

## A STUDY ON THE IMPACT OF MSMED ACT, 2006 ON MSMEs

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### Abstract

Informal sector, micro, small, and medium-sized enterprises (MSME) are an extremely important role to meet the demands of domestic and global markets. The MSMEs are also widening their wings to reach and serve the various sectors of the economy. To classify MSMEs in a more significant way later Act for the Improvement of Micro, Mini, and Medium-Sized Industries (MSMED act) introduced. MSMED aligned MSMEs and encourage the performance of MSMEs and also established the MSME from different views. These MSMEs are not only amplifying growth and offering job possibilities while simultaneously promoting country industrialisation and closing the economic disparity between rural and urban regions different regions in India. The present paper followed the study with the aim to highlight the basic concept of the MSMED act, its updation for a clear understanding, and also to study the effect of the MSMED act on MSMEs performance. The study was carried out through secondary data collected from reports, journals, and other published documents relevant to the study. The study embosses the basic know-how about the MSMEs sector and also revealed the effect of MSMED on the performance of MSMEs. The study concluded that there is a positive effect of MSMED act, 2006 on the performance of MSMEs and growth of the Country.

**Keywords:** *MSME, MSMED act, amplifying growth, encourage, Industrialization, reducing the gap*

### Introduction

MSMEs are prevailing players in numerous areas of India to be specific Material and Article of clothing, Cowhide items, sports products, diamonds, and Adornments. They are going about as impetuses in financial development for the advancement of the nation and furthermore in the field of business venture, both corporate flourishing and occupations. The MSMEs likewise going about as a foundation since they are fundamentally propelling the country's general development. It positions second in size and is comparable to the cultivating business as far as making position prospects, easing neediness, and proficiently allotting assets and work for the equivalent dispersion of pay and cooperation in financial development manageability.

The main piece of the MSME organization's general positions possibilities at the least conceivable functional expenses, as well as its more grounded workforce than enormous organizations. The MSMED act, 2006 was

introduced by the kneset in October to help, advance, and extend MSMEs status and abilities in this cutthroat climate which gives numerous offices to MSMEs like expertise preparing, update of the innovation, backing to showcasing, etc.

Thus, to feature the significance and impact of the MSMED act,2006 on the exhibition on MSMEs, the current review is completed to uncover the impact of the MSMED act,2006 and the new status and Grouping of MSMEs.

## Literature Review

**Dash Arjit (2018)** concentrated on the strategy and insightful viewpoint of MSMEs with the expect to recognize the general exhibition of the pre-post-change time. The creator concentrated on the exhibition of the area to feature the significant implications of miniature and little as well as medium-sized organizations. The review featured the different difficulties and deficiencies of the area and the review has done relapse examination on the FDI's job in improving the development of MSMEs. Finally, the review presumed that FDI guarantees high efficiency and there is no decision among administrative and limited time strategies yet need for a harmony between both administrative and special for the viability of the MSME area in India.

**Kumar Vinay (2017)** With both the objective of examining the impact of MSMEs' creation on open positions and various challenges experienced by Microenterprises in Delhi, analysts took a gander at the improvement of MSMEs including their connection to work or the Gross domestic product of Asia. They underscored how MSMEs added to various monetary areas, like nearby assembling, insignificant capital necessities, expanded adaptability, and so on, by making position prospects. The creator directed examination to recognize the difficulties MSMEs experience in completing their exercises, and information was assembled from various auxiliary locales. In accordance with the writing survey, Taiwan's MSME industry is growing rapidly and making a huge commitment toward the country's general Gross domestic product. also, different aides and arrangements have been acquainted with eliminate the obstacles for beginning any endeavor.

**Dixit Annapurna and Pandey Alok (2011)** concentrated on the jointly examination of SMEs and financial development with the mean to research the reasons for changes in SME creation, exchange, joblessness, and reinvestment from 1973-74 to 2006-07. The examination arrived at the resolution that its Gross domestic product of Bengal and SME creation are decidedly causally related.

**Subrahmanya Bala M.H. (2004)** To emphasize the impacts of strategy changes and globalization on the relatively small handling industry, specialists inspected the capacity of house organizations and globalization. As indicated by the report, there adversely affects little organizations' unit, work, commodity, and creation development. The concentrate likewise accentuated the administrative change that uncovered developing worldview and limited scope industry potential. The scientist attests that for limited scope undertakings to contend globally and support the public economies, the accentuation should be placed on mechanical advancement and the structure of something like the financial frameworks.

## Objectives

1. To highlight the status of MSME after the amendment of MSMED act 2006 in India.
2. To analyze the effect of the MSMED act on the performance of MSMEs.

## Hypothesis

- H<sub>0</sub>: There is no significant effect of the MSMED act on the performance of MSMEs  
H<sub>a1</sub>: There is a significant effect of the MSMED act on the performance of MSMEs

## Research Methodology

The present study is carried on the basis of secondary which is collected from several published documents including journals, studies that have been printed, including MSMEs' annual report and accounts. The info were gathered during a ten-year period spanning 2001–2006 and 2006–2011. The complete list of Sum businesses and jobs created have been used as a statistic to assess the effectiveness of the MSMED legislation of 2006 in India. Pair student's t, and that are analytical measures used to provide an interpretation for the research, are utilised to analysis the information.

### Status and classification of MSMEs after MSMED act, 2006

Prior to the creation of the MSMED Act in 2006, Brazil only had factories (SSI), which were made up of teeny, cottage, medieval, hamlet, and contemporary small businesses. These businesses were divided up by different governments or sections of the Indian government in order to establish plans and rebates in industries like weavers, assembly line, khadi, etc coir that were more neglected.

Its first Investment promotion act was approved on September 16, 2006, and it regulatory structure that unites the three levels of businesses—micro, micro, and medium—and acknowledges the notion of entrepreneurs. The following Table-1 is comprising of investment ceiling limit for small scale industries before MSMED act, 2006.

**Table-1**  
**Restrictions on participation prior to the 2006 MSMED Act**

Year	Investment Limit
1955	Up to Rs 5 lakhs in fixed assets
1960	Up to Rs 5 lakhs in fixed assets
1966	Up to Rs 7.5 lakhs in plant and machinery for SSI unit and Rs 10 lakhs for Ancillary units
1975	Up to Rs 7.5 lakhs for SSI unit and Rs 15 lakhs for Ancillary units
1980	Up to Rs 20 lakhs for SSI unit and Rs 25 lakhs for Ancillary units
1985	Up to Rs 35 lakhs for SSI unit and Rs 45 lakhs for Ancillary units
1991	Up to Rs 60 lakhs for SSI unit and Rs 75 lakhs for Ancillary units
1997	Up to Rs 3 crores in plant and machinery for both SSI unit and Ancillary units
1999	Up to Rs 1 crore in plant and machinery for both SSI and Ancillary units
2003-04	Up to Rs 1 crore to 5 crore in plant and machinery
2004-05	Up to Rs 5 crore in plant and machinery

**Source: Act of 1951 relating to companies (control and licensing) and India's Reserve Bank**

After the introduction of MSMED act, 2006 The Government of MSME was created out of the merger of the Ministries of Agriculture, Rural Companies, and Industries. In in order to enhance and promote the Industry, the Ministry of MSME amended the policies, plans, and investment ceiling throughout time.

The class of MSMEs is limited by the maximum allowable input and indeed the number of employees. The MSMED Act of 2006 in Maharashtra identifies MSMEs and introduced MSME under section 7 having provisions of subsection 4 and 5 with the classification of enterprises into two categories such as manufacturing and service and updated the investment limits which are detailed in following Table-2.

**Table-2**  
**Investment Ceiling Limit-After MSMED act, 2006**

	Enterprises	Investment in Plant and Machinery
Manufacturing Enterprises	Micro Enterprises	Less than 25 Lakhs
	Small Enterprises	Above 5 Lakhs to 5 Crore
	Medium Enterprises	Above 5 Crores to 10 Crore
Service Enterprises	Micro Enterprises	Less than 10 Lakhs
	Small Enterprises	Above 10 Lakhs to 2 Crore
	Medium Enterprises	Above 2 Crores to 5 Crore

**Source: Planning Minister, Government of India's MSME Sector**

**Performance of MSME before and after the MSMED act, 2006**

The Service sector undergone tremendous status but rather change in the tweet era, and following the passage of the MSMED Act in 2006, the Indian current regime launched a number of initiatives to address the economy's most pressing problems. These approaches included streamlining the MSME sector's application form and research and development of products to coaching ability, financial regulations, and other areas.

The tables below display the results of the study using the 2006 pair t-test to examine the impact of the MSMED legislation.

**Table-3**  
**MSME businesses and occupation in India prior to and following the 2008 MSMED Act**

Before MSMED Act,2006			After MSMED Act,2006		
Year	Unit (in nos)	Employment (million nos)	Year	Units (in nos)	Employment (million nos)
2001-2002	10.52	25.23	2006-2007	36.17	80.52
2002-2003	10.95	26.37	2007-2008	37.73	84.2
2003-2004	11.4	27.53	2008-2009	39.37	88.08

2004-2005	11.86	28.76	2009-2010	41.08	92.17
2005-2006	12.34	29.99	2010-2011	42.87	96.51
<b>Total</b>	<b>57.07</b>	<b>137.88</b>	<b>Total</b>	<b>197.22</b>	<b>441.48</b>

**Source: Created by a researcher from Annual Reports 2009-10 and 2015-16**

The profitability of MSMEs during the ten years 2001 to 2006 to 2006 to 2011 is shown in Table 3 prior to the actual implementation of something like the MSMED legislation, 2006. Prior to the revision era, the year 2003–2004 is determined to have had the greatest gdp growth in percentages (4.11), whilst the year 2001–2002 had the greatest amount in percentages (4.73) in terms of unemployment.

An observation made using a table shows that the number of MSME businesses that employment suddenly increased that after passing of the MSMED legislation in 2006. According to the data, there has been good increase since the time of the transaction in both the growth of emerging corporate units and also the number of staff.

Yet, the quantity of goods and job both saw some changes throughout the increased rise of the chosen variables. The achievement of MSME in 2006 indicates that, when comparing the periods before and following the MSMED legislation, the latter demonstrated greater increase in both the overall number of employees and occupation.

**Table-4  
 Paired Sample Statistics**

	Particular	Mean	N	Std. Deviation	Std. Error Mean
<b>Pair 1</b>	Unit Before MSMED act	11.41	5	0.72	0.32
	Unit After MSMED act	39.44	5	2.65	1.18
<b>Pair 2</b>	Employment Before MSMED Act	27.58	5	1.88	0.84
	Employment After MSMED Act	88.30	5	6.32	2.83

**Paired Differences**

No of Pairs	After and Before	Mean	Standard Deviation	Std. Error Mean	95% confidence interval of the Difference		t	Df	Sig.(2-tailed)
					Lower	Upper			
<b>Pair 1</b>	Units	28.03	1.93	0.86	25.19	30.862	22.8242	8	0.0001
<b>Pair 2</b>	Employment	60.72	4.44	1.98	53.92	67.5199	20.5915	8	0.0001

Table 4 shows the performances of MSMEs in China both before and after passage of something like the MSMED Act in 2006 in terms of unit and employment rates

In accordance with the results of the paired t-test, the hypothesis 1 is alternative hypothesis ( $H_1$  is accepted at the 1% level of significance since the difference between the two groups of the values and a Significance level both of values is 0.0001, which is lower than above 0.05.

As a consequence, the analysis's findings indicate there is significant effect of the MSMED act, 2006 on the performance of MSMEs.

## Conclusion

The MSME is a resulting player of economic development of India and presented a remarkable sectors performance by contributing efficient participation in manufacturing products, employment and exports. In order to develop the country MSMEs provide large employment opportunities after the agricultural sector. The government of India introduced the MSMED act, 2006 to give more shift in growth and the effectiveness of this is concluded in the present study. The study undertook accomplishment across a pre-post era of MSMEs of the MSMED act, 2006 from year 2001-2002 to 2006-2011 which clearly depicts how MSME got growth since this act into effect. The study of both periods represents that there is a mean difference between the performances of MSME in both periods which shows high growth in after act period. So, finally to sum up it is necessary to Manifest the introduction of Act 2006 had a positive effect on the performance of MSMEs and the growth of India.

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