

April 4, 2007

The Chairman/ Managing Director/  
Chief Executive Officer  
All Scheduled Commercial Banks  
All Regional Rural Banks/Local Area Banks

Dear Sir,

**Credit flow to Micro, Small and Medium Enterprises Sector**

Please refer to Paragraph No.2 of our circular RPCD.PLFNS.BC.No.31/ 06.02.31/ 2005-06 dated August 19, 2005 wherein the definition of Small and Medium Enterprise had been indicated as reproduced below:

“ At present, a small scale industrial unit is an undertaking in which investment in plant and machinery, does not exceed Rs.1crore, except in respect of certain specified items under hosiery, hand tools, drugs and pharmaceuticals, stationery items and sports goods, where this investment limit has been enhanced to Rs.5 crore. A comprehensive legislation which would enable the paradigm shift from small scale industry to small and medium enterprises is under consideration of Parliament. Pending enactment of the above legislation, current SSI/ tiny industries definition may continue. Units with investment in plant and machinery in excess of SSI limit and up to Rs. 10 crore may be treated as Medium Enterprises (ME).”

2. The Government of India has since enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 on June 16, 2006 which was notified on October 2, 2006. Consistent with the notification of the Micro, Small and Medium Enterprises Development (MSMED) Act 2006, the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services is being modified and is required to be implemented by the banks alongwith other policy measures with immediate effect.

**3. Definition of Micro, Small and Medium Enterprises**

**(a) Enterprises engaged in the manufacture or production, processing or preservation of goods** as specified below:

(i) A **micro enterprise** is an enterprise where investment in plant and machinery [original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006 (copy enclosed)] **does not exceed Rs. 25 lakh;**

(ii) A **small enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is **more than Rs. 25 lakh but does not exceed Rs. 5 crore;** and

(iii) A **medium enterprise** is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No. S.O. 1722(E) dated October 5, 2006) is **more than Rs.5 crore but does not exceed Rs.10 crore.**

**(b) Enterprises engaged in providing or rendering of services** and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) are specified below. These will include small road & water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional & self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).

(i) A **micro enterprise** is an enterprise where the investment in equipment **does not exceed Rs. 10 lakh;**

(i) A **small enterprise** is an enterprise where the investment in equipment is **more than Rs.10 lakh but does not exceed Rs. 2 crore;** and

(ii) A **medium enterprise** is an enterprise where the investment in equipment is **more than Rs. 2 crore but does not exceed Rs. 5 crore.**

**Bank's lending to medium enterprises will not be included for the purpose of reckoning under the priority sector.**

Accordingly, the existing provisions in the Master Circular on Lending to Priority Sector issued vide circular RPCD.No.Plan.BC.4/04.09.01/2006-07 dated July 3, 2006 may be replaced as indicated in the **Annexure.**

#### **4. Compilation of separate data for each category of enterprises**

Based on the above definition you are requested to compile data separately for each category of enterprises in the prescribed format (copy enclosed) from the quarter ended September 30, 2007, for onward transmission to the Government of India.

#### **5. Progressive guidelines/instructions to banks on micro, small and medium enterprises**

Reserve Bank of India have been issuing guidelines/instructions to banks from time to time to ensure timely and smooth flow of credit to such enterprises, to minimize the incidence of sickness among them and enhance the competitiveness of such enterprises which has been incorporated in our Master Circular on SME lending (RPCD. PLNFS. BC. No. 2/ 06.02.31/ 2006-07 dated July 1, 2006). The Boards of banks may review the existing guidelines/instructions and formulate a comprehensive and

liberal policy in respect of loans to micro, small and medium (MSME) sector and adopt the same at the earliest.

#### **6. Delayed payment to micro and small enterprises**

The existing provisions of the Interest on Delayed Payment Act, 1998 to Small Scale and Ancillary Industrial Undertakings, have been strengthened under the MSMED Act as under:

- (i) The buyer to make payment on or before the date agreed on between him and the supplier in writing or, in case of no agreement before the appointed day. The agreement between seller and buyer shall not exceed more than 45 days.
- (ii) The buyer fails to make payment of the amount to the supplier, he shall be liable to pay compound interest with monthly rests to the supplier on the amount from the appointed day or, on the date agreed on, at three times of the Bank Rate notified by Reserve Bank.
- (iii) For any goods supplied or services rendered by the supplier, the buyer shall be liable to pay the interest as advised at (ii) above.
- (iv) In case of dispute with regard to any amount due, a reference shall be made to the Micro and Small Enterprises Facilitation Council, constituted by the respective State Government.

7. As the above measures are important for healthy and balanced development of micro, small and medium enterprises sector, we advise you to initiate necessary action and issue necessary instructions to your branches/controlling offices in this regard at the earliest.

8. Please acknowledge receipt.

Yours faithfully,

**(G.Srinivasan)**  
Chief General Manager

**Outstanding Credit to Micro, Small and Medium Enterprises (MSME) Sector–Quarterly Review by Government of India**

**Name of Bank: .....As at the end of March/June/September/December 200.....**

(Number of Accounts in lakh, Amount in crore)

|        |  |  | Outstanding position as at the end of                  |                                    |  |
|--------|--|--|--|------------------------------------|--|
| Sr. No | Particulars                                    |  | 2005-06  | Quarter under review<br>....., 200 | Corresponding quarter of the proceeding year<br>....., 200 |
| (1)    | (2)  |  | (3)  | (4)                                | (5)  |
| 1      | Net Bank Credit (NBC)                          | Amount   |  |                                    |  |
| 2      | Micro Enterprises                              |  |  |                                    |  |
|        | a  | Manufacturing sector   | Accounts   |                                    |  |
|        |  |  | Amount   |                                    |  |
|        | b  | Services sector  | Accounts   |                                    |  |
|        |  |  | Amounts  |                                    |  |
| 3      | Small Enterprises                              |  |  |                                    |  |
|        | a  | Manufacturing sector   | Accounts   |                                    |  |
|        |  |  | Amount   |                                    |  |
|        | b  | Services sector  | Accounts   |                                    |  |
|        |  |  | Amount   |                                    |  |
| 4      | Total Micro and Small Enterprises (MSE sector) |  | Amount (total of amounts for items 2a, 2b, 3a and 3b)  |                                    |  |
| 5      | Advances up to Rs 5 lakh                       |  | Amount   |                                    |  |
| 6      | A  | Share of credit to Micro Enterprises in total credit to MSE sector | Per cent (share of amounts under items 2a and 2b to 4) |                                    |  |
|        | B  | Share of credit to MSE sector in NBC                               | Per cent (share of item 4 to item 1)                   |                                    |  |
| 7      | Medium Enterprises                             |  |  |                                    |  |
|        | A  | Manufacturing sector   | Accounts   |                                    |  |
|        |  |  | Amount   |                                    |  |
|        | B  | Services sector  | Accounts   |                                    |  |
|        |  |  | Amount   |                                    |  |

In case of non-availability of data please indicate N.A.

**Note:** manufacturing sector refers to enterprises engaged in manufacture or production, processing or preservation of goods. Services sector refers to enterprises engaged in providing or rendering services,

| Provision in the existing guidelines on lending to priority sector  | Provision in the circular on Credit flow to MSME sector  |
|---|--|
| <p><b>Para. 2 Small Scale Industries</b></p> <p><b>2.1. Small Scale and Ancillary Industries</b><br/>Small scale industrial units are those engaged in the manufacture, processing or preservation of goods and whose investment in plant and machinery (original cost) does not exceed Rs. 1 crore. These would, inter alia, include units engaged in mining or quarrying, servicing and repairing of machinery. In the case of ancillary units, the investment in plant and machinery (original cost) should also not exceed Rs. 1 crore to be classified under small-scale industry. The investment limit in plant &amp; machinery of Rs.1 crore for classification as SSI has been enhanced to Rs.5 crore in respect of certain specified items under hosiery, hand tools, drugs &amp; pharmaceuticals, stationery items and sports goods by the Government of India.</p> <p><b>2.2 Tiny Enterprises</b><br/>The status of 'Tiny Enterprises' may be given to all small scale units whose investment in plant &amp; machinery is up to Rs. 25 lakh, irrespective of the location of the unit.</p> | <p><b>Para.3 (a) Micro, Small and Medium Enterprises</b></p> <p>Enterprises engaged in the <b>manufacture or production, processing or preservation of goods</b> as specified below:<br/>(i)A micro enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722(E) dated October 5, 2006)does not exceed Rs. 25 lakh;<br/>(ii)A small enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722(E) dated October 5, 2006)is more than Rs. 25 lakh but does not exceed Rs. 5 crore; and<br/>(iii)A medium enterprise is an enterprise where the investment in plant and machinery (original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification no. S.O. 1722(E) dated October 5, 2006)is more than Rs. 5 crore but does not exceed Rs. 10 crore.</p>  |
| <p><b>2.3 Small Scale Service &amp; Business Enterprises (SSSBEs)</b></p> <p>2.3.1 Industry related service and business enterprises with investment up to Rs.10 lakh in fixed assets, excluding land and building will be given benefits of small scale sector. For computation of value of fixed assets, the original price paid by the original owner will be considered irrespective of the price paid by subsequent owners.</p>  | <p><b>Para. 3(b)</b><br/>Enterprises engaged in <b>providing or rendering of services</b> and whose investment in equipment (original cost excluding land and building and furniture, fittings and other items not directly related to the service rendered or as may be notified under the MSMED Act, 2006) . These will include small road &amp; water transport operators (owning a fleet of vehicles not exceeding ten vehicles), retail trade (with credit limits not exceeding Rs.10 lakh), small business (whose original cost price of the equipment used for the purpose of business does not exceed Rs.20 lakh) and professional &amp; self employed persons (whose borrowing limits do not exceed Rs.10 lakh of which not more than Rs.2 lakh should be for working capital requirements except in case of professionally qualified medical practitioners setting up of practice in semi-urban and rural areas, the borrowing limits should not exceed Rs.15 lakh with a sub-ceiling of Rs.3 lakh for working capital requirements).</p> <p>(i)A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;</p> <p>(ii)A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and</p> |

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|  | <p>(iii) A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.</p> <p><b>Bank's lending to medium enterprise will not be included for the purpose of reckoning under the priority sector.</b></p> |
| <p><b>Para. 2.4 Investments made by banks in securitized assets</b> representing direct lending to the SSI sector would be treated as their direct lending to SSI sector under priority sector, provided it satisfies the following conditions:</p> <p>i) The pooled assets represent direct loans to SSI sector which are reckoned under priority sector; and</p> <p>ii) The securitized loans are originated by banks/financial institutions.</p>  | <p>The existing instruction will continue except that the terms small scale industries and tiny industries/enterprises will be replaced by small and micro enterprises.</p>  |
| <p><b>Para. 2.5 Indirect finance in the small-scale industrial sector will include credit to:</b></p> <p>2.5.1 Agencies involved in assisting the decentralised sector in the supply of inputs and marketing of outputs of artisans, village and cottage industries.</p> <p>2.5.2 Government sponsored Corporation/organisations providing funds to the weaker sections in the priority sector.</p> <p>2.5.3 Advances to handloom co-operatives.</p> <p>2.5.4 Term finance/loans in the form of lines of credit made available to State Industrial Development Corporation/State Financial Corporations for financing SSIs. Such term finance/loans to the extent granted for/to the Small Scale Industrial (SSI) units, will be treated as priority sector lending, subject to the observance of following conditions:</p> <p>(i) SFC/SIDC should maintain separate and distinct accounts of fresh disbursements made to SSI units and outstanding amounts thereagainst.</p> <p>(ii) Periodical statements to be obtained from SFC/SIDC to monitor the position.</p> <p>(iii) Annually, a certificate issued by SFC/SIDC statutory auditors certifying that the outstanding borrowings from banks were fully covered by the non-overdue loans outstanding in respect of fresh disbursements made to SSI units from out of term finance/lines of credit granted by banks.</p> <p>(iv) The rate of interest to be charged by banks on such term finance/ loans/ lines of credit will be in conformity with the directives on interest rates issued by the Reserve Bank from time to time.</p> <p>2.5.5 Credit provided by banks to KVIC under the scheme for provision of credit to KVIC by consortium of banks for lending to viable Khadi and Village Industrial Units.</p> <p>2.5.6 Funds provided by commercial banks to SIDBI/SFCs by way of rediscounting of bills of SSIs which are originally discounted by a commercial bank and rediscounted by SIDBI/SFCs will be eligible for inclusion under the priority sector as indirect finance to SSI.</p> <p>2.5.7 Subscription to bonds issued by NABARD with the objective of financing exclusively non-farm sector. However, the investments made by banks</p> | <p>The existing instruction will continue except that the terms small scale industries and tiny industries/enterprises will be replaced by small and micro enterprises.</p> <p style="text-align: center;">--do--</p>  |

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|---|--|
| <p>in such bonds issued by NABARD, shall not be eligible for classification under priority sector lending with effect from April 1, 2007.</p> <p>2.5.8 (i) Financing of NBFCs or other intermediaries for on-lending to the tiny sector.<br/>(ii) All new loans granted by banks to NBFCs and other intermediaries for on-lending to SSI sector with effect from November 11, 2003.</p> <p>2.5.9 Deposits placed with SIDBI by Foreign Banks in fulfilment of shortfall in attaining priority sector targets.</p> <p>2.5.10 Bank finance to HUDCO as a line of credit for on-lending to artisans, handloom weavers, etc. under tiny sector may be treated as indirect lending to SSI (Tiny) Sector.</p> | <p>--do--</p>  |
| <p><b>Para. 2.7 KVI Sector</b><br/>All advances to KVI sector, irrespective of their size of operations, location and investment in plant and machinery, will be covered under priority sector advances and will also be eligible for consideration under the sub-target (60 percent) of the SSI segment within the priority sector.</p>  | <p>The existing instruction will continue except that the term small scale industries will be replaced by small enterprises.</p> |
| <p><b>Para.3 Other Activities/Borrowers in the Priority Sector</b></p> <p><b>Para.3.1 Small Road &amp; Water Transport Operators</b></p> <p><b>Para.3.2 Retail Trade</b></p> <p><b>Para.3.3 Small Business</b></p> <p><b>Para.3.4 Professional &amp; Self-Employed Persons</b></p>  | <p>The existing instruction will continue.</p>   |