

**MSMED Act, 2006**

**The Act is operational from October 2,2006**

**Salient Provisions of MSMED Act, 2006**

**Website: *www. Laghu-udyog.com***  
***Smallindustryindia.com***

**1. Classification of Enterprises (Chapter III – 7)**

Concept of 'Enterprises' as against 'Industries'

**Enterprises classified broadly into:**

- i) Enterprises engaged in the manufacture/production of goods pertaining to any industry &
- ii) Enterprises engaged in providing/rendering of services.

**Manufacturing Enterprises:**

Defined in terms of investment in plant and machinery (excluding land & buildings) and further classified into:

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

**Service Enterprises:**

Defined in terms of their investment in equipment and further classified into:

- **Micro Enterprises** - investment up to Rs.10 lakh.
- **Small Enterprises** - investment above Rs.10 lakh & up to Rs.2 crore.
- **Medium Enterprises** - investment above Rs.2 crore & up to Rs.5 crore.

**2. Filing of Memoranda by MSMEs:**  
(chapter III- 8)

- Process of two-stage registration of Micro & Small Enterprises dispensed with & replaced by filling of memoranda.
- Filing of memorandum optional for all Micro & Small Enterprises.
- Filing of memorandum optional for service sector Medium Enterprises.
- Filing of memorandum mandatory for manufacturing sector Medium Enterprises.
- EM has to be filed with General Manager, DIC, of the concerned district.

- Existing micro & small enterprises at their discretion & those units having investment in P&M more than 1 crore but not exceeding 10 crores shall file EM with in 180 days.

### **3. Apex Consultative Body with Wide Representation of Stakeholders (Chapter II – 3)**

National Board for Micro, Small and Medium Enterprises (MSME)

*Ex officio* Chairperson - Union Minister i/c MSME

*Ex officio* Vice Chairperson – Minister of State or Deputy Minister MSME

Members:

- MPs
- Ministers of State Governments
- Representatives of Central Ministries
- State Governments
- UT Administration
- RBI, SIDBI, NABARD
- Chairman, Indian Banks Association, *ex officio*
- Associations of MSMEs including women
- Persons of eminence and
- Central Trade Union Organisations
- National Board to be now statutory, as against non-statutory SSI Board
- Quarterly meetings of National Board made mandatory

### **Wide Representation of Stakeholders....**

#### **Functions of the National Board:**

- Examine the factors affecting the promotion and development of MSMEs and review the policies and programmes of the Central Government in this regard.
- Make recommendations on matters referred to as above or any other matter referred to it by the Central Government.
- Advise the Central Government on the use of Fund or Funds constituted under section 12.

### **4. Advisory Committee (Chapter III – 7)**

#### **Constitution of Advisory Committee:**

- Headed by Central Government Secretary i/c of MSMEs & including;
- Not more than five officers of the Central Government;
- Not more than three representatives of State Governments; &

- One representative each of the Associations of Micro, Small and Medium Enterprises.

**Functions of the Advisory Committee:**

- To examine the matters referred to it by the National Board;
- To advise Central Government on matters specified in clauses 7(1), 9, 10, 11, 12 or 14; & To advise State Governments on matters specified in the rules under clause 32.

**5. Promotional & Enabling Provisions (Chapter IV – 9,10)**

- Central Government to notify programmes, guidelines or instructions for facilitating the promotion and development and enhancing the competitiveness of MSMEs.
- Central Government to constitute, by notification, one or more Funds.
- Central Government to credit to the Fund or Funds, such sums as the Government may provide after due appropriation made by Parliament by law in this behalf
- Central Government to administer the Fund or Funds for purpose mentioned in section 9 & coordinate and ensure timely utilization and release of sums with such criteria, as may be prescribed.

**6. Credit**

The policies and practices in respect of credit to the MSMEs shall be progressive and such as may be specified in the guidelines or instructions issued by the Reserve Bank of India, with the aims of:

- ensuring smooth credit flow to the MSMEs
- minimizing sickness among them and ensuring enhancement of their competitiveness

**7. Procurement Policies (Chapter IV – 11)**

Central Government or a State Government to notify preference policies in respect of procurement of goods and services, produced and provided by MSEs, by its Ministries, Departments or its aided institutions and public sector enterprises (non-statutory till now).

**8. Provisions to Check Delayed Payments (Chapter V)**

- Provisions related to delayed payments to micro & small enterprises (MSEs) strengthened.
- Period of payment to MSEs by the buyers reduced to forty-five days.

- Rate of interest on outstanding amount increased to three times the prevailing bank rate of Reserve Bank of India compounded on monthly basis.
- Constitution of MSE Facilitation Councils mandatory for State Governments.
- Provision for inclusion of one or more representatives of MSE' Associations in the Facilitation Council.
- Jurisdiction of the Council in a State to cover wherever the buyer may be located.
- MSE Facilitation Council may utilise the services of any institution or center for conciliation and alternate dispute resolution services.
- Reference made to the council to be decided within ninety days from the date of reference.
- Declaration of payment outstanding to MSE supplier mandatory for buyers in their annual statement of accounts.
- Interest (paid or payable to buyer) disallowed to supplier for deduction for income tax purposes.
- No appeal against order of Facilitation Council to be entertained by any Court without deposit of 75% of the decreed amount payable by buyer.
- Appellate Court may order payment of a part of the deposit to the supplier MSE

#### **9.Facilitating Closure of Business (Chapter V -25)**

- Central Government may (within one year of the commencement of the Act) notify a scheme for facilitating closure of business by a micro, small or medium enterprise.

#### **10. Powers to make Rules (Chapter VI - 30)**

- The Central Govt. may, by notification, make rules to carryout the provision of this act.
- The state Govt. may, by notification, make rules to carryout the provisions of this Act - the composition of M&SE Facilitation Council, the manner of filling vacancies, etc.