

Government of India
Ministry of Commerce & Industry
Department of Industrial Policy & Promotion
(FC Section)

Press Note No. 6 (2009)

Subject: Foreign Direct Investment (FDI) into a Small Scale Industrial Undertaking (SSI)/ Micro & Small Enterprises (MSE) and in Industrial Undertaking manufacturing items reserved for SSI/ MSE – clarification.

1.0 FDI into SSI/MSE

1.1 A Small Scale industrial undertaking (SSI) was defined in terms of: (i) investment in fixed assets in plant and machinery and (ii) equity participation (both domestic and foreign) in the SSI, by other industrial undertakings prior to 2006.

1.2 Vide Press Note 18 (1997), it was further notified that, for cases of foreign collaborations, since the maximum equity participation allowed for in small scale units was 24%, proposals for induction of foreign equity more than 24% would be subject to the condition that: (i) the company would get itself de-registered as a small scale unit and (ii) obtain industrial licence or file Industrial Entrepreneur Memorandum with SIA, as per prescribed policy and procedure.

1.3 With the promulgation of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the ceiling for equity participation (both domestic and foreign) in the micro and small enterprises, by other enterprises, was removed and Micro and Small Enterprises (MSE) (earlier small scale industries) were defined solely on the basis of investment in plant & machinery (for micro and small enterprise engaged in manufacturing) and equipment (for micro and small enterprise engaged in providing or rendering of services). Accordingly, this change was notified by Notification No. S.O. 563(E) dated 27th February 2009 of Department of Industrial Policy & Promotion, Ministry of Commerce & Industry.

1.4 Thus the present policy on FDI in MSE permits FDI subject only to the sectoral equity caps, entry routes and other relevant sectoral regulations.

1.5 Press Note 18 (1997 series) stands modified to the above extent.

2.0 FDI in Industrial Undertaking manufacturing items reserved for SSI/MSE

2.1 Vide Press Note 14 (1997), it was notified that Industrial Undertakings manufacturing items reserved for small scale sector were not eligible for automatic approval for induction of foreign investment.

2.2 Accordingly, the FDI policy notified vide Press Note 2 (2000) prescribed prior approval of Government where foreign investment was more than 24% in the equity capital of units manufacturing items reserved for small scale industries. This was reiterated in the Annex to Press Note 4 (2006) and at Para III (ii) of Annex to Press Note 7 (2008).

2.3 Thus, any industrial undertaking, with or without FDI, which is not a MSE, manufacturing items reserved for manufacture in the MSE sector (presently 21 items) as per the Industrial Policy, would require an Industrial License under the Industries (Development & Regulation) Act, 1951, for such manufacture. The issue of the Industrial Licence will be subject to a few general conditions and the specific condition that the undertaking shall undertake to 'export a minimum of 50% of the new or additional annual production of the MSE reserved items to be achieved within a maximum period of three years. The export obligation would be applicable from the date of commencement of commercial production'. Such an industrial undertaking would also require prior approval of the Government (FIPB) where foreign investment is more than 24% in the equity capital.

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(GOPAL KRISHNA)

Joint Secretary to the Government of India

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