)**

**Q.2** Normally countries shift from agriculture to industry and then later to services, but India shifted directly from agriculture to services. What are the reasons for the huge growth of services vis-a-vis the industry in the country? Can India become a developed country without a strong industrial base? **(2014)**

PDF Refernece URL: <https://www.drishtias.com/printpdf/amendments-proposed-in-msme-act>

