Annexures
ANNEXURE-I

Concept and Definition of Micro, Small and Medium Enterprises

With the Micro, Small and Medium Enterprises (MSME) Development Act, 2006 coming into force the definitions and nomenclature of various segments of Small and Medium Enterprises (SMEs) have been revised as follows, with effect from October 2006. The Act formalizes the concept of 'enterprises' as against 'industries' used in earlier years, referring to manufacturing activities. Enterprises have been classified into two categories: (i) enterprises engaged in the manufacture / production of goods pertaining to any industry, and (ii) enterprises engaged in providing / rendering of services. Further categorization into Micro, Small and Medium manufacturing / service enterprises is given here as presented in the MSMED Act, 2006.

(A) Manufacturing Enterprises

Manufacturing enterprises are classified in terms of gross fixed investment in plant and machinery (excluding land and buildings).

(i) A micro manufacturing enterprise is one with a gross investment in plant and machinery upto Rs.25 lakh.

(ii) A small manufacturing enterprise is one with gross investment in plant and machinery above Rs.25 lakh and upto Rs.5 crore.

(iii) A medium manufacturing enterprise is one with a gross investment in plant and machinery above Rs.5 crore and upto Rs.10 crore.

B. Service enterprises.

Service enterprises are defined as those engaged in providing / rendering of services, and classified in terms of gross fixed investment in equipment (excluding land and buildings).

(i) A micro service enterprise is one with a gross investment in equipment upto Rs.10 lakh.

(ii) A small service enterprise is one with a gross investment in equipment between Rs.10 lakh and Rs.2 crore.

(iii) A medium service enterprise is one with a gross investment in equipment between Rs.2 crore and Rs.5 crore.

Gross investment in plant and machinery refers to original investment incurred by the entrepreneur as per the purchase price, irrespective of the
fact whether the machinery is first hand or second hand. Small enterprises are referred to as Small and Medium Enterprises (SMEs) or Micro, Small and Medium Enterprises (MSMEs). Cost of equipment relates to research and development, pollution control, industrial safety devices and such other items as may be specified by the Government by notification, shall be excluded from the small enterprise investment limit for categorization into various segments. Equity participation not exceeding 24 per cent by other industrial enterprises including foreign companies is permitted in a small enterprise. However, in non-industrial enterprises (like finance companies), non-resident Indians (NRIs), and foreign companies can invest up to 100 per cent equity, and own a small non-manufacturing enterprise, provided the NRI / foreign company concerned has no equity in any other industrial or service enterprise in the country. No Small scale, ancillary or export-oriented manufacturing enterprise shall be subsidiary of or owned or controlled by any other manufacturing or service enterprise. This suggests that in case of proprietary/ partnership firms, the combined investment of all the units set up by the same proprietor/partners should not exceed the gross fixed investment limit specified for a small and medium enterprise.

Precise definitions of each of the segments of micro, small, Medium and Large manufacturing and service enterprises are presented here. Service enterprises have been given recognition and importance through the definitions presented for micro, small and medium service enterprises.

**Filing of Memoranda by MSMEs:** The process of two-stage registration of Small enterprises (provisional and permanent registration with the District Industries Centre) has been dispensed with and replaced by filing of memoranda. At present, as per the Act, filing of memoranda is made optional for a small enterprise. It is also optional for service sector medium enterprises. In respect of manufacturing Medium, and Large enterprises, it is mandatory.

1. **Micro Industrial Enterprise:** A unit is regarded as a Micro industrial enterprise if its gross fixed investment in plant and machinery goes up to Rs.25 lakh (from December 1977). The term tiny enterprise used for this category has been replaced by Micro enterprises from October, 2006.
2. **Small Industrial Enterprise**: An industrial undertaking is regarded as small if its gross fixed investment in plant and machinery whether held on ownership terms or on lease / hire purchase basis, is above Rs.25 lakh and goes upto Rs.5 crore from October, 2006, and earlier Rs.1 crore from December 1999. The investment limit was raised from time to time over the years.

3. **Medium and Large Industrial Enterprise, and Mega Project**: An industrial enterprise is considered as medium if its gross fixed investment in plant and machinery is above Rs.5 crore and upto Rs.10 crore. An Industrial enterprise beyond Rs.10 crore gross fixed investment in plant and machinery are referred to as Large enterprises. Industrial enterprises beyond Rs.100 crore (Rs.one billion) project outlay are referred to as Mega projects.

4. **Ancillary Industrial Enterprise**: An ancillary industrial enterprise is one, which is engaged or proposed to be engaged in the manufacture or production of parts, components, sub-assemblies, tooling or intermediates, or rendering of services and the enterprise supplies or renders or proposes to supply or render not less than 50 per cent of its production or services, as the case may be to one or more industrial or service enterprises. The parent enterprise to which supplies are made may be Large, Medium, Small or Micro in size. The ancillary enterprise’s gross fixed investment in plant and machinery is the same as that of a small enterprise, i.e., upto Rs. 5 crore from October 2006, and earlier it was Rs.1 crore from December 1999. An ancillary enterprise is also referred to as a sub-contracting enterprise. Some SSI units performing the function of ancillaries, but not registered with the parent units as ancillary enterprise are referred to as vendors. The parent units are referred to as vendors.

5. **Export-oriented Small Industrial Enterprises**: An export oriented Small industrial enterprise is one with an obligation to export at least 30 per cent of its annual production by the end of the third year of commencement of production and has a gross fixed investment in plant and machinery upto Rs.5 crore from October 2006 which was earlier Rs.1 crore from December 1999. In view of the demand for raising the
investment limit for export-oriented Small scale units, which have a high growth potential for export and are contributing a substantial measure for select product lines identified from time to time, the gross fixed investment limit in plant and machinery was raised from Rs.1 crore to Rs.5 crore from 2001 to 2006. This was in respect of 140 product lines by early 2006 – hosiery (27 items), hand tools (14), stationery (13), drugs and pharmaceuticals (10), sports goods (7), and 69 other items reserved for manufacture in the Small enterprise sector. There are also wholly export-oriented units (100 per cent) in the Small, Medium and Large scale sectors, which are permitted to sell 25 per cent of production in the domestic tariff area. In case of Medium and Large scale units, wanting to enter the manufacture of product lines reserved for small enterprises sector, 50 per cent of export obligation is insisted upon.

6. **Service Enterprises**: An enterprise engaged in providing-rendering of services with gross fixed investment in equipment excluding land and buildings, upto Rs.10 lakh (from September, 2006) is referred to as a Micro service enterprise. For a Small service enterprise, the investment level in equipment is above Rs.10 lakh and upto Rs.2 crore. A Medium service enterprise is one with investment in equipment over Rs.2 crore and upto Rs.5 crore.

7. **Women Entrepreneurs – Promoted Enterprise**: A woman / women entrepreneur-promoted enterprise is a Micro, Small or Medium manufacturing or service enterprise managed by one or more women entrepreneurs in proprietary concerns or other forms of organization, and in which she/they individually or jointly have a share capital of not less than 51 per cent as partners / share holders / directors of a private limited company / members of a co-operative society.

8. **Mini Industrial / Service Enterprise**: There is no formal definition for a mini enterprise conventionally in the context of administration of self employment programmes, and for promotion of informal sector enterprises, definitions followed by the institutions concerned differ in various contexts. Mini enterprises covering industry, service, business, and agro-related activities can be broadly grouped into those covered under target beneficiary-specific poverty alleviation self employment.
programmes implemented by different agencies, and other enterprises not covered by these programmes but having higher investment limits. For operational purposes, mini industrial enterprises can be referred to as those with a gross fixed investment in plant and machinery (excluding land and buildings) up to Rs.10 lakh and not registered under the Factories Act. Enterprises other than manufacturing, with a gross fixed investment in equipment (excluding land and buildings) up to Rs.5 lakh can be referred to as mini service enterprises. Mini manufacturing and service enterprises generally employ less than 10 persons, if using power and less than 20 persons, if not using power.

9. **Village Industry as defined by KVIC**: Khadi and Village Industries Commission (KVIC) has been given a formal definition for village industries covered under its programmes. As per the latest definition finalized in KVIC Amendment Act 2006, any industry in a rural area, village or town, with population not exceeding 20,000 and per capita investment of a full-time artisan or worker in fixed assets excluding land, not exceeding Rs.1 lakh is considered a village industry. In respect of hilly areas, per capita fixed investment limit excluding land, of a full time artisan or worker has been raised to Rs.1.5 lakh. The upward revision in investment limit was made in 2006. Rural Employment Generation Programme (REGP) implemented by KVIC covers all viable village industry projects except those specified in the negative list of village industries announced by KVIC. Definition as mentioned above is applicable for this programme. 119 village industries are specified under seven heads for financing by banks, and KVIC support for margin money. These heads are mineral-based industries, forest-based industries, agro-based and food-based industries, polymer and chemical-based industries, engineering and non-conventional category, textile industry (excluding khadi) and service industries. REGP has been replaced by the Prime Minister's Employment Generation Programme (PMEGP) from October 2008. PMEGP is an enlarged programme compared to the earlier programmes of REGP and PMRY (Prime Minster's Rozgar Yojana).