

Definition of Micro, Small and Medium Enterprises

Current Definition	Proposed Definition
MSMEs are defined in MSMED Act. 2006 on the basis of investment in plant, machinery and equipment. (Section 7, sub-section 1)	MSMEs should be defined on the basis of the annual turnover of the enterprise*.
(a) Manufacturing sector: Micro – Not exceeding Rs 25 lakh Small – Between Rs 25 lakh and Rs 5 crore Medium – Between Rs 5 crore and Rs 10 crore	(a) Manufacturing sector: Micro – Not exceeding Rs 25 lakh Small – Between Rs 25 lakh and Rs 5 crore Medium – Between Rs 5 crore and Rs 10 crore
(b) Services sector: Micro – Not exceeding Rs 10 lakh Small – Between Rs 10 lakh to Rs 2 crore Medium – Between Rs 2 crore to Rs 5 crore	(b) Service Sector: Micro – Not exceeding Rs 10 lakh Small – Between Rs 10 lakh to Rs 2 crore Medium – Between Rs 2 crore to Rs 5 crore
[No provision for inflation in the current definition of MSME]	These figures should be revised every [two] years in line with inflation by linking them for instance, with the Wholesale Price Index (WPI)

Rationale

The current definition of MSME is based on size of investment in plant, machinery and equipment which is open to multiple/different interpretations and could be subject to manipulation. Instead, the definition should be on the basis of annual turnover which would bring greater transparency and consistency. Turnover is more easily verifiable especially with the proposed introduction of GST. Thus, for instance, micro enterprises engaged in manufacturing could be defined as those with annual turnover less than Rs 25 lakhs, and so on for small and medium enterprises. Section 7 sub-section 9 allows for the definition to be tweaked on the basis of turnover: "the Central Government may, while classifying any class or classes of enterprises under sub-section (1), vary, from time to time, the criterion of investment and also consider criteria or standards in respect of employment or turnover of the enterprises...".

These figures are indicative and can be modified/tweaked. Further, they should be indexed with inflation to avoid the need for amending the Act to revise them. For example, if at the end of two years prices are 10% higher the definitions would automatically get revised upward by 10%. Such a provision does not exist in the Act at present.