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UPDATES

PM Vishwakarma Exhibition-cum-Fair Held in New Delhi

New Delhi: MSME-DFO Okhla organized a three-day PM Vishwakarma Exhibition-cum-Fair from 27 February to 1 March 2026 at Bangia Samaj Bhavan in C.R. Park to promote traditional artisans and their products.

The event, inaugurated by Joint Development Commissioner Danish Ashraf, featured over 50 artisans showcasing handcrafted products and interacting directly with buyers and visitors.

Technical sessions on GeM onboarding, barcode registration, trademark filing, and e-marketing were also held to help artisans expand their businesses and strengthen digital marketing and branding capabilities.

The fair aimed to support traditional skills and create **sustainable livelihood opportunities** under the PM Vishwakarma scheme.

Source: www.pib.gov.in

MSME Ministry Holds National SC-ST Hub Mega Awareness Programme in Itanagar

The Ministry of Micro, Small & Medium Enterprises organized the National SC-ST Hub Mega Awareness Programme on 23 February 2026 at D.K. Conventional Hall in Itanagar to promote entrepreneurship and spread awareness about MSME schemes.

Pema Khandu, Chief Minister of Arunachal Pradesh, attended as Chief Guest and highlighted the role of MSMEs in economic growth and self-reliance. Officials also informed participants about financial support, skilling, and market opportunities available under various MSME schemes.

During the event, the Chief Minister inaugurated the Entrepreneurship Development Institute (EDI) at Jote, aimed at strengthening skill development and entrepreneurship among youth in the region.

Source: www.pib.gov.in

MSME Ministry Upgrades NSIC to 'Schedule A' CPSE

The Ministry of Micro, Small & Medium Enterprises has upgraded the National Small Industries Corporation (NSIC) from Schedule 'B' to Schedule 'A' Central Public Sector Enterprise (CPSE) through a notification dated 26 February 2026.

NSIC has been promoting and supporting MSMEs for over seven decades by providing skilling, capacity building, marketing support, credit facilitation, and growth capital. The upgrade will enhance its managerial, operational, and financial powers, strengthening its support to the MSME sector.

Source: www.pib.gov.in

Members may kindly note that The Institute of Chartered Accountants of India (ICAI), under the aegis of the Committee on MSME & Startup, has signed a landmark MoU with the National Small Industries Corporation (NSIC) for a tenure of three years.

Khadi and Village Industries Commission (KVIC), a statutory organisation under the Ministry of MSME, provides financial assistance to Khadi Institutions and Artisans through various schemes & programmes

The **Khadi and Village Industries Commission (KVIC)**, under the Ministry of Micro, Small and Medium Enterprises, provides financial assistance to Khadi institutions and artisans through several schemes aimed at strengthening production, marketing, and livelihoods. Key initiatives include **Modified Market Development Assistance (MMDA)** for modernization and value addition, the **Interest Subsidy Eligibility Certificate (ISEC)** scheme which offers credit to Khadi institutions at a concessional interest rate of 4%, and the **Workshed Scheme for Khadi Artisans** that provides improved workspaces for spinning and weaving activities. KVIC also supports the revival of weak Khadi institutions and assists in renovating sales outlets to enhance marketing. Additionally, KVIC promotes Khadi products through exhibitions, trade fairs, publicity campaigns, and its **Khadi India e-commerce portal**, aiming to strengthen market linkages, boost brand promotion, and improve the income of artisans across the country.

Source: www.pib.gov.in

Jammu & Kashmir Industrial Policy 2021-30- Navigating The New Frontier of Investment

Introduction: A Paradigm Shift

The Union Territory of Jammu and Kashmir has historically been perceived through the lens of its breathtaking landscapes and traditional handicrafts. However, the notification of the **J&K Industrial Policy 2021-30 (JKIP)**, coupled with the **New Central Sector Scheme (NCSS) 2021**, marks the beginning of an era characterized by aggressive industrialization. With a combined financial outlay of approximately **₹28,400 Crore**, the policy framework aims to transition J&K from an "aspirational" region to an "industrially advanced" powerhouse. With the notification of the **J&K Industrial Policy 2021-30**, the government has transitioned from being a mere regulator to a proactive facilitator.

Vision and Strategic Objectives

The policy aims to position J&K as a premier investment destination in North India. Its core philosophy revolves around **"Minimum Government, Maximum Governance"** and fostering an ecosystem that balances industrial growth with ecological stability.

- **Employment Focus:** Targets the generation of direct and indirect employment for 4.5 lakh persons.
- **MSME Centricity:** Recognizing that MSMEs contribute significantly to the GSDP, the policy offers tailored incentives for smaller units, including turnover-based benefits.

Regional Balance: Introduction of **Zonation (Zone A and Zone B)** ensures that even the most backward blocks receive industrial attention through higher incentive slabs. Zone B (socially/economically backward) generally receives higher percentages of assistance.

The Incentive Framework: A Two-Pronged Approach

Investors in J&K benefit from a unique "double-engine" incentive structure: the **New Central Sector Scheme (NCSS)** and the **UT-specific State Incentives**.

A. Central Sector Scheme (NCSS) Highlights

- **Capital Investment Incentive (CII):** 30% in Zone A and 50% in Zone B on investment in Plant & Machinery (Manufacturing) or Building/Physical Assets (Services).
- **Capital Interest Subvention (CIS):** 6% for up to 7 years on loans up to ₹500 crore.
- **GST Linked Incentive (GSTLI):** 300% of the eligible value of actual investment for 10 years to offset the geographical disadvantages of the UT.
- **Working Capital Interest Subvention (WCIS):** 5% for 5 years to support operational liquidity.

B. UT Government Incentives

Incentive Category	Benefit Detail
Turnover Incentive	3% for Micro units; 2% for SME/Large units for 5 years (capped at ₹50L/annum).
SGST Reimbursement	100% Net SGST reimbursement for 10 years for eligible units.
Green Initiatives	50-60% subsidy on pollution control, solar power, and waste recycling.
Automation & Quality	25% subsidy on automation; 30% on Quality Certification costs.
Stamp Duty	100% exemption on land transactions in Government Industrial Estates.

Revolutionary Land Allotment Policy

The 2021-30 policy introduces a transparent, digitized process via the **InvestJK** single-window portal:

- **Lease Terms:** Land is allotted on a 40-year lease, extendable up to 99 years.
- **Timeline-Driven:** Appraisal committees are mandated to finalize land allotment within a strict window (typically 30–45 days).

Private Industrial Estates: For the first time, private players are encouraged to develop industrial parks (min. 5 acres) with government support.

Focus Sectors for MSMEs and Startups

The policy identifies "Thrust Sectors" where J&K holds a competitive edge:

1. **Agro & Food Processing:** Utilizing the region's unique climate for temperate fruits and saffron.
2. **Handicrafts & Handlooms:** Modernizing traditional arts like Pashmina and Walnut wood carving.
3. **IT & ITES:** Promoting "Medicity" and "Edu-city" concepts.
4. **Health & Education:** Attracting large-scale private hospitals and universities.
5. **Tourism:** Expanding infrastructure beyond traditional destinations.

2026 Amendments and New Frontiers

As of early 2026, the J&K administration has introduced "tweaks" to make the policy even more inclusive and future-ready:

1. **Sick Unit Revival:** Industrial units identified as "sick" under RBI norms can now receive the same incentives as "new" units to help them restart.
2. **Women Entrepreneurs:** Women-led MSMEs (min. 51% stake) now receive an **additional 25% financial assistance**.
3. **Stock Exchange Listing:** A grant of **₹50 lakh** is provided to any J&K-registered unit that successfully lists on the NSE or BSE.
4. **Focus Sectors:** 1.25x higher incentives for priority sectors like IT, Food Processing, Tourism, and Pharmaceuticals

The Professional Imperative for Chartered Accountants

The J&K Industrial Policy is heavily "Certification Driven." The administration relies on the expertise of Chartered Accountants to safeguard public funds and ensure genuine investment. As financial architects, CAs are indispensable to the success of this policy. The administration requires CA certification for several critical stages:

- **Detailed Project Reports (DPRs):** Preparation of bankable DPRs including projected cash flows, HSN codes, and environmental compliance.
- **Fixed Asset Certification:** Mandatory CA certificate for the value of investment in Plant & Machinery (Manufacturing) or Building (Services) to claim CII.
- **Subsidy Verification:** Validating turnover figures for the Turnover Incentive and certifying "Net SGST Paid" for reimbursement claims.

Key areas of practice include:

Professional Service	Regulatory Requirement
Project Appraisal	Regulatory Requirement
CII Certification	Drafting DPRs including HSN/SAC code mapping and cash-flow projections.
Turnover Audits	Certifying the "Actual Investment" in Plant & Machinery for subsidy claims.
Equity Listing	Annual certification of turnover for the 2%/3% UT incentive.
Advisory	Guiding MSMEs to list on the NSE/BSE to claim the ₹50 lakh listing incentive.
Compliance Management	Handling the complex "Negative List" (Tobacco, Plastic <20 micron, etc.) to ensure eligibility

Conclusion and Roadmap

The Jammu and Kashmir Industrial Policy 2021-30 is a bold commitment to economic equity. For the MSME and Startup community, it offers a high-reward, low-risk entry into one of India's most resourcerich regions. For Chartered Accountants, it is an invitation to move beyond traditional taxation and into the realm of **Strategic Industrial Consultancy.**

By: CA. Numit Verma

Strengthening MSME Manufacturing through ESG and Financial Governance: A Chartered Accountant's Advisory Framework

Executive Summary

India's MSME manufacturing sector contributes significantly to employment, exports, and industrial output. However, the operating environment for manufacturing MSMEs is undergoing a structural shift. Environmental regulations are tightening, global buyers are embedding sustainability criteria into procurement contracts, lenders are factoring climate and compliance risks into credit appraisal, and supply chains are becoming increasingly traceability-driven. In this context, Environmental, Social and Governance (ESG) considerations are no longer confined to large listed corporates—they increasingly influence the competitiveness and financial resilience of MSME manufacturers.

For MSME manufacturing enterprises, ESG is not merely about environmental compliance or sustainability reporting. It directly affects energy costs, material efficiency, waste liabilities, labour stability, financing eligibility, and long-term enterprise valuation. The real challenge lies in integrating ESG into financial governance—ensuring that sustainability initiatives are commercially viable, risk-adjusted, and properly documented.

This article presents a Chartered Accountant–centric advisory framework to help MSME manufacturers embed ESG into financial planning, internal controls, risk assessment, and capital structuring. It outlines practical pathways for assessing environmental efficiency, structuring green finance, strengthening governance systems, and enhancing audit readiness—thereby repositioning ESG from a compliance obligation to a strategic driver of competitiveness.

1. The Changing Landscape for MSME Manufacturing

India's manufacturing MSMEs today operate within a significantly transformed commercial and regulatory ecosystem—one that is no longer defined solely by price competitiveness, production capacity, and credit access. Increasingly, their business continuity and growth prospects are influenced by sustainability-linked expectations emanating from supply chains, regulators, lenders, and global markets.

Large corporates, particularly in sectors such as textiles, auto components, engineering goods, electronics, pharmaceuticals, and consumer products, are embedding structured Environmental, Social, and Governance (ESG) filters into their procurement frameworks. Vendor onboarding processes now frequently include sustainability questionnaires, environmental compliance declarations, energy usage disclosures, and confirmations regarding labour law adherence and workplace safety standards. Supplier scorecards increasingly incorporate parameters such as carbon intensity, water consumption efficiency, hazardous waste handling practices, and traceability of raw materials. Renewal of long-term contracts is often contingent upon demonstrable improvements in resource efficiency and compliance documentation.

For export-oriented MSMEs, the scrutiny is even more pronounced. Global buyers—particularly those supplying to developed markets—are required to comply with sustainability reporting and due diligence frameworks in their own jurisdictions. As a result, sustainability expectations cascade down the supply chain. MSMEs supplying to international markets may be asked to disclose carbon footprints, demonstrate responsible water management, certify restricted chemical usage, or maintain traceable sourcing records. Even where such disclosures are not legally mandated at the MSME level, they are increasingly becoming commercial prerequisites for retaining export orders.

Simultaneously, macroeconomic pressures are intensifying the need for operational discipline. Rising energy tariffs, volatility in fossil fuel prices, and fluctuations in raw material costs—particularly metals, polymers, chemicals, and imported components—are compressing manufacturing margins. In a high-cost environment, inefficient processes, excessive scrap generation, and unmanaged resource consumption translate directly into profitability erosion. Consequently, environmental efficiency is no longer a purely regulatory concern; it is a financial survival imperative.

Parallel to these supply chain developments, financial institutions have begun incorporating environmental and governance risk considerations into credit appraisal processes. Banks and development finance institutions are increasingly aware that environmental non-compliance can lead to plant shutdowns, penalties, or reputational risks—thereby affecting debt servicing capacity. Enterprises with inconsistent pollution control records, incomplete statutory documentation, or exposure to regulatory litigation may be assessed as higher credit risks. In some cases, sustainability-linked lending frameworks offer preferential terms for enterprises demonstrating measurable improvements in energy efficiency or environmental compliance, effectively linking ESG performance with cost of capital.

In this evolving environment, ESG is emerging as a commercial qualifier. It influences not only market access and customer retention but also financing costs, enterprise valuation, and long-term operational stability. An MSME manufacturer that demonstrates strong environmental controls, disciplined governance systems, and credible reporting is likely to be perceived as lower risk by both buyers and lenders. Conversely, weak governance and environmental non-compliance may translate into restricted growth opportunities and elevated financial stress.

For Chartered Accountants advising manufacturing MSMEs, this structural shift necessitates an expanded advisory perspective. Traditional engagement models—primarily centered on tax optimization, statutory audit, working capital management, and routine compliance—must now evolve to incorporate environmental risk mapping, cost-efficiency analysis, sustainability-linked capital appraisal, and governance strengthening. CAs are increasingly required to assess not only financial statements but also the underlying operational practices that influence financial resilience.

In several advisory engagements across manufacturing units, it has become evident that sustainability concerns often surface first through commercial pressure—whether from a buyer audit query, a lender's due diligence checklist, or a sudden compliance notice—rather than through voluntary strategic planning.

This expanded role includes evaluating energy intensity and cost savings potential, quantifying waste-related inefficiencies, assessing environmental contingent liabilities, strengthening documentation systems for lender and buyer audits, and integrating sustainability indicators into management information systems (MIS). By doing so, Chartered Accountants help manufacturing MSMEs transition from reactive compliance to proactive risk management—ensuring that ESG considerations are embedded within financial governance rather than treated as peripheral obligations.

The ecosystem surrounding manufacturing MSMEs has shifted from a transactional marketplace to one driven by compliance and transparency. The ability to navigate this transition effectively will depend significantly on the quality of professional advisory support—placing Chartered Accountants at the center of MSME sustainability governance.

1A. Policy Anchoring: State-Level Industrial and Regulatory Context

While ESG integration in MSME manufacturing is often discussed in national or global terms, its practical implementation is deeply influenced by State-level policy frameworks. Manufacturing MSMEs operate within State Industrial Development Policies, MSME Promotion Schemes, Cluster Development Programs, and Pollution Control Board compliance structures that shape both regulatory exposure and financial viability.

Most States have adopted structured MSME Policies that emphasize technology upgradation, energy efficiency, quality certification, and environmental compliance support. Incentives frequently include capital subsidies for plant modernization, reimbursement of certification costs, interest subsidies, and support for common infrastructure within industrial estates. Where ESG-linked investments align with such policy incentives, the effective cost of sustainability adoption is significantly reduced.

Several States, for instance through MSME policies in Maharashtra, Gujarat, and Tamil Nadu, provide targeted incentives for energy efficiency, technology upgradation, and cluster-based infrastructure, indirectly supporting ESG-aligned manufacturing practices.

State Industrial Development Policies increasingly encourage cleaner production technologies, renewable energy adoption, and infrastructure strengthening within notified industrial areas. Industrial Development Corporations (IDCs) and State Industrial Development Authorities often facilitate land allocation, common utilities, and cluster-level infrastructure that directly affect environmental compliance capability.

Cluster Development Schemes implemented by States—often aligned with Central Government programs—support shared facilities such as Common Effluent Treatment Plants (CETPs), testing laboratories, tool rooms, and waste management systems. These schemes create an institutional platform through which ESG-related infrastructure can be financially structured and professionally governed.

Equally critical is the compliance framework administered by the respective State Pollution Control Board (SPCB). Environmental consents, hazardous waste authorizations, water discharge permissions, air emission approvals, and periodic compliance reporting operate within a State-specific regulatory architecture. Delays or lapses in SPCB compliance can lead to plant shutdown notices, penalties, or renewal challenges. For MSMEs, understanding consent validity, renewal timelines, and documentation integrity is therefore a core governance priority.

From a Chartered Accountant's advisory perspective, ESG integration must therefore be aligned with:

- Applicable State MSME incentive schemes
- Industrial Development Policy provisions
- Cluster-based infrastructure programs
- SPCB compliance requirements and renewal cycles

Such policy anchoring strengthens contextual relevance, enhances subsidy optimization, reduces regulatory risk, and aligns sustainability initiatives with State-level development priorities.

2. ESG in MSME Manufacturing: Translating Concepts into Commercial Relevance

For manufacturing MSMEs, ESG is not an abstract reporting framework or a reputational branding tool. Its relevance lies in how environmental, social, and governance factors influence cost efficiency, operational continuity, access to markets, and financial resilience. When interpreted through a commercial and financial governance lens, ESG becomes a practical management discipline rather than a compliance checklist.

Environmental (E): Operational Efficiency, Cost Structure and Risk Exposure

In manufacturing MSMEs, environmental performance is intrinsically linked to operational efficiency. Energy intensity, water consumption, raw material yield, scrap generation, emissions control, and waste disposal practices are not merely environmental indicators—they are direct determinants of cost structure and margin stability.

Energy costs represent a major component of manufacturing expenditure across sectors such as engineering, textiles, food processing, ceramics, chemicals, and plastics. Inefficient motors, outdated machinery, compressed air leaks, poor insulation, and unoptimized process flows translate into recurring financial leakage. Similarly, suboptimal raw material utilization—manifested in high scrap rates or process losses—directly erodes gross margins.

Targeted environmental interventions often yield measurable financial benefits. Examples include:

- Installation of energy-efficient motors and variable frequency drives (VFDs)
- Waste heat recovery systems in furnaces and boilers
- Process optimization to reduce material loss
- Reuse of production scrap within manufacturing cycles
- Water recycling systems in water-intensive industries

These initiatives typically produce quantifiable cost savings with defined payback periods. When evaluated using lifecycle cost analysis and internal rate of return (IRR) frameworks, many environmental upgrades demonstrate commercial viability independent of regulatory compulsion.

Environmental non-compliance introduces material financial risk. Pollution control violations can result in plant closures, operational suspensions, penalties, and reputational damage. In supply-chain-driven industries, failure to meet buyer environmental standards may lead to contract termination or exclusion from approved vendor lists. From a financial governance perspective, such exposure represents both an operational risk and a contingent liability—impacting revenue stability and debt servicing capacity.

For Chartered Accountants, the "E" dimension translates into structured environmental risk mapping within financial advisory. This includes evaluating energy intensity trends, assessing capital expenditure viability for efficiency upgrades, provisioning for environmental liabilities where applicable, and strengthening documentation systems to support lender and buyer audits. Environmental performance thus becomes integrated into cost audit, internal audit, and risk assessment assignments.

Social (S): Workforce Stability, Productivity, and Statutory Compliance

Manufacturing MSMEs in India are typically labor-intensive and often operate within skill-sensitive production environments. Workforce stability, safety standards, statutory compliance under

labour regulations, and structured human resource practices directly influence productivity, quality control, and operational continuity.

Workplace accidents, non-compliance with statutory obligations, or unresolved labour disputes can result in financial penalties, litigation exposure, reputational damage, and production disruption. In export-oriented sectors, buyer audits frequently examine working conditions, wage documentation, safety practices, and grievance mechanisms. Failure to meet social compliance expectations can jeopardize supply chain relationships.

From a commercial standpoint, stable and well-managed workforces contribute to:

- Lower employee turnover and training costs
- Improved productivity and quality consistency
- Reduced accident-related downtime
- Stronger buyer confidence

For Chartered Accountants, the "S" pillar extends beyond payroll processing. It encompasses advisory on payroll control systems, statutory provisioning for gratuity and employee benefits, compliance audits under labour legislation, documentation strengthening, and internal control over wage disbursement. CAs may also assist in aligning workforce cost structures with productivity metrics, ensuring that human capital management supports financial sustainability.

In this context, social compliance is not merely a legal requirement—it is a risk management tool that protects revenue continuity and strengthens enterprise reputation.

Governance (G): Financial Discipline, Documentation Integrity and Creditworthiness

Governance remains the most commercially decisive pillar of ESG for MSME manufacturers. Many manufacturing MSMEs are promoter-driven, with centralized decision-making, informal cost allocations, limited internal documentation, and evolving control systems. While such structures may support agility in early stages, they can constrain scalability, credit access, and institutional trust.

Weak governance manifests in multiple ways:

- Inadequate segregation of duties
- Informal procurement and vendor management processes
- Insufficient cost tracking and inventory controls
- Limited documentation of capital expenditure decisions
- Absence of structured management information systems (MIS)

These gaps directly affect audit risk, lender confidence, and valuation outcomes. Financial institutions increasingly rely on transparent documentation and structured reporting when appraising credit proposals. Buyers similarly assess governance maturity during vendor evaluations.

Strengthening governance in MSME manufacturing therefore yields tangible commercial benefits. Key measures include:

- Implementation of structured MIS linking production, inventory, and cost data
- Documented Standard Operating Procedures (SOPs) for procurement, production, and compliance

- Transparent cost allocation systems enabling product-level profitability analysis
- Periodic internal reviews and compliance checklists
- Clear documentation of related-party transactions and promoter funding

From the Chartered Accountant's perspective, governance strengthening represents a core advisory opportunity. By formalizing documentation, improving internal controls, and aligning financial reporting with operational realities, CAs enhance audit reliability, improve creditworthiness, and support enterprise valuation.

Importantly, governance improvements often unlock access to concessional finance, sustainability-linked lending, and long-term buyer contracts—creating a multiplier effect on enterprise growth.

Integrating E, S and G into Commercial Strategy

For manufacturing MSMEs, ESG must not be approached as three disconnected silos. Environmental efficiency reduces cost volatility; social compliance safeguards operational continuity; governance discipline enhances credibility and financing access. Together, they form a structured risk-management and value-creation framework.

For Chartered Accountants, this integration demands an evolved advisory model—one that embeds ESG parameters into:

- Capital budgeting and project appraisal
- Internal audit and risk assessment
- Working capital optimization
- Cost audit and margin analysis
- Credit appraisal documentation
- Enterprise valuation and due diligence

When translated into commercial terms, ESG in MSME manufacturing is fundamentally about strengthening resilience, reducing avoidable risk, and enhancing long-term enterprise value.

3. Financial Governance: The Core of ESG Adoption

For MSME manufacturers, ESG adoption cannot be driven by intent alone. Sustainability initiatives—whether related to energy efficiency, waste reduction, pollution control, renewable integration, or process modernization—must withstand disciplined financial scrutiny. In capital-constrained enterprises, every investment decision competes with working capital needs, capacity expansion, and debt servicing obligations. Therefore, sustainability initiatives must pass through a structured financial governance framework before implementation.

Unlike large corporates that may absorb longer payback periods for strategic positioning, MSMEs typically operate within tighter liquidity constraints and thinner margins. In practice, promoters frequently express concern not about the technical feasibility of sustainability projects, but about the timing of cash outflows and the certainty of savings realization. As a result, sustainability investments must be evaluated not only for environmental benefit but also for their commercial viability, risk mitigation potential, and cash flow implications.

Key Financial Questions for MSME Manufacturers

Before committing capital to ESG-linked initiatives, MSME manufacturers must address several fundamental financial questions:

- **What is the payback period of the proposed intervention?** MSMEs often prioritize investments with shorter and predictable payback cycles. Energy-efficient motors, lighting retrofits, compressed air optimization, or waste heat recovery systems frequently deliver savings within 12–36 months. Clear payback visibility reduces hesitation and strengthens decision confidence.
- **Does the intervention reduce cost volatility?** Sustainability measures that lower exposure to energy price fluctuations or raw material wastage provide long-term margin stability. Reduced dependence on volatile fuel or imported inputs improves resilience in uncertain macroeconomic environments.
- **Will it strengthen buyer retention or supply chain eligibility?** Where sustainability improvements are directly linked to compliance with buyer mandates or export requirements, the investment may secure revenue continuity. In such cases, the financial return is not limited to cost savings but extends to revenue preservation and growth.
- **How does it affect working capital cycles?** Certain sustainability initiatives may alter inventory levels, supplier terms, or production cycles. For example, material efficiency improvements may reduce procurement volumes, while renewable energy integration may shift expenditure from operating to capital outlays. These changes must be evaluated in the context of liquidity management.
- **What is the impact on debt servicing capacity?** Additional borrowing for green investments should be assessed in light of projected cash flows. Sustainability-linked loans must align with expected savings to prevent strain on debt repayment obligations.

These questions ensure that ESG adoption aligns with enterprise financial realities rather than external pressure alone.

The Chartered Accountant's Role in Structured Financial Appraisal

Chartered Accountants play a central role in transforming sustainability proposals into financially governed investment decisions. Their expertise in capital budgeting, risk modelling, and cash flow analysis ensures that ESG initiatives are evaluated with the same rigour as capacity expansion or technology upgrades.

Key advisory functions include:

1. **Internal Rate of Return (IRR) and Payback Analysis**

   By calculating IRR and simple payback periods, CAs provide promoters with measurable indicators of investment attractiveness. This quantification transforms sustainability from an abstract benefit into a concrete financial proposition.

2. **Lifecycle Cost Comparison**

   Traditional equipment may appear less expensive upfront but may incur higher operating and maintenance costs over time. Lifecycle cost analysis compares total cost of ownership across alternatives, revealing hidden savings in energy-efficient or environmentally compliant systems.

3. **Sensitivity Analysis under Energy and Input Price Fluctuations**

   Energy prices, fuel costs, and raw material rates are subject to volatility. Sensitivity modelling helps MSMEs understand how savings vary under different pricing scenarios, enabling more informed decision-making.

4. **Risk-Adjusted Return Modelling**

   Certain sustainability investments reduce regulatory, operational, or reputational risk. While such benefits may not be directly reflected in cash flows, they reduce downside exposure. CAs can incorporate risk-adjusted return frameworks to account for these indirect financial benefits.

5. **Alignment with Projected Cash Flows**

   Green investments should be structured so that repayment obligations align with anticipated savings. For example, energy efficiency projects financed through debt must ensure that annual savings comfortably exceed instalment commitments. This cash flow alignment protects liquidity and prevents overextension.

Moving from Aspirational to Strategic Investment

When ESG initiatives are evaluated through disciplined financial governance, they cease to be discretionary or reputational expenditures. Instead, they become structured investments with defined returns, measurable risk mitigation benefits, and strategic alignment with enterprise growth objectives.

For MSME manufacturers, this shift is critical. Sustainability initiatives that are not financially appraised may lead to over-investment, underutilized assets, or liquidity stress. Conversely, initiatives that are carefully evaluated, structured, and monitored enhance cost efficiency, strengthen resilience, and improve enterprise valuation.

For Chartered Accountants, this represents a natural extension of core professional competencies. By embedding sustainability considerations into capital budgeting, risk assessment, and financial modelling processes, CAs position themselves not merely as compliance advisors but as strategic partners in MSME transformation.

Financial governance is the bridge that converts ESG from intention into institution—ensuring sustainability in MSME manufacturing is commercially sound, risk-aware, and aligned with long-term viability.

4. Green Financing and Capital Structuring for MSME Manufacturers

While the commercial rationale for ESG adoption in manufacturing MSMEs is increasingly evident, access to appropriately structured finance remains a key barrier to implementation. Energy-efficient machinery, rooftop solar installations, pollution control systems, water recycling infrastructure, and process modernization initiatives typically require upfront capital expenditure. However, the financial benefits—such as reduced energy bills, lower material wastage, or improved compliance—accrue gradually over time.

This timing mismatch between initial investment and future savings creates hesitation among MSME promoters who operate within tight liquidity cycles and limited borrowing headroom. Therefore, the success of ESG adoption in manufacturing depends not only on technical feasibility but also on intelligent capital structuring and financing alignment.

Financing Channels Available to MSME Manufacturers

A range of financing instruments is increasingly available to support sustainability-linked investments in the manufacturing sector. Each instrument has distinct applicability and risk characteristics.

Instrument	Applicability	MSME Relevance
Concessional Loans	Energy efficiency, renewable integration, cleaner production	Reduced interest burden and longer repayment tenures
Capital Subsidies	Technology upgradation, pollution control equipment	Reduced effective capital cost and faster payback
ESCO Models	Lighting retrofits, motor upgrades, waste heat recovery	No upfront capital expenditure; repayment linked to savings
Blended Finance	Cluster-level infrastructure projects	Risk-sharing and improved credit access
Preferential financing terms and improved working capital cycles	Export-driven sustainability upgrades	Preferential financing terms

Concessional Loans

Development finance institutions and select banks increasingly offer loans earmarked for energy efficiency, renewable energy integration, and cleaner production. These loans often feature lower interest rates or extended repayment tenures, reflecting the risk-mitigating nature of efficiency investments. For MSMEs, concessional borrowing reduces financing costs and improves project viability.

Capital Subsidies

Technology upgradation schemes and environmental compliance programs may provide partial reimbursement of capital costs. Subsidies effectively reduce the initial investment outlay and shorten the payback period, making sustainability investments financially attractive even under conservative cash flow assumptions.

ESCO (Energy Service Company) Models

Under ESCO arrangements, a service provider designs, finances, and implements energy efficiency measures. The MSME repays the investment through a share of realized savings. This structure eliminates the need for upfront capital expenditure and transfers performance risk to the service provider, making it particularly suitable for smaller enterprises with limited borrowing capacity.

Blended Finance

For cluster-level initiatives such as common effluent treatment plants, shared solar infrastructure, or centralized waste processing facilities, blended finance structures combine public funds with private capital. Such arrangements reduce lender risk perception and improve credit availability for MSMEs participating in collective sustainability projects.

Recent regulatory discourse has further reinforced this direction. The Reserve Bank of India (RBI), in its discussions on climate-related financial risks and sustainable finance, has acknowledged the potential impact of environmental risk on credit quality and systemic stability. This signals a gradual integration of climate and sustainability considerations into mainstream banking supervision and risk assessment practices.

Buyer-Led Supply Chain Finance

In export-oriented industries, large buyers may extend preferential payment terms or facilitate sustainability-linked financing for compliant vendors. These arrangements integrate MSMEs into green supply chains and provide access to lower-cost capital tied to performance benchmarks.

Capital Structuring Considerations for MSMEs

Access to finance alone does not guarantee success. The structure of financing—tenure, repayment schedule, collateral requirement, and covenant terms—determines whether a sustainability investment strengthens or stresses the enterprise.

Manufacturing MSMEs must ensure:

- Repayment schedules align with projected savings.
- Borrowing does not impair working capital adequacy.
- Debt service coverage ratios remain comfortable under conservative projections.
- Subsidy disbursement timelines are factored into liquidity planning.
- Covenant conditions do not restrict operational flexibility.

Poor structuring may convert a viable efficiency project into a liquidity burden. Therefore, financial modelling and scenario planning become critical components of ESG adoption.

The Chartered Accountant's Advisory Role in Green Capital Structuring

Chartered Accountants serve as financial architects in sustainability transitions. Their involvement ensures that green financing decisions are disciplined, transparent, and aligned with enterprise cash flows.

Key advisory functions include:

Structuring Repayment Schedules Aligned with Savings

CAs model projected energy or material savings and align loan repayment schedules accordingly. This ensures that annual savings comfortably exceed instalment obligations, preserving liquidity.

Ensuring Subsidy Eligibility and Documentation

Many subsidy-linked schemes require detailed documentation, compliance certificates, and utilization reports. CAs help prepare and validate financial documentation to secure and retain eligibility.

Evaluating Covenant Implications

Green loans may contain performance-linked covenants. CAs assess whether such conditions are realistic and manageable within operational parameters.

Preventing Over-Leveraging

Sustainability enthusiasm should not lead to excessive borrowing. CAs evaluate total debt exposure, debt servicing capacity, and working capital requirements to prevent financial strain.

Monitoring Fund Utilization and Reporting

Ongoing monitoring ensures that funds are deployed as intended and that performance metrics—such as energy savings or emission reductions—are documented for lenders and auditors.

Enhancing Liquidity Rather Than Straining It

The ultimate objective of green financing in MSME manufacturing is to enhance resilience—not create additional stress. Well-structured sustainability investments can reduce recurring operating expenses, stabilize margins, improve compliance standing, and strengthen creditworthiness. Poorly structured financing, however, can exacerbate liquidity pressures and increase default risk.

When ESG initiatives are supported by disciplined capital structuring, robust financial modelling, and professional oversight, they transform from capital-intensive obligations into strategic enablers of long-term competitiveness.

For Chartered Accountants, this domain represents a significant expansion of advisory scope. By integrating sustainability-linked finance into mainstream capital structuring, CAs help MSME manufacturers navigate the green transition with prudence, precision, and financial stability.

Illustrative Case: Financial Structuring of a Rooftop Solar Project in an MSME Manufacturing Unit

Consider a mid-sized engineering MSME operating in an industrial cluster with annual electricity expenditure of approximately ₹1.20 crore. The enterprise is exposed to rising grid tariffs and periodic supply instability affecting production planning.

Project Proposal

Installation of a 300-kW rooftop solar system.

- **Total Project Cost:** ₹1.50 crore
- **Estimated Annual Savings:** ₹32 lakh (grid offset and peak tariff reduction)
- **System Life:** 20–25 years
- **O&M Costs:** ₹3 lakh annually

Financing Structure Options

Option 1: Term Loan (Concessional Green Loan)

- **Debt Component:** ₹1.20 crore
- **Promoter Contribution:** ₹30 lakh
- **Interest Rate:** 8% (concessional)
- **Tenure:** 6 years

Annual Debt Servicing Obligation: ~₹26 lakh

After accounting for O&M costs, net annual savings = ₹29 lakh (₹32 lakh – ₹3 lakh). Debt servicing of ₹26 lakh leaves a modest surplus during loan tenure and a significant surplus thereafter.

CA Evaluation Focus:

- Debt Service Coverage Ratio (DSCR) analysis
- Sensitivity to energy tariff reduction scenarios
- Working capital impact of promoter contribution
- Subsidy eligibility verification
- Accounting treatment and depreciation benefits

Option 2: RESCO / Third-Party Model (No Capex Model)

Under this arrangement:

- No upfront capital investment by MSME
- Solar developer installs and operates plant
- MSME purchases power at discounted tariff (e.g., 15–20% below grid rate)

Outcome:

- Immediate savings without debt exposure
- No asset ownership
- Lower long-term returns compared to owned model

CA Advisory Angle:

- Comparative lifecycle cost analysis
- Contract review for long-term obligations
- Evaluation of escalation clauses
- Risk assessment of counterparty stability

Strategic Insight from the Case

The optimal structure depends on:

- Borrowing capacity
- Liquidity position
- Risk appetite
- Long-term energy consumption stability
- Availability of subsidies or concessional rates

A Chartered Accountant's structured financial modelling ensures that the chosen option strengthens liquidity and credit profile rather than merely delivering nominal savings.

Green Financing Evaluation Matrix for MSME Manufacturers

The following matrix provides a compact evaluation tool for CAs advising MSME manufacturers:

Evaluation Parameter	Key Questions	Financial Impact	CA Advisory Focus
Capital Requirement	What is promoter contribution?	Liquidity strain	Cash flow alignment
Payback Period	Years to recover investment?	Investment viability	IRR & lifecycle analysis
Debt Exposure	Does leverage increase materially?	DSCR impact	Covenant review
Cost Stability	Does it reduce cost volatility?	Margin resilience	Sensitivity analysis
Regulatory Compliance	Does it reduce compliance risk?	Contingent liability reduction	Documentation review
Subsidy Eligibility	Is project incentive-linked?	Lower effective cost	Eligibility validation

Evaluation Parameter	Key Questions	Financial Impact	CA Advisory Focus
Asset Ownership	Owned vs service model?	Balance sheet impact	Accounting treatment
Buyer Impact	Improves supply chain eligibility?	Revenue continuity	Strategic positioning

5. Internal Controls, Audit Readiness and Compliance Alignment

As sustainability expectations deepen across supply chains and financial institutions, ESG considerations now intersect directly with audit functions, financial reporting, and compliance frameworks. For MSME manufacturers, this intersection requires proactive alignment between environmental practices, governance systems, and financial documentation.

Historically, internal controls in MSME manufacturing have focused on inventory management, procurement controls, payroll systems, and statutory compliance under taxation laws. However, the evolving regulatory and commercial landscape demands that sustainability-linked risks and metrics be embedded into internal control architecture.

ESG and Its Expanding Interface with Audit Functions

Environmental Liabilities and Provisioning

Environmental exposure can give rise to financial obligations, including penalties, remediation costs, compliance upgrades, or contingent liabilities arising from regulatory notices. Where such risks are probable and measurable, provisioning or disclosure may be required under applicable accounting standards.

For instance, non-compliance with pollution control norms or hazardous waste handling requirements may result in retrospective compliance costs. Chartered Accountants must evaluate whether such exposures require provisioning, disclosure, or management commentary in financial statements. Failure to appropriately recognize environmental liabilities can distort the true financial position of the enterprise.

Waste Disposal and Compliance Costs in Cost Audit

In manufacturing sectors subject to cost audit or internal cost review, waste generation, scrap management, and compliance costs materially affect cost sheets and product-level profitability analysis. Excessive scrap rates inflate input costs, while waste disposal charges directly increase overhead allocation.

Integrating sustainability performance into cost accounting improves accuracy of product costing and pricing strategy. CAs advising MSMEs can analyse material yield variances, scrap recovery value, and compliance overheads to identify inefficiencies and margin leakage.

Energy Efficiency and Pricing Models

Energy represents a substantial cost component in many manufacturing MSMEs. Improvements in energy efficiency alter unit production costs and may influence pricing strategy, especially in competitive supply chains where margins are thin.

From an audit and advisory perspective, CAs must ensure that energy savings are accurately reflected in cost records, budgeting models, and variance analysis. Transparent documentation of efficiency gains strengthens pricing negotiations and demonstrates cost discipline to buyers.

Lender Audits and Sustainability-Linked Disclosures

Financial institutions increasingly evaluate environmental and governance risk as part of credit monitoring. Sustainability-linked loans may require periodic performance reporting on energy savings, emission reduction, or compliance milestones. In such cases, lender audits may extend beyond traditional financial ratios to include operational sustainability data.

MSMEs with weak documentation or inconsistent reporting may face adverse observations during credit review. Chartered Accountants play a vital role in preparing structured documentation, validating sustainability metrics, and ensuring consistency between operational performance and financial reporting.

The Chartered Accountant's Role in ESG-Integrated Control Systems

To support MSME manufacturers in this evolving environment, Chartered Accountants can expand their advisory scope in several practical ways:

Integrating Sustainability KPIs into MIS

Rather than maintaining sustainability data separately, key indicators—such as energy intensity, scrap percentage, water usage, and compliance costs—should be embedded within monthly management information systems (MIS). This integration enables real-time monitoring and improves decision-making.

Strengthening Documentation for Regulatory Inspections

Environmental compliance frequently depends on documentation integrity—waste manifests, pollution control certificates, energy audit reports, and safety compliance records. CAs can help formalize documentation systems to ensure that regulatory inspections or buyer audits do not reveal avoidable gaps.

Aligning Operational Data with Financial Records

Operational sustainability data must reconcile with financial records. For example, reported reductions in energy consumption should correspond with electricity bills and production output data. Alignment between operational metrics and accounting records enhances credibility and audit defensibility.

Conducting ESG-Focused Internal Control Reviews

Internal audit assignments can be expanded to include sustainability risk mapping. This may involve reviewing environmental compliance processes, evaluating waste tracking mechanisms, assessing safety control systems, and verifying data reliability for sustainability reporting.

Preparing Enterprises for Sustainability-Linked Due Diligence

As mergers, acquisitions, private equity investments, and strategic partnerships increasingly include ESG due diligence, MSMEs must demonstrate governance maturity. CAs can assist in pre-transaction reviews to identify and rectify compliance gaps, strengthen documentation, and quantify sustainability performance.

Governance Alignment: Reducing Risk and Enhancing Credibility

When sustainability practices are integrated into internal controls and audit frameworks, enterprises reduce the likelihood of compliance surprises, regulatory penalties, and reputational damage. Structured documentation, periodic review mechanisms, and transparent reporting enhance trust among lenders, buyers, and investors.

For MSME manufacturers, Governance alignment transforms ESG from a reactive obligation into a structured risk management system. It ensures that environmental and social performance is supported by financial discipline and control integrity.

For Chartered Accountants, this domain represents a significant opportunity to expand professional relevance. By embedding ESG considerations into internal control systems, audit planning, cost analysis, and financial reporting, CAs position themselves at the centre of sustainable enterprise governance.

In the evolving industrial landscape, audit readiness is no longer confined to statutory compliance—it now encompasses environmental responsibility, operational transparency, and governance credibility.

6. Cluster-Level Governance Strategy in Manufacturing Ecosystems

A significant proportion of India's manufacturing MSMEs operate within geographically concentrated industrial clusters—such as textiles in Tiruppur and Surat, engineering in Coimbatore and Rajkot, auto components in Pune and Faridabad, ceramics in Morbi, and plastics in Daman and Bhiwadi. While cluster-based ecosystems provide economies of scale, supply chain integration, and shared infrastructure, they also create collective environmental and governance interdependencies.

In many clusters, environmental infrastructure—such as Common Effluent Treatment Plants (CETPs), Zero Liquid Discharge (ZLD) systems, shared solar installations, centralized waste processing facilities, and common hazardous waste disposal mechanisms—operates at a collective level rather than individual enterprise scale. These shared systems enable smaller units to comply with environmental regulations at a cost that would otherwise be prohibitive if undertaken independently.

Cluster-based sustainability infrastructure introduces governance and financial challenges requiring structured oversight.

Financial Governance Requirements at the Cluster Level

1. Cost-Sharing Frameworks

Shared environmental infrastructure demands equitable cost-sharing arrangements among participating units. Contribution models may be based on:

- Production volume
- Effluent load or waste generation
- Energy consumption
- Installed capacity
- Fixed and variable cost bifurcation

Without transparent allocation principles, disputes may arise regarding disproportionate cost burdens. Smaller units may feel disadvantaged, while larger units may question cross-subsidization.

Chartered Accountants can assist in designing fair and defensible cost-sharing formulas supported by documented assumptions and periodic review mechanisms. Transparent allocation strengthens trust and reduces conflict within the cluster ecosystem.

2. Viability Assessments for Shared Infrastructure

Large cluster-level investments—such as upgrading CETPs, installing shared solar grids, or introducing advanced waste recovery systems—require careful financial viability assessment. These projects often involve substantial capital expenditure, long gestation periods, and regulatory dependencies.

Before implementation, clusters must evaluate:

- Capital requirement and funding mix
- Expected operating costs
- Revenue recovery mechanisms
- Regulatory compliance timelines
- Long-term maintenance sustainability

CAs play a critical role in preparing financial models, stress-testing assumptions, conducting sensitivity analysis, and evaluating debt-servicing capacity at the cluster association or special purpose vehicle (SPV) level.

A robust financial viability assessment prevents underfunded infrastructure projects that later become operational or financial burdens.

3. Monitoring Collective Compliance Obligations

Cluster-level infrastructure often represents the compliance backbone for participating MSMEs. If a CETP fails to meet discharge standards or shared waste facilities violate norms, the entire cluster may face regulatory scrutiny, penalties, or reputational damage.

Financial governance must therefore incorporate monitoring systems for:

- Regulatory compliance certificates
- Operational efficiency metrics
- Maintenance expenditure
- Audit observations
- Environmental reporting obligations

CAs can design periodic compliance review frameworks and documentation systems that ensure collective accountability and reduce regulatory risk exposure for individual units.

4. Allocation Methodologies for Operating Expenses

Operating expenses of shared facilities—including power consumption, labour, chemicals, maintenance, and administrative overhead—must be allocated systematically among participants. Poorly designed allocation systems may result in financial leakage, inequitable charges, or delayed recoveries.

Professional financial oversight ensures:

- Transparent budgeting processes
- Clear communication of cost components
- Periodic reconciliation and adjustment
- Independent audit of cluster-level financial statements

Structured expense allocation strengthens sustainability of shared infrastructure and improves the cluster's financial credibility with regulators and lenders.

The Chartered Accountant's Strategic Role in Cluster Governance

Cluster-level sustainability initiatives often operate through industrial associations, cooperative societies, or special purpose vehicles (SPVs). These entities require structured accounting systems, audit oversight, compliance monitoring, and financial transparency.

Chartered Accountants can contribute by:

- Designing accounting frameworks for cluster infrastructure entities
- Conducting statutory and internal audits
- Advising on funding structures, including grants, subsidies, and blended finance
- Establishing cost recovery mechanisms
- Facilitating dispute resolution through transparent financial reporting
- Ensuring alignment between environmental performance and financial sustainability

In addition, CAs can assist in obtaining financial support under government cluster development programs, where proper documentation and utilization reporting are prerequisites for continued funding.

Strengthening Sustainability Outcomes through Financial Transparency

Cluster-based sustainability succeeds only when financial governance is robust. Transparent accounting, disciplined cost allocation, regular audit, and clear documentation create confidence among participating MSMEs, regulators, and financial institutions.

Poor governance, on the other hand, can undermine even technically sound environmental infrastructure. Underfunded maintenance, opaque billing systems, or compliance lapses may erode collective credibility and jeopardize supply chain relationships.

By embedding structured financial frameworks into cluster-level sustainability infrastructure, Chartered Accountants help transform environmental compliance into a coordinated, economically viable ecosystem strategy. In doing so, they contribute not only to the resilience of individual MSMEs but also to the long-term competitiveness of entire manufacturing clusters.

In the evolving industrial landscape, cluster-level governance represents a powerful lever for scaling ESG adoption—provided it is supported by disciplined financial stewardship and professional oversight.

7. A CA-Led Advisory Roadmap for MSME Manufacturers

For MSME manufacturers, ESG integration must move beyond broad intent and translate into a structured, sequenced implementation strategy. Given the capital constraints, operational pressures, and regulatory complexities faced by manufacturing units, a phased and financially governed roadmap is essential.

Chartered Accountants are uniquely positioned to anchor this transition. By combining financial expertise, compliance oversight, risk assessment capability, and strategic advisory skills, CAs can guide MSMEs through a disciplined ESG adoption journey.

The following six-step advisory roadmap provides a practical framework for implementation.

Step 1: ESG Diagnostic Review

Establishing the Baseline

The starting point for any ESG transition is a structured diagnostic assessment. Rather than immediately proposing capital expenditure, the CA should begin with a fact-based review of the enterprise's current operational and compliance profile.

This includes:

- Energy consumption patterns and energy intensity per unit of output
- Raw material utilization efficiency and scrap ratios
- Waste generation, disposal practices, and compliance documentation
- Water consumption and recycling mechanisms
- Labour compliance status and documentation adequacy
- Existing internal control systems related to procurement and compliance

The objective of the diagnostic review is to identify efficiency gaps, compliance risks, and documentation weaknesses. Often, significant improvements can be achieved through operational optimization before major investments are considered.

For MSMEs, this baseline assessment provides clarity and prevents premature or misaligned investments.

Step 2: Financial Impact Mapping

Translating Sustainability into Commercial Metrics

Once operational gaps are identified, the next step is to quantify their financial implications. ESG initiatives must be translated into measurable economic outcomes to enable informed decision-making.

Financial impact mapping includes:

- Estimating potential energy savings from efficiency upgrades
- Quantifying cost reductions from improved material yield
- Assessing revenue protection from enhanced buyer compliance
- Estimating potential penalties avoided through compliance strengthening
- Calculating capital expenditure requirements for proposed interventions

This step converts sustainability opportunities into financial language—linking environmental efficiency to profitability, liquidity, and risk mitigation. It also helps prioritize interventions based on payback period, internal rate of return (IRR), and cash flow alignment.

By anchoring ESG initiatives in financial analysis, CAs ensure that sustainability investments are strategic rather than symbolic.

Step 3: Compliance and Risk Assessment

Evaluating Exposure and Documentation Readiness

Manufacturing MSMEs face regulatory exposure under pollution control laws, hazardous waste regulations, labour legislation, and industry-specific standards. In addition, buyer audits may impose supplementary compliance requirements.

A structured compliance and risk assessment includes:

- Review of environmental permits and validity status
- Examination of waste disposal records and regulatory filings
- Evaluation of safety compliance and statutory registers
- Identification of contingent liabilities or pending notices
- Assessment of documentation adequacy for lender or buyer scrutiny

The CA's role here extends beyond checklist compliance. It involves evaluating the financial implications of non-compliance—potential penalties, operational shutdown risk, or supply chain exclusion.

This step strengthens governance maturity and reduces the likelihood of compliance surprises.

Step 4: Financing Structuring

Aligning Capital with Cash Flow Realities

After identifying viable ESG interventions, appropriate financing structures must be evaluated. Not all projects require traditional term loans; multiple financing channels may be available.

The CA should:

- Assess eligibility for concessional green loans or subsidy-linked schemes
- Evaluate ESCO or performance-based financing models
- Explore cluster-level funding options for shared infrastructure
- Review debt servicing capacity and working capital impact
- Model repayment schedules aligned with projected savings

Financing decisions must be guided by liquidity discipline. Over-leveraging for sustainability can undermine financial stability. Proper structuring ensures that green investments enhance resilience rather than strain operations.

Step 5: Governance Integration

Embedding ESG into Core Financial Systems

ESG should not remain a parallel reporting stream detached from mainstream financial management. Sustainable practices must be integrated into budgeting, MIS, and internal control frameworks.

Governance integration involves:

- Incorporating energy and material efficiency metrics into monthly MIS
- Linking sustainability KPIs with cost accounting systems
- Updating standard operating procedures (SOPs) to reflect compliance obligations
- Establishing documentation protocols for regulatory and lender audits
- Embedding sustainability considerations into capital budgeting processes

When sustainability metrics are embedded into routine review systems, ESG becomes a management discipline rather than an episodic initiative.

For CAs, this stage reinforces their strategic advisory role in strengthening enterprise governance architecture.

Step 6: Monitoring and Continuous Review

Ensuring Sustainability of the Sustainability Strategy

ESG adoption is not a one-time project but an ongoing governance process. Periodic monitoring ensures that projected savings materialize, compliance standards are maintained, and risks are proactively managed.

Continuous review should include:

- Tracking actual energy and material savings against projections
- Periodic compliance audits
- Review of debt servicing performance linked to sustainability investments
- Updating risk assessments in light of regulatory changes
- Refining cost allocation and pricing models as efficiencies improve

For Chartered Accountants, this step provides scope for recurring advisory engagement—through internal audits, compliance reviews, and performance monitoring.

Strategic Value of the CA-Led Roadmap

This structured six-step roadmap transforms ESG from an abstract framework into a financially governed transition pathway tailored to MSME manufacturing realities. It ensures that sustainability initiatives are:

- Operationally feasible
- Financially viable
- Compliant with regulatory norms
- Supported by appropriate financing
- Embedded within governance systems
- Monitored for long-term performance

For MSME manufacturers, this approach reduces uncertainty and strengthens resilience. For Chartered Accountants, it represents a natural extension of professional competencies—positioning the CA as a strategic advisor in sustainable industrial transformation.

Strategic Takeaways for ICAI Members

The integration of ESG into MSME manufacturing is not merely an operational trend—it represents a structural shift in how risk, competitiveness, and enterprise value are assessed. For members of the Institute of Chartered Accountants of India, this evolution presents both responsibility and opportunity.

At the listed corporate level, the Securities and Exchange Board of India (SEBI) has operationalized the Business Responsibility and Sustainability Reporting (BRSR) framework, reinforcing structured ESG disclosures. While MSMEs are not directly subject to BRSR requirements, supply-chain linkages increasingly transmit similar expectations downstream, indirectly influencing smaller manufacturers.

ESG Advisory in MSME Manufacturing Is an Emerging and Expanding Practice Area

Traditionally, ESG advisory was perceived as relevant primarily to large listed corporates. However, supply chain pressures, export compliance norms, and lender scrutiny have extended sustainability expectations to MSME manufacturers. This presents a significant advisory opportunity for Chartered Accountants who interpret ESG requirements through a financial and governance lens.

Advisory services may now extend beyond statutory compliance to include sustainability diagnostics, financial viability analysis of green projects, risk mapping, internal control strengthening, and structured ESG-lite reporting. Members who proactively build competency in this domain are likely to remain professionally relevant in an evolving industrial ecosystem.

Sustainability Is Increasingly Linked to Creditworthiness and Valuation

Financial institutions are progressively incorporating environmental and governance risk considerations into credit appraisal frameworks. Enterprises with consistent compliance records, energy efficiency initiatives, and transparent documentation are perceived as lower risk borrowers. Conversely, exposure to environmental litigation or weak governance may adversely affect financing terms.

Similarly, in valuation exercises—particularly during mergers, acquisitions, or investor onboarding—environmental liabilities, compliance risks, and operational inefficiencies may influence enterprise valuation multiples. Sustainability is therefore no longer peripheral to financial analysis; it is becoming embedded in risk-adjusted return assessment.

For CAs engaged in loan certification, due diligence, or valuation assignments, integrating ESG considerations into financial evaluation will increasingly become a professional expectation.

Internal Audit and Cost Audit Scopes Are Expanding

The scope of internal audit and cost audit in manufacturing environments is gradually broadening to include environmental efficiency, resource optimization, and compliance risk assessment. Energy intensity, waste management practices, and material yield ratios directly affect cost sheets and profitability analysis.

Internal control systems must now capture sustainability-linked metrics alongside traditional financial indicators. Chartered Accountants involved in audit assignments should anticipate expanded review areas—ensuring that operational sustainability data is reliable, documented, and aligned with financial reporting.

This shift enhances the strategic relevance of audit functions within MSME manufacturing.

Structured Documentation and Governance Strengthen MSME Resilience

In a compliance-sensitive environment, documentation integrity is a competitive asset. Well-maintained environmental permits, safety records, cost sheets, and internal control documentation not only reduce regulatory risk but also improve credibility with lenders and buyers.

Governance maturity enables MSMEs to respond confidently to inspections, audits, and due diligence processes. It also facilitates access to concessional finance and long-term supply chain partnerships.

Chartered Accountants, as custodians of financial discipline and documentation standards, play a central role in building this governance resilience.

The transition toward ESG integration in MSME manufacturing is unlikely to be linear or uniform; it will unfold unevenly across sectors, geographies, and enterprise maturity levels.

Chartered Accountants Are Uniquely Positioned to Bridge Sustainability and Financial Prudence

The most significant takeaway for ICAI members is that ESG in MSME manufacturing cannot be effectively implemented without financial governance. Sustainability initiatives require capital budgeting discipline, risk evaluation, compliance alignment, and ongoing monitoring—areas where Chartered Accountants possess core expertise.

By bridging environmental objectives with financial prudence, CAs can help MSME manufacturers:

- Avoid over-investment
- Structure green financing responsibly
- Strengthen internal controls
- Reduce compliance exposure
- Enhance creditworthiness and enterprise value

In doing so, members contribute to both enterprise competitiveness and India's broader industrial sustainability agenda.

Conclusion

The Ministry of Micro, Small and Medium Enterprises has also increasingly emphasized technology upgradation, energy efficiency, and competitiveness enhancement within MSME ecosystems. As policy thrust gradually aligns competitiveness with sustainability, ESG considerations are likely to become more deeply embedded in MSME development strategies.

The transformation of India's MSME manufacturing sector is no longer driven solely by capacity expansion or cost competitiveness; it is increasingly shaped by transparency, efficiency, and disciplined governance. ESG, when viewed through the lens of financial prudence, is not an additional compliance layer but a structured approach to strengthening enterprise fundamentals. Energy efficiency improves margins, governance maturity enhances creditworthiness, and risk-aware capital structuring safeguards liquidity. The true value of ESG in MSME manufacturing lies in its integration into financial decision-making, internal controls, and strategic planning. For Chartered Accountants, this moment represents more than an emerging advisory opportunity—it marks a natural evolution of the profession's role in guiding enterprises toward resilient, responsible, and commercially sustainable growth. By anchoring sustainability within financial governance, the CA fraternity can help ensure that India's manufacturing MSMEs remain competitive, credible, and future-ready in a rapidly transforming economic landscape.

By: CA. Pushkaraj Vishnu Joshi

The Role of MSMEs in Driving India's Economic Growth and Development

Development as a subject is diversified in nature, it not only showcases economic impact but also shows impact on social, environmental, physical and demographic aspect leading to a positive change in society. In order to analyse a countries development some important indicators like gross domestic product, countries capital formation, employment and unemployment rate, technological progress, population growth and various other factors are taken into consideration. In reality development and growth can go side-by-side only when income disparity can be reduced, all areas get connected with each other and gets well connected with proper infrastructure facility, and there is robust supply and demand of goods and services both at domestic and international level, leading to better living standard and condition of its citizen. The Micro, Small and Medium Enterprises in India plays a very important role in nation growth. MSME acts as a catalyst for socio economic transformation of the country and promotes the use of indigenous technologies. It meets the national objective by helping reducing poverty, generating employment and discouraging rural-urban migration. According to the statistics 324.88 lakh MSMEs (51.25%) are in rural area and 309 lakh MSMEs (48.75%) are in the urban areas.

The Government knows the role of MSME and with recent initiatives it is creating a business environment by amending regulatory policies in the favour of Indian business and by providing financial and technological support to and introducing Schemes like MSME Sam bandh, MSME Samadhaan, and many more . Areas to focus to ensure MSMEs smooth functioning and development are as follows:

- Ease of Doing Business: This has shown significant results by favourable industrial policies and smooth regulatory clearances.
- Promoting Foreign Direct Investment: Increases in FDI will lead to overall growth in the Msme sector.
- Capital Access: The MSME sector is now getting support from the government to get finance through schemes like Credit Trust Fund for Micro and Small Enterprises(CGTMSE) and Credit Linked Capital Subsidy Scheme(CLCSS).

The MSME sector help to find out solution for income disparity between the urban and rural areas. The GDP of India has registered a robust growth after the covid period. By providing solutions to large scale industries it helps in expanding their output. They help in generating and improving the nations income and output, profitability and employment. The GDP of India has shown a dramatic rise despite the Covid effect globally. For instance, in 2019, the growth rate decline by 2.58% at 3.87%, with a further sharp fall due to the pandemic, to -5.83% in 2020.In 2021 it saw a significant rise by 14.88% of 9.7%with a growth rate of 7.24% in 2022, and 7% in 2023 . Although small but the MSME sector has played a major role in this rise. Despite a decline in its proportion of GDP in the most recent fiscal year due to the pandemic, supply chain disruptions, and other geo-political issues, the MSME sector has significantly contributed to this expansion and is on the cusp of recovery.

Evolution of MSME classification

- Pre-2006 Era: Small-scale industries (SSI) were defined primarily based on investment limits, with different thresholds for small and ancillary industries.
- MSMED Act, 2006: Introduced the three-tier classification of Micro, Small, and Medium Enterprises, with different investment limits for manufacturing and service enterprises.
- Revised Classification (July 1, 2020): The Government of India removed the distinction between manufacturing and service sectors and introduced a composite criterion based on both investment and turnover to classify MSMEs.
- Revised Classification (April 1, 2025): The Government of India has further revised the MSME classification to enhance the investment and turnover limits, allowing businesses to grow while retaining MSME status.1

MSMEs as investment opportunities

As India steadily approaches the threshold of becoming a $5 Tn economy by 2026-27, interest in the nation as an investment destination is soaring. The Indian MSME sector is projected to grow to $1 Tn by 2028.

Its many winning advantages encompass a diverse range of investment opportunities across various industries and supply chain ecosystems, including but not limited to textiles, food processing, agriculture, and more. Another distinct advantage that MSMEs offer is the opportunity to invest in enterprises beyond metropolitan cities. Investors can capitalise on the potential of the rapidly expanding rural MSMEs catering to an accelerating consumer base, disposable incomes, and a vibrant domestic market.

Moreover, with the relaxation of the FDI policy allowing a 100% FDI inflow under the automatic route for MSMEs and the various tax exemptions and tax holidays that the sector can avail, investments in Indian MSMEs have much to attract astute investors.

Union Budget 2025-26: Announcements for MSMEs

As part of the government's commitment to fostering the sector's growth with interventions and dedicated initiatives for MSMEs. Key announcements in Union Budget 2025-26 underscore the attention on the sector:

- Revised classification criteria to benefit larger MSMEs
- Credit cards for micro enterprises: ₹5 lakh limit for registered MSMEs; 10 lakh cards to be issued in the first year.
- Scheme for first-time entrepreneurs: Loans up to ₹2 crore for 5 lakh entrepreneurs, including women and SC/ST members; provision for capacity building for entrepreneurship and managerial skills.
- A new Fund of Funds, with expanded scope and a fresh contribution of ₹ 10,000 crore to be set up.
- Focus on labour-intensive sectors:
  - Footwear and leather sector: To enhance the productivity, quality and competitiveness of India's footwear and leather sector, a focussed product scheme announced to facilitate employment for 22 lakh persons, generate turnover of ₹ 4 lakh crore and exports of over ₹ 1.1 lakh crore.

- Toy Sector: Development of clusters and skills to promote high-quality 'Made in India' toys.
- Food Processing: A National Institute of Food Technology, Entrepreneurship and Management to be set up in Bihar.

- Enhanced Credit Guarantee:
  - For Micro and Small Enterprises, from ₹5 crore to ₹10 crore, leading to an additional ₹1.5 lakh crore in credit over a period of 5 year.
  - For Startups, from ₹10 crore to ₹20 crore, with a 1% guarantee fee for loans in 27 key sectors important for Atmanirbhar Bharat
  - For Exporter MSMEs, term loans up to ₹20 crore covered under the scheme
- Manufacturing mission - Furthering "Make in India": A National Manufacturing Mission covering small, medium and large industries for furthering "Make in India" announced. The Mission will also support Clean Tech manufacturing viz., PV cells, EV batteries, motors and controllers, electrolysers, wind turbines, very high voltage transmission equipment and grid scale batteries etc.
- Other Announcements:
  - Deep Tech Fund of Funds – New fund to support the next generation startups
  - Private R&D Investment – ₹20,000 crore for research & innovation
  - Revamped PM Street Vendor's AtmaNirbhar Nidhi (PM Svanidhi) scheme to support the unorganised sector. The initiatives aim to address the credit gap, promote entrepreneurship and enhance the overall competitiveness of MSMEs.

MSMEs: Key driver of Indian economy

>90% of India's enterprises (FY25E)

~60% of India's workforce (FY24)

30% share in India's GDP (FY23)

44% share in India's exports (FY24)

41% share in manufacturing gross value added or GVA(FY22)

~7.34 crore estimated MSMEs

>25 crore estimated employment Contribution rebounded in FY23, reaching pre-pandemic levels

~28% exports share from registered MSMEs Contributes

35% to all-India manufacturing output/production

A granular understanding of the MSME sector requires going beyond broad national trends and adopting a localised approach to capture the distinct profiles of these units at the regional level, including their varied sizes, locations and specific needs. The study was conducted with the objective that would provide a holistic understanding of MSMEs' performance and identify areas for improvement—from insights on their growth potential and contribution to socio-economic

development to challenges such as credit gap and market accessibility. The idea was to also gauge the impact of government stimulus, gender diversity in terms of number of women entrepreneurs, level of digitalisation and the overall health of the sector.

Access to credit

Despite the critical role of the MSME sector in the Indian economy, access to timely and adequate formal credit remains a persistent challenge. Factors such as information asymmetry, limited formalisation, lack of comprehensive financial records, weak credit histories, and insufficient collateral contribute to this issue. These barriers create a significant credit gap. Bridging this gap requires a multi-pronged approach, including alternative credit assessment models, stronger credit guarantee mechanisms, MSME formalisation, financial literacy, and supply chain financing. Addressing these constraints is essential to unlocking the full potential of MSMEs and driving economic growth.

According to primary interactions with MSMEs, 17% respondents did not avail any form of credit, while 8% availed the same from informal sources. Given the higher level of difficulty in accessing credit for micro enterprises,12% of those surveyed borrowed from informal sources, versus 3% of small and 2% of medium enterprises. Credit offtake by women-led MSMEs was at 76%, with 24% of the respondents not availing credit vis-à-vis men-led MSMEs which saw credit offtake of 84%. The percentage of women availing informal credit was higher than men. Interactions with lending institutions indicated that credit penetration from NBFCs/fintech's has increased over the past few years. Additionally, the overall credit supply to the MSMEs has increased. That said, unmet credit demand persists.

By CA Akshay Bhatia

The Great Leap Forward: India's Startup Revolution 2.0 and the Dawn of a Deep-Tech Superpower

Over the past decade, India has witnessed remarkable growth in its start-up ecosystem, driven by digital innovation, expanding venture capital, and supportive policy frameworks. As the ecosystem matures, policy frameworks have also evolved to reflect the changing nature of entrepreneurship and technological development.

A significant milestone in this evolution is the Gazette Notification No. G.S.R. 108(E) dated 4 February 2026, issued by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry. The notification revises the official definition and recognition criteria for start-ups under the Start-up India initiative, replacing the earlier 2019 framework.

Alongside policy updates, the Union Budget 2026–27 and related government initiatives have further reinforced India's commitment to innovation-driven growth, particularly in frontier technologies and research-intensive sectors.

Collectively, these developments indicate the emergence of what may be described as "Start-up India 2.0"—a phase characterized by deeper institutional support, emphasis on research-driven innovation, and broader inclusion of diverse entrepreneurial models.

Expanding the Startup Definition: Democracy in Innovation

As per the notification G.S.R. 108(E) issued by the Department for Promotion of Industry and Internal Trade (DPIIT) dated 4th February, 2026, the term "Startup" is defined as:

1. In this notification, —
    a. 'Startup' means an entity which—
        i. is incorporated or registered in India as a private limited company (as defined in the Companies Act, 2013) or registered as a partnership firm (registered under section 59 of the Partnership Act, 1932) or a limited liability partnership (under the Limited Liability Partnership Act, 2008) or a Multi-State Cooperative Society registered with the Central Registrar of Cooperative Societies (under the Multi-State Cooperative Societies Act, 2002) or a Cooperative Society registered under any State or Union Territory Cooperative Societies Act with the respective Registrar of Cooperative Societies in India;
        ii. is within a period of ten years from the date of its incorporation or registration;
        iii. has a turnover for any of the financial years since incorporation or registration not exceeding two hundred crore rupees; and
        iv. is working towards innovation, development or improvement of products or processes or services, or is a scalable business model with a high potential of employment generation or wealth creation.

Provided that, in the case of an entity recognised as a 'Deep Tech Startup' under this notification:

(a) the period specified in clause (ii) shall be up to twenty years from the date of its incorporation or registration; and

(b) the turnover limit specified in clause (iii) shall be three hundred crore rupees for any of the financial years since incorporation or registration.

Provided further that, an entity formed by splitting up or reconstruction of an existing business shall not be considered a Startup.

Explanation: For the purposes of this notification, an entity shall cease to be a Startup on completion of ten years from the date of its incorporation or registration, or if its turnover for any previous year exceeds two hundred crore rupees.

Provided that, in the case of an entity recognised as a Deep Tech Startup under this notification, such entity shall cease to be a Deep Tech Startup on completion of twenty years from the date of its incorporation or registration, or if its turnover for any previous year exceeds three hundred crore rupees.

The 2026 framework dismantles the traditional boundaries of what constitutes a "startup," ensuring that innovation is no longer restricted to urban tech hubs.

- New Entity Forms: Beyond registered partnership firms, LLPs & private companies, the definition now embraces cooperative societies, including multi-state level cooperatives.
- Scaling for Success: To prevent high-growth firms from losing benefits prematurely, the turnover limit for general startups has been doubled from ₹100 crore to ₹200 crore.
- Rural Empowerment: By including cooperatives, the government is intentionally fueling agri-tech and community-led ventures, bringing the startups located in Tier 2 and 3 cities into the spotlight.
- The 10-Year Clock: Standard eligibility remains robust at 10 years from the date of incorporation or registration.
- Innovation Focus: Firms must work on innovative products, processes or services with high growth potential.
- No Split-ups: Businesses formed by splitting or reconstructing existing companies are excluded.

These updates enlarge the scope of Startup India, aligning policy to diverse ventures at different stages and sectors. For example, cooperative societies, including multi-state level cooperatives are now eligible for startup status (to spur rural and community innovation). Overall, the notification provides a "more predictable, inclusive and future-ready" environment for founders.

Deep Tech: The 20-Year Bet on Frontier Science

As per the notification G.S.R. 108(E) issued by the Department for Promotion of Industry and Internal Trade (DPIIT) dated 4th February, 2026, the term Deep Tech Startup is defined as:

A 'Deep Tech Startup' means a 'Startup' that has the following attributes, in addition to the criteria detailed in para (1)(a) (referring to definition of Startup mentioned earlier in this article):

i. It is working on producing a solution based on new knowledge/advancements within a scientific or engineering discipline or multiple disciplines, which is yet to be developed or is in the process of being developed;

ii. It has a high percentage of expenditure on research and development (R&D) activities as a percentage of revenue/funding;

iii. It owns or is in the process of creating significant novel intellectual property (IP) and taking steps to commercialize the same; and

iv. It is facing extended development timelines, long gestation periods, high capital and infrastructure requirements, and carrying large technical or scientific uncertainty.

Provided that, for the purposes of this notification, a 'Deep Tech Startup' shall be deemed to be a 'Startup', and references to a 'Startup' shall include a 'Deep Tech Startup', unless otherwise stated.

Provided further that, the determination of whether an entity satisfies the attributes of a 'Deep Tech Startup' shall be made in accordance with such framework, parameters, and guidelines as may be issued by the Department, and based on the documents and information furnished by the applicant in the manner specified by the Department.

So, summarizing it, the crown jewel of the new policy is the formal recognition of Deep Tech Startups. These are science- and engineering-driven ventures in AI, biotech, and semiconductors that require "patient capital" and long R&D cycles.

- A 20-Year Horizon: Deep tech firms now enjoy an extended startup window of 20 years (doubling the previous limit).
- Massive Revenue Room: These firms can maintain their startup status until they hit an annual turnover of ₹300 crore.
- Merit-Based Assessment: Recognition is now tied to Technology Readiness Levels (TRL) and significant novel Intellectual Property (IP) creation.

"Formally distinguishing deep tech reduces friction in fundraising and lets founders pursue innovation without artificial time pressure."

In plain terms, a company certified as a deep tech startup now enjoys government benefits for up to 20 years or until ₹300 crore in annual revenue, whichever is earlier. This recognizes that science-driven ventures often need more time and capital before they become commercially viable. As one industry observer notes, this shift "aligns policy timelines with the long development cycles" of deep-tech companies, fixing a "false failure signal" where R&D firms were previously forced out of startup status too soon. Venture investors welcome the change – formally distinguishing deep tech "reduces friction in fundraising" and lets founders pursue innovation without artificial time pressure.

Implications for Chartered Accountants and Professional Advisors

The evolving start-up ecosystem also presents significant opportunities for professional services, particularly for Chartered Accountants (CAs).

Key areas where CAs can contribute include:

1. Startup Structuring and Advisory

   Chartered Accountants can guide founders in selecting appropriate legal structures, ensuring compliance with DPIIT recognition requirements, and designing scalable governance frameworks.

2. Tax Planning and Incentives

   Advising start-ups on eligibility and compliance related to incentives such as:

   - Section 80-IAC tax holiday
   - Start-up India Registration and Compliances
   - Government grant and Seed Fund schemes.

3. Financial Governance and Compliance

   As start-ups scale, professional oversight becomes essential for:

   - Financial reporting and audit readiness
   - Regulatory compliance
   - Corporate governance and risk management.

4. Fundraising and Investor Readiness

   CAs can assist start-ups in preparing financial models, valuation frameworks, and due-diligence documentation required for venture capital or institutional investment.

5. Strategic Growth Advisory

   With the rise of deep-tech and R&D-driven enterprises, financial professionals increasingly play a role in guiding capital allocation, R&D expenditure management, and long-term sustainability planning.

Policy Implications and Industry Response

The industry sees Startup India 2.0 as a big push for India's innovation ecosystem. By doubling the turnover cap for regular startups (from ₹100 crore to ₹200 crore) and extending deep-tech caps to ₹ 300 crores, the rules help companies scale without "graduating out" too soon. Including cooperatives brings grassroots innovations (e.g. agri-tech co-ops) into the fold. The detailed deep-tech criteria also give clarity to R&D-driven businesses that they'll be supported. It can be said that the 2026 notification a "landmark update" that modernizes India's startup policy and aligns it with global innovation hubs, emphasizing frontier fields like AI, biotech and advanced materials.

The new framework also tightens accountability. All recognized startups (deep tech or otherwise) must now deploy funds primarily in core innovation and growth, not in speculative assets. The notification explicitly bars investments in residential real estate (beyond office space), non-core land/buildings, unrelated loans or advances, luxury vehicles, jewelry, or other speculative schemes. Certification under the income-tax exemption (Section 80-IAC) is retained, but can be revoked if obtained by "misrepresentation or false information". These restrictions ensure public incentives actually foster R&D and scaling, not side investments. The government also retains flexibility to relax conditions for special cases.

Financial Firepower: The Union Budget 2026 Outlay

The Startup India 2.0 era is backed by financial support in targeted areas, specifically designed to transition research and development into commercial reality. These outlays demonstrate a strategic shift toward capital-intensive, high-impact sectors:

- The Union Budget 2026-27 proposed a three-pronged approach to help Indian Micro, Small & Medium Enterprises (MSMEs) grow as Champions by providing equity, liquidity and professional support to MSMEs.
- SME Growth Fund: Under equity support measures, a dedicated ₹10,000 crore SME Growth Fund has been announced to generate future champions by incentivizing enterprises based on defined eligibility criteria. In addition, the Self-Reliant India (SRI) Fund, established in 2021, will be increased with ₹2,000 crore to sustain support for micro enterprises and ensure continued access to risk capital. Notably, the SRI Fund has assisted 682 MSMEs by way of investment worth ₹15,442 crore (as of 30 November 2025).
- Biopharma SHAKTI: A ₹10,000 crore program to bolster domestic biologics and establish clinical trial sites.

- Semiconductor Surge: The Electronic Component Manufacturing Scheme (ECMS) allocation was nearly doubled to ₹40,000 crore.
- Data Center Tax Holiday: A tax holiday (until 31st March 2047) for Foreign Cloud Providers setting up data centers in India will drastically lower cloud and hosting costs for local AI startups.
- Export Easing: The removal of the ₹10 lakh per consignment limit on courier exports allows D2C startups to reach global markets with ease.

The Verdict: A Landmark Re-calibration

The G.S.R. 108(E) notification and the Union Budget 2026-27 have collectively modernized India's startup DNA. By providing a "more predictable, inclusive and future-ready" environment, India is telling its founders that it no longer just wants "unicorns", it wants global leaders in advanced technology and inclusive growth.

The message to the global investor community is resounding: The era of experimentation is over; the era of institutionalized, deep-tech excellence has begun. India's startup policy is no longer just a support system—it is a launchpad for the next generation of global giants. The revolution has been upgraded.

The Road Ahead

Startup India 2.0 marks an evolved approach: modernizing the framework for today's tech challenges while retaining core benefits (like tax incentives under 80-IAC). It recognizes that India's startup ecosystem has diversified – with 53% of startups now based in Tier 2/3 cities and even tech-driven cooperatives emerging. According to official releases, the updated criteria will "expand access" for innovation-driven enterprises, provide targeted support to deep tech ventures, and further strengthen India's position as a global hub of high-technology entrepreneurship. Early commentary suggests the changes make India more competitive: clearer definitions, extended eligibility and deep-tech recognition send a message to investors and founders that long-term innovation is welcome.

In summary, the Gazette Notification No. G.S.R. 108(E) dated 4 February 2026, issued by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce and Industry overhauls Startup India for its next decade. By broadening who qualifies, extending timelines for R&D-intensive firms, and enforcing accountability on fund use, it aims to sustain the "startup revolution" into its 2.0 phase. The impact will play out over years, but the message is clear: India's startup policy is now calibrated for advanced technology innovation and inclusive growth.

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By CA Mukul Lamba

QUIZ

1. **Which technology helps ensure data security and transparency in digital transactions?**
   A. Blockchain
   B. Spreadsheet
   C. Word Processor
   D. Presentation Software
2. **Cybersecurity is important for MSMEs because:**
   A. Only large companies face cyber risks
   B. Digital data and payments need protection
   C. It is mandatory only for banks
   D. It reduces profits
3. **A key challenge in Digital Transformation for MSMEs is:**
   A. Excessive profitability
   B. Lack of technology awareness and skills
   C. Too much government support
   D. Over-automation
4. **Which platform model allows MSMEs to use software applications over the internet without installing them locally?**
   A. Infrastructure as a Service
   B. Platform as a Service
   C. Software as a Service
   D. Hardware as a Service
5. **Which analytical approach helps businesses predict future sales based on historical data?**
   A. Diagnostic Analytics
   B. Predictive Analytics
   C. Descriptive Analytics
   D. Prescriptive Analytics
6. **Which digital tool is widely used by startups to track and manage customer relationships and sales pipelines?**
   A. CRM System
   B. ERP System
   C. Data Lake
   D. Firewall
7. **Which emerging technology is used to create intelligent chatbots for customer support?**
   A. Deep Learning
   B. Edge Computing
   C. Virtual Machines
   D. Network Switching
8. **Which government initiative in India promotes digital payments and financial inclusion for businesses?**
   A. Startup India
   B. Digital India
   C. Atmanirbhar Bharat
   D. Make in India
9. **Which technology ensures secure and transparent recording of transactions across distributed networks?**
   A. Artificial Intelligence
   B. Blockchain
   C. Cloud Computing
   D. Internet of Things
10. **Which concept refers to extracting meaningful insights from large volumes of structured and unstructured business data?**
    A. Data Analytics
    B. Data Archiving
    C. Data Compression
    D. Data Entry

Answers: 1.A 2.B 3.B 4.C 5.B 6.A 7.A 8.B 9.B 10.A

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