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UPDATES



MSME Ministry Hosts 2nd BRICS SME Working Group Meeting on Technology Access

The Ministry of MSME successfully held the 2nd BRICS SME Working Group Meeting under the BRICS PartNIR track on 26 May 2026. The meeting focused on **enhancing access to technology for MSMEs**, with discussions on innovation, technology commercialization, and skill development for technology adoption.

BRICS member countries shared best practices and emphasized stronger collaboration in technology access, innovation ecosystems, and workforce development to help MSMEs become more competitive, resilient, and integrated into global value chains. The meeting reinforced the commitment of BRICS nations to support sustainable growth and digital transformation of MSMEs.

Source: <https://www.pib.gov.in>

New MSME Secretary: Takes Charge

Bharat Khera, a 1995-batch IAS officer with over 30 years of administrative experience, has taken charge as Secretary of the Ministry of MSME on 1 May 2026. Previously, he served as Additional Secretary in the Department of Consumer Affairs.

He has held key positions in the Ministry of Defence, Cabinet Secretariat, and the Government of Himachal Pradesh, contributing to defence, policymaking, and governance initiatives. An

Electronics Engineer from BITS Pilani, he also holds a Master of Public Administration from Syracuse University.

As MSME Secretary, he aims to strengthen India's MSME sector, which contributes over 30% to the country's GDP and plays a major role in employment, manufacturing, and exports.

Source: <https://www.pib.gov.in>

PM Vishwakarma Scheme to be Rolled Out in West Bengal

The Ministry of MSME and the Government of West Bengal have initiated the rollout of the **PM Vishwakarma Scheme** in the state. Discussions focused on faster implementation, better beneficiary identification, skill development, and outreach to traditional artisans and craftspeople.

West Bengal has already enrolled **7.79 lakh artisans and craftspeople** under the scheme. During the visit, Dr. Rajneesh, Additional Secretary and Development Commissioner (MSME), also inaugurated a **Transformer Testing Facility** at the MSME Testing Centre, Kolkata, which will provide affordable and reliable testing services for transformer manufacturers and strengthen MSME support infrastructure in the state.

Source: <https://www.pib.gov.in>

PMEGP Creates 36.33 Lakh Jobs, Boosts Rural and Women Entrepreneurship

The Prime Minister's Employment Generation Programme (PMEGP), implemented by the Ministry of MSME through KVIC, has achieved record success during the 15th Finance Commission period (FY 2021–22 to FY 2025–26). The scheme facilitated the establishment of over **4.03 lakh micro-enterprises**, surpassing its target, and generated **36.33 lakh employment opportunities** across the country.

With full utilization of its **₹13,554 crore budget outlay**, PMEGP has strongly promoted inclusive growth. Nearly **40% of supported enterprises are women-led**, **54% of beneficiaries belong to SC/ST/OBC communities**, and **80% of units are located in rural areas**, significantly boosting rural industrialization, entrepreneurship, and self-reliance.

Source: <https://www.pib.gov.in>

Kerala MSME Policy & Incentive Framework: A Practitioner's Guide for Chartered Accountants

Abstract

This article analyses the evolving MSME policy ecosystem in Kerala under the Industrial Policy 2023 and Budget 2026-27 framework. It examines major incentive schemes, financial support mechanisms, compliance obligations and advisory implications relevant to Chartered Accountants engaged in audit, taxation, project finance and MSME consulting assignments.

Kerala's Micro, Small and Medium Enterprise (MSME) sector has undergone a decisive structural shift over the last three years. Anchored by the Kerala Industrial Policy 2023 and accelerated by the State Budget 2026-27, the policy architecture now spans twenty-two priority sectors, eighteen incentive lines delivered through the K-RIIS portal, and a cascade of scale-up missions that have collectively seeded 3.82 lakh new enterprises, attracted ₹25,227 crore of investment, and created employment for over 8.16 lakh persons. This article distils the key elements of this framework for the practising Chartered Accountant: the governing schemes, eligibility conditions, quantitative ceilings, lock-in periods, and compliance obligations that are directly relevant to audit, advisory, tax and project finance assignments involving MSME clients in Kerala.

1. Introduction — Why Kerala MSME Policy Matters to CAs

India's MSME sector contributes approximately 30 per cent of GDP, over 45 per cent of exports, and accounts for an estimated 23 crore jobs. Within this aggregate, Kerala presents a distinctive profile. Its MSME base is overwhelmingly micro in composition — Udyam registration data places the micro share consistently above 95 per cent — operating against a backdrop of a high wage floor, a binding land constraint, and a fiscal position that limits direct grant outlays.

For the Chartered Accountant, MSME policy is not merely a matter of academic interest. It directly shapes audit risk assessment (capital subsidy misstatement, lock-in breach), advisory engagements (project viability, incentive quantification), GST reconciliation (SGST reimbursement claims), and credit facilitation mandates (KFC/bank loan documentation). A structured understanding of the Kerala MSME policy ecosystem is therefore an essential part of practice competency in the state.

Further, the increasing convergence between industrial incentives, ESG-linked financing, startup ecosystems, digital compliance architecture and formal credit appraisal has expanded the role of Chartered Accountants beyond traditional certification functions. In practice, CAs are now expected to assist MSMEs in scheme selection, project structuring, subsidy optimisation, financial modelling, compliance monitoring and post-disbursement utilisation reporting. Consequently, an understanding of the policy framework is becoming strategically important not only for compliance purposes but also for long-term enterprise advisory and value creation.



2. Policy Architecture — The Kerala Industrial Policy 2023

The Kerala Industrial Policy 2023, approved by the State Cabinet on 29 March 2023, is the most ambitious industrial framework the state has attempted in two decades. It is organised around seven focus pillars and twenty-two priority sectors, with all incentive delivery centralised on the Kerala Responsible Industry Incentive Scheme (K-RIIS) portal (kriis.kerala.gov.in), launched on 6 November 2023.

2.1 The Seven Focus Pillars

The policy framework rests on seven interlocking pillars: (i) Fostering Entrepreneurship; (ii) Enabling Infrastructure; (iii) Transition to Hi-Tech; (iv) Skill Development; (v) Supportive Business Environment; (vi) Enhancing ‘Kerala’ Brand Equity; and (vii) Priority-Sector-Based Industrialisation. Each pillar maps to one or more implementing agencies — KSIDC, KINFRA, KSUM, KIED — and the K-RIIS portal operationalises the incentive architecture across all seven.

2.2 The Twenty-Two Priority Sectors

The policy identifies twenty-two priority sectors that receive the highest incentive band. These span a deliberately wide range — from traditional-strength sectors (Ayurveda, High Value-Added Rubber, Food Technologies) to frontier areas (Graphene, Nano Technology, AI & Robotics, Aerospace & Defence). Notable recent additions aligned to Budget 2026-27 include Rare Earth Processing, Petrochemicals, and Space Technology.

2.3 K-RIIS — The Eighteen Incentive Lines

The K-RIIS framework delivers benefits through eighteen distinct incentive categories. The table below summarises the MSME-relevant lines with quantitative ceilings:

Sl.	K-RIIS Incentive	Eligible Category	Quantum / Ceiling
1	Capital Subsidy	Micro / Small / Medium	Up to 45% of FCI; Max ₹40L / ₹100L / ₹200L
2	Low Interest Loan	All MSMEs	4% p.a. (6% subvention); Max ₹10 Lakh
3	Electricity Duty Exemption	All MSMEs	100% exemption for 5 years from commencement

Sl.	K-RIIS Incentive	Eligible Category	Quantum / Ceiling
4	SGST Reimbursement	Large / Mega	100% of capital investment for 5 years
5	Stamp Duty Waiver	All (100% for women/SC/ST)	Up to 100% in Govt. / notified Industrial Parks
6	IPO Route Financing	All MSMEs	50% of IPO expenses; Max ₹1 Crore
7	Trade Fair Incentive	All Categories	100% of stall charges; Max ₹5L/year (1 domestic + 1 intl)
8	IP Creation Subsidy	All Categories	50% of expenditure; Max ₹30 Lakh
9	Quality Certification	All Categories	50% of certification cost; Max ₹25L/unit/year
10	IR 4.0 Incentive	All Categories	20% of AI/ML/IoT/automation cost; Max ₹25 Lakh
11	R&D Incentive	All Categories	20% of R&D cost with Kerala universities; Max ₹1 Crore
12	Sustainability Incentive	All Categories	25% of ETP/Zero Discharge cost; Max ₹25 Lakh
13	PLI Top-Up	All Manufacturing	20% of fixed capital; Max ₹1 Crore (additional)
14	Made in Kerala Branding	All Categories	50% reimbursement of certification cost

Practitioner Caution: While the K-RIIS framework provides multiple incentive lines, eligibility conditions, documentation standards, sector classification norms and disbursement timelines differ across schemes. Enterprises should not assume automatic entitlement merely based on Udyam registration or sector inclusion. Chartered Accountants should independently verify Government Orders, operational guidelines and portal notifications before quantifying incentives in project reports or financial projections.

3. Key MSME Schemes — Eligibility, Benefits & CA Relevance

3.1 Entrepreneur Support Scheme (ESS)

The ESS is the principal capital investment subsidy programme for new manufacturing MSMEs in Kerala. It was introduced with effect from 1 April 2012 as an umbrella scheme consolidating earlier self-employment programmes. Budget 2026-27 has enhanced the allocation to ₹110 crore - the highest ever - following ₹203.56 crore disbursed to 3,431 entrepreneurs over the previous four years.

The scheme provides a capital subsidy on Fixed Capital Investment (FCI) and an interest subvention. Assistance rates vary by beneficiary category:

Beneficiary Category	Capital Subsidy Rate	Maximum Ceiling
General MSME	15% of FCI	₹30 Lakhs
Women / Youth / SC-ST / NRK	25% of FCI	₹40 Lakhs
Priority Industry (additional)	+10% of FCI	+₹10 Lakhs

Beneficiary Category	Capital Subsidy Rate	Maximum Ceiling
Backward Districts (additional)*	+10% of FCI	+₹10 Lakhs
Interest Subvention — General	Up to 6% p.a. (effective 4%)	—
Interest Subvention — SC/ST & Women	Up to 8% p.a.	—

CA Advisory Angle: Capital subsidies received under ESS are capital receipts. The CA must ensure correct treatment under Ind AS / AS - not credited to the profit and loss account but offset against the cost of the related asset, or presented separately as deferred government grant and recognised over the asset's useful life. Incorrect treatment is a common audit finding.

In addition, practitioners should evaluate the implications of such subsidies under the Income-tax Act, 1961, particularly in light of judicial precedents relating to the “purpose test” for determination of capital versus revenue receipts. The taxability, depreciation impact and disclosure treatment of government assistance should be examined carefully on a case-to-case basis, especially where subsidies are linked to production, turnover, employment generation or operational reimbursement.

3.2 Mission 1000 — MSME Scale-Up Programme

Mission 1000 is the state's flagship enterprise scale-up initiative. It aims to develop 1,000 MSMEs to achieve an average annual turnover of ₹100 crore each — creating a cumulative turnover pool of ₹1,00,000 crore. As of Budget 2026-27, 434 entrepreneurs have been selected and 105 Detailed Project Reports (DPRs) approved. The Budget allocation stands at ₹35 crore for FY 2026-27.

The financial structure of Mission 1000 is as follows: Fixed Capital Investment assistance at 40 per cent of incremental FCI (ceiling ₹200 lakh); and Working Capital interest reimbursement at 50 per cent of interest paid on working capital loan (ceiling ₹50 lakh). DPR preparation costs are reimbursed separately. Selection is merit-based through a District Level Committee, and the scheme targets micro-to-small and small-to-medium transitions.

From an advisory perspective, Mission 1000 also creates opportunities for professional support in areas such as enterprise valuation, internal financial controls, ERP implementation, working capital optimisation, MIS reporting and institutional investor readiness. As enterprises scale from promoter-driven operations to professionally managed structures, the role of the Chartered Accountant increasingly transitions from compliance advisor to strategic growth partner.

3.3 Mission 1,00,000 — New Scheme (Budget 2026-27)

Introduced in the Kerala State Budget 2026-27, Mission 1,00,000 is a complementary programme operating at the nano and micro level. Its objective is to upgrade 1,00,000 nano and micro enterprises so that each achieves a minimum annual turnover of ₹1 crore. The scheme provides fixed capital investment assistance at 40 per cent (ceiling ₹2 lakh per

unit) and working capital interest reimbursement at 50 per cent (ceiling ₹1 lakh per unit), with a total cap of ₹3 lakh per enterprise. Initial budget: ₹4 crore for FY 2026-27.

Practitioner Note: Mission 1,00,000 is the first Kerala scheme to formally target nano enterprises (connected load ≤ 5 HP) for structured financial support. CAs advising artisan, home-based and village-level units should assess eligibility proactively, as the ₹3 lakh ceiling per unit is meaningful at this scale.

3.4 Margin Money Grant to Nano Units

The Budget 2026-27 earmarks ₹17.06 crore as margin money grants for nano enterprises. The grant reduces own-contribution requirements on bank-linked project loans, enabling the smallest productive units — typically ineligible for institutional finance on their own — to access formal credit. The CA's role in structuring the loan proposal and ensuring correct utilisation of margin money is central to this scheme.

3.5 Special Package Scheme for MSMEs

A ₹63 crore Special Package Scheme for MSMEs has been retained and enhanced in Budget 2026-27. This operates outside the K-RIIS framework, targeting specific clusters and sectors identified by the Department of Industries and Commerce on a year-to-year basis. Eligible enterprises may receive both K-RIIS incentives and Special Package benefits, subject to non-duplication conditions.

4. Financial Support Infrastructure

4.1 Kerala Financial Corporation (KFC) — Lending Architecture

KFC, established under the State Financial Corporations Act 1951, is the principal state-level development finance institution for MSMEs. Its MSME lending suite under the Kerala Industrial Policy 2023 framework includes:

- Chief Minister's Entrepreneurship Development Programme (CMEDP): Loans up to ₹2 crore at an effective 5 per cent per annum after government interest subvention. Eligibility capped at promoters aged 55 years (relaxed for women and SC/ST). Promoters must not be in permanent employment.
- Kerala Agro-Based MSME Loan Scheme (KAMS): For agro-processing units; loans up to ₹10 crore at an effective 5 per cent per annum. Minimum loan ₹5 lakh; maximum project finance at 90 per cent of project cost.
- MSME Venture Capital / Fund of Funds (KSUM): ₹13 crore allocated in Budget 2026-27 (₹3 crore state share + ₹10 crore additional) for channelling venture capital into early-stage startups.
- Practical Note for CAs: In most KFC-linked financing arrangements, financial projections, CMA data, projected DSCR analysis, promoter contribution verification and utilisation certifications play a decisive role in loan appraisal and post-sanction monitoring. Deficiencies in project documentation often delay sanction or subsidy

integration. Accordingly, professionally prepared DPRs supported by realistic cash-flow assumptions materially improve the probability of successful financial closure.

4.2 New: 'New Innings' Scheme

Budget 2026-27 introduces the 'New Innings' scheme (₹4 crore allocation) — the first Kerala programme specifically targeting senior citizens as entrepreneurs, mentors and consultants in the startup ecosystem. This scheme opens a new avenue for post-retirement engagement and is of direct relevance to CAs advising retired professionals exploring enterprise.

4.3 National Schemes Accessible to Kerala MSMEs

Kerala MSMEs can stack state incentives with the following national programmes announced in Union Budget 2026-27:

- SME Growth Fund: ₹10,000 crore to develop Champion MSMEs. Eligibility criteria to be notified by MoMSME; compatible with K-RIIS entitlements.
- Self-Reliant India Fund (top-up): ₹2,000 crore replenishment of the equity/quasi-equity fund for micro enterprises.
- Biopharma SHAKTI: ₹10,000 crore over 5 years - relevant to Kerala's Life Sciences Park cluster.
- Electronics Components Manufacturing Scheme: National outlay raised to ₹40,000 crore -benefits Kerala's ESDM parks and KELTRON JVs.

5. Budget 2026-27 — Sector-Specific Allocations at a Glance

Scheme / Sector	Budget 2026-27 Allocation	Key Purpose
Entrepreneur Support Scheme (ESS)	₹110 Crore	Capital subsidy for new manufacturing MSMEs
Mission 1000 (Scale-Up)	₹35 Crore	1,000 enterprises to ₹100 Cr turnover
Mission 1,00,000 (New)	₹4 Crore	1 lakh nano/micro to ₹1 Cr turnover
Special Package — MSMEs	₹63 Crore	Cluster-specific targeted support
Margin Money — Nano Units	₹17.06 Crore	Bank credit facilitation for smallest units
Private Industrial Parks	₹20 Crore	Pravasi, Women & Traditional Parks added
Life Science Park Phase 2	₹35 Crore	Biopharma / Medical Tech cluster
Petrochemical Park, Kochi	₹17 Crore	₹10,000 Cr investment + 10,000 jobs target
Coir Sector	₹110.64 Crore	Modernisation, R&D, market development

Scheme / Sector	Budget 2026-27 Allocation	Key Purpose
Cashew Sector	₹56 Crore (+₹41 Cr revolving fund)	Mechanisation, marketing, rejuvenation
Handloom & Powerloom	₹59 Crore	Export promotion, modernisation, welfare
K-SPACE (Aerospace, Defence)	₹57.50 Crore	Drone R&D Park, Space sector growth
Total MSME & Commerce	₹310.84 Crore	—
Total Industries Sector	₹1,417.26 Crore	—

6. Compliance Framework and Procedural Checklist for CAs

6.1 Application Procedure (Updated — Budget 2026)

All incentive claims under K-RIIS and ESS are submitted online through the K-SWIFT single window portal or the relevant DIC. The standard process involves:

Step	Action	Responsible Party
1	Obtain Udyam Registration (mandatory pre-condition for all schemes)	Enterprise / CA
2	File for GST registration where applicable	Enterprise / CA
3	Submit incentive application on K-SWIFT or DIC within one year from commercial production date	Enterprise / CA
4	DIC inspection of premises and documents	DIC / KSIDC
5	DLIIC sanction (claims ≤₹200 lakh) or SLIIC sanction (above ₹200 lakh)	DIC / KSIDC Committee
6	Disbursement on reimbursement basis (capital subsidy) or direct credit (interest subvention)	Finance Department / KFC
7	Annual compliance certificate and utilisation report (required for continuing schemes)	CA / Enterprise

6.2 Critical Compliance Obligations

- Applications must be filed within one year from commercial production commencement. Late filing is a disqualifying event under most K-RIIS lines.

Enterprises should maintain scheme-wise documentary evidence including invoices, fixed asset registers, bank statements, GST filings, loan sanction documents and utilisation records in a structured and retrievable manner, as subsidy authorities may seek verification even after disbursement. Inadequate documentation remains one of the primary causes for rejection, delay or recovery proceedings.

- Enterprises must not be in default on any tax payment (GST, IT, professional tax) at the time of application or disbursement.

- Capital subsidies are subject to physical inspection at any stage; records supporting Fixed Capital Investment must be maintained for at least seven years.
- Any excess incentive disbursed is recoverable with interest. The CA must include a note on contingent liability where the disbursement is pending confirmation.
- ESG compliance pathway under K-RIIS Scheme 13 (Sustainability Incentive) is currently under-specified; CAs advising clients on ESG-linked applications should document the basis for each expenditure claimed under this head.
- Enterprises that have availed national PLI benefits must declare this in K-RIIS applications; PLITop-Up (Scheme 18) is an additional incentive, but double-counting across schemes is prohibited.

6.3 Four Structural Risks to Flag in Client Advisories

The policy framework carries four structural risks that CAs should actively monitor and advise clients on:

- **Definitional Drift:** The Udyam registration head-count used in state press releases may include UAP (Udyam Assist Platform) registrations — informal units not integrated into formal banking or tax systems. CAs must verify the registration type when advising on eligibility.
- **Financing Gap:** The transition from micro to small involves a step-change in investment ceilings (₹2.5 crore to ₹25 crore) that existing KFC/bank products do not always bridge cleanly. Mission 1000's DPR process is the primary mitigant, but working capital facilitation remains an advisory opportunity.
- **DIC Bottleneck:** The District Industries Centre layer is both the first point of contact and the sanction authority for most MSME claims. Processing delays are the most common implementation friction; CAs should factor realistic sanction timelines into project cash flow projections.
- **ESG Compliance Gap:** The K-RIIS sustainability conditionality (Scheme 13) is the weakest-specified incentive line. Enterprises investing in ETPs, Zero Discharge and e-waste systems to qualify should document expenditures with independent engineer certifications to pre-empt recovery proceedings.
- **Policy Volatility Risk:** Since several operational parameters under MSME schemes are governed through Government Orders, circulars and budget announcements, incentive structures may undergo periodic modification. Enterprises relying heavily on projected incentives for project viability should therefore incorporate sensitivity analysis in financial projections and avoid excessive dependence on subsidy assumptions during debt structuring.

7. Conclusion

The Kerala MSME policy framework under the Industrial Policy 2023, as updated through the Budget 2026-27, represents a mature and multi-layered incentive architecture. The

combination of K-RIIS (18 incentive lines), ESS (capital subsidy), Mission 1000 (scale-up), Mission 1,00,000 (new), margin money grants, KFC concessional finance, and national scheme complementarity creates a landscape where — for a well-advised enterprise — the effective cost of capital and the net tax burden can both be materially reduced.

For the Chartered Accountant, this framework generates engagement across audit (capital subsidy accounting, utilisation certification, lock-in disclosure), tax (SGST reimbursement, deferred grant treatment), project finance (DPR preparation, DIC liaison, KFC credit documentation), and advisory (incentive quantification, ESG compliance structuring). Proficiency in this policy ecosystem is, therefore, both a service differentiator and a professional responsibility for CAs practising in Kerala.

Looking ahead, Kerala's MSME ecosystem is likely to evolve further toward technology-enabled manufacturing, sustainability-linked incentives, export-oriented cluster development and formalisation of nano enterprises. This evolution will require stronger integration between finance, compliance, digital systems and policy interpretation — areas where Chartered Accountants are uniquely positioned to contribute. The profession therefore has a significant opportunity to play a catalytic role in strengthening Kerala's entrepreneurial and industrial growth trajectory.

As always, practitioners are advised to verify the current status of individual scheme notifications at industry.kerala.gov.in and kriis.kerala.gov.in before relying on figures cited in this article, as state scheme parameters are subject to amendment by Government Order.

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-By **CA Prateek K Khemka**

Concurrent Audit Policy Frameworks in Co-operative and Commercial Banks: Emerging Challenges and Best Practices

1. Introduction: A Critical Perspective

The banking sector in India has undergone a significant transformation over the last two decades. Increased digitisation, technology-enabled banking services, evolving regulatory expectations, rapid expansion in credit delivery systems, sophisticated fraud mechanisms, and heightened supervisory oversight by the Reserve Bank of India (RBI) have collectively altered the risk landscape of banks. In such an environment, concurrent audit has emerged not merely as a post-facto checking mechanism, but as a real-time risk management and preventive control tool.

Traditionally, internal audit systems in banks focused heavily on transaction verification after the completion of accounting periods. However, increasing incidents of frauds, operational lapses, cyber vulnerabilities, evergreening of loans, diversion of funds, and deficiencies in Know Your Customer (KYC) and Anti-Money Laundering (AML) compliance has highlighted the limitations of delayed audit interventions. Consequently, concurrent audit evolved into a system of continuous examination conducted simultaneously with banking operations.

Concurrent audit today serves as an early warning mechanism. It assists management in identifying irregularities promptly, strengthens internal controls, improves operational efficiency, ensures regulatory compliance, and enhances the reliability of financial reporting. Its importance is even more pronounced in co-operative banks, where governance challenges, concentration risks, and weaker control environments often expose institutions to operational and financial vulnerabilities.

While commercial banks generally possess structured audit frameworks supported by advanced technology and layered governance systems, co-operative banks often face resource constraints, skill shortages, and technological limitations. Therefore, designing an effective concurrent audit policy framework aligned with operational realities of each banking institution has become strategically important.

This article examines the regulatory framework governing concurrent audits in co-operative and commercial banks, analyses emerging challenges affecting the effectiveness of concurrent audits, and outline practical best practices to strengthen audit quality and institutional resilience.

2. Concept and Objectives of Concurrent Audit

Concurrent audit refers to a systematic examination of financial transactions and operational activities on a real-time basis. Unlike statutory audits or periodic internal audits conducted after completion of transactions, concurrent audit aims at immediate verification and timely reporting of irregularities.

The concept was institutionalised in Indian banking based on the recommendations of the “Ghosh Committee” followed by subsequent regulatory guidance issued by the RBI. The objective was to strengthen the internal control mechanism within banks by introducing ongoing independent scrutiny over critical transactions and high-risk operational areas.

The principal objectives of concurrent audit include:

- Detection and prevention of frauds and irregularities at an early stage.
- Verification of compliance with RBI guidelines and internal policies.
- Monitoring high-value and sensitive transactions.
- Evaluation of the effectiveness of internal control systems.
- Ensuring correctness of income recognition and asset classification.
- Reviewing adherence to KYC, AML, and Foreign Exchange Management Act (FEMA) regulations.
- Monitoring treasury, forex, and digital banking operations.
- Strengthening risk management practices.
- Assisting management in corrective decision-making.

Concurrent audit is not just a routine checking exercise, it plays a vital role in risk governance and operational supervision.

3. Regulatory Framework Governing Concurrent Audit

a. Regulatory Oversight by RBI

The RBI has issued comprehensive guidelines from time to time regarding internal inspection and concurrent audit systems in banks. Following are few guidelines to mention:

1. **DBOD.No.BC.182/16.13.100/93-94 dated 11 October 1993** – Introduction of Concurrent Audit System based on Ghosh Committee recommendations.
2. **DOS.No.BC.16/08.91.021/96 dated 14 August 1996** – Concurrent Audit System in Commercial Banks – Revision of RBI’s Guidelines.
3. **DBS.BC.33/08.91.021/1999-2000 dated 6 April 2000** – Guidelines relating to Concurrent Audit System in Commercial Banks.
4. **DBS.ARS.No.BC.18/08.91.021/2002-03 dated 24 June 2003** – Concurrent Audit of Forex Transactions in Banks.
5. **DBS.CO.ARS.No.BC.2/08.91.021/2015-16 dated 16 July 2015** – Revised Concurrent Audit Guidelines.
6. **DBS.CO.ARS.No.BC.01/08.91.021/2019-20 dated 18 September 2019** – Further revisions to the concurrent audit framework.

These guidelines require banks to formulate board-approved concurrent audit policies covering namely:

- Scope of audit
- Coverage of branches
- Selection criteria for branches
- Frequency of reporting
- Risk-based audit methodology
- Reporting hierarchy
- Follow-up and compliance monitoring
- Appointment and rotation of auditors

Commercial banks generally operate under extensive supervisory frameworks prescribed by RBI through master directions, circulars, and inspection observations.

Urban Co-operative Banks (UCBs), although smaller in scale compared to commercial banks, are equally required to maintain effective concurrent audit systems due to increasing supervisory expectations.

b. Role of the Board and Audit Committee

The requirement for an Audit Committee of the Board (ACB) in banks flows from RBI's corporate governance framework and supervisory guidelines, which recognise the ACB as the apex board-level committee responsible for oversight of financial reporting, internal control systems, internal and external audit functions, risk management, and regulatory compliance.

Thus Board of Directors and Audit Committee of the Board (ACB) play a critical role in concurrent audit governance. Their responsibilities include:

- Approval of concurrent audit policy
- Identification of risk-prone branches
- Review of major audit findings
- Monitoring rectification status
- Evaluation of auditor independence
- Ensuring adequacy of audit coverage

A weak governance structure often result in ineffective implementation of concurrent audits, particularly in co-operative banks where board oversight may lack adequate professional expertise.

4. Scope of Concurrent Audit

The scope of concurrent audit has expanded substantially over time. Earlier restricted mainly to cash and loan transactions, it now encompasses a broad spectrum of operational and compliance areas.

a. Advances and Credit Monitoring

Loan operations constitute one of the most sensitive areas in concurrent audits.

Key audit checks include:

- Verification of sanction authority
- Documentation completeness
- End-use verification
- Drawing power calculations
- Stock statement scrutiny
- Review of overdue accounts
- Monitoring SMA accounts
- Compliance with exposure norms
- Verification of security perfection

Illustrative Example – Drawing Power Calculation

Suppose a borrower submits the following stock details:

- Raw Material Stock: ₹80 lakh
- Finished Goods: ₹40 lakh
- Debtors less than 90 days: ₹60 lakh
- Creditors: ₹30 lakh
- Margin stipulated by bank: 25%

Eligible Current Assets:

After applying margin:

If the outstanding balance exceeds ₹112.5 lakh, the account becomes irregular and requires immediate reporting by the concurrent auditor.

b. Income Recognition and Asset Classification (IRAC)

Concurrent auditors play a vital role in identifying early stress in loan accounts and ensuring proper classification of assets.

Areas examined include:

- Overdue calculations
- NPA identification
- Correct provisioning
- Reversal of unrealised income
- Evergreening detection
- Restructured account compliance

Illustrative Example – NPA Identification

Suppose a term loan instalment due on 1 January remains unpaid till 5 April.

The overdue period becomes:

As per RBI's prudential norms on Income Recognition, Asset Classification and Provisioning (IRAC), a term loan is classified as a Non-Performing Asset when interest and/or instalment of principal remains overdue for a period of more than 90 days.

This requirement is contained in the RBI's Master Circular on Prudential Norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances and its subsequent updates issued from time to time.

Failure to identify such classification can materially misstate bank profitability and capital adequacy.

c. Treasury and Investment Operations

In larger commercial banks, treasury operations involve substantial financial exposure.

Concurrent audit typically reviews:

- SLR and CRR compliance
- Investment classification
- Valuation procedures
- HTM/HFT/AFS categorisation
- Deal confirmations
- Derivative transactions
- Reconciliation of SGL balances

Given the complexity of treasury operations, concurrent auditors require specialised expertise in financial instruments and valuation methodologies.

d. Foreign Exchange Transactions

Foreign exchange transactions constitute one of the most highly regulated areas of banking operations. Concurrent audits in forex-authorized branches primarily examine compliance with the provisions of the **Foreign Exchange Management Act, 1999 (FEMA)**, rules and regulations framed thereunder, and various directions issued by the Reserve Bank of India to Authorised Dealer (AD) Category-I banks. Particular reference is made to the RBI's **Master Direction on Export of Goods and Services, Master Direction on Import of Goods and Services, Master Direction on Liberalised Remittance Scheme (LRS), Master Direction on Risk Management and Inter-Bank Dealings**, and the RBI guidelines governing trade credits, external commercial borrowings, and foreign exchange transactions. Concurrent auditors also evaluate compliance with obligations arising under the **Prevention of Money Laundering Act, 2002 (PMLA)**, Know Your Customer (KYC) Directions, and reporting requirements prescribed by the Financial Intelligence Unit-India (FIU-IND).

The concurrent audit generally covers:

- Import-export transactions
- Remittances
- Trade finance
- Letter of Credit (LC) operations
- Anti-Money Laundering (AML) procedures
- Suspicious Transaction Reporting (STR)

e. Digital Banking and Cyber Controls

The rapid migration toward digital banking has fundamentally altered the risk profile of banks.

Concurrent auditors increasingly review:

- Internet banking controls
- User access management
- Cybersecurity incidents
- ATM reconciliation
- UPI transaction monitoring
- Mobile banking fraud controls
- System-generated exception reports

In modern banking, technology risk is no longer confined to IT departments. It directly affects operational continuity and financial stability.

5. Distinction Between Co-operative and Commercial Banks in Concurrent Audit Environment

Although concurrent audit principles remain broadly similar, practical implementation differs substantially between co-operative and commercial banks.

Particulars	Commercial Banks	Co-operative Banks
Scale of Operations	Large and diversified	Comparatively smaller
Technology Infrastructure	Advanced CBS and analytics	Often limited
Risk Management Systems	Structured and mature	Developing stage
Audit Resources	Specialised professionals	Limited manpower
Regulatory Supervision	Intensive	Increasing but evolving
Fraud Risk	Sophisticated financial frauds	Governance-related vulnerabilities
Data Analytics Usage	Extensive	Limited adoption

Commercial banks increasingly use automated audit tools and risk analytics, whereas many co-operative banks continue to rely on manual verification processes.

6. Emerging Challenges in Concurrent Audit Frameworks

a. Increasing Complexity of Banking Operations

Modern banking transactions involve sophisticated digital ecosystems, integrated payment systems, AI-driven credit models, and complex treasury products. Traditional audit approaches are often inadequate to address these complexities.

Auditors now require multidisciplinary understanding covering:

- Banking law
- Information systems
- Cybersecurity
- Data analytics
- Risk management
- Financial instruments

The expectation from concurrent auditors has shifted from transactional checking to analytical risk assessment.

b. Technology and Cybersecurity Risks

Cyber frauds have emerged as a major concern across the banking sector.

Common risks include:

- Phishing attacks
- SIM swap frauds
- UPI frauds
- Malware intrusions
- Ransomware attacks
- Internal system manipulation

Concurrent auditors often face limitations because traditional audit methodologies may not adequately cover technology-driven risks.

A lack of IT audit skills remains a major challenge, particularly in smaller co-operative banks.

c. Evergreening and Window Dressing

One of the recurring concerns observed during regulatory inspections is evergreening of advances.

This involves extending fresh credit facilities merely to regularise overdue accounts temporarily. Such practices distort the true financial position of banks.

Concurrent auditors are expected to identify red flags such as:

- Sudden credits before balance sheet dates
- Circular movement of funds

- Frequent ad hoc limits
- Multiple related-party transactions
- Unusual reversals and rebookings

Failure to detect evergreening can lead to serious supervisory consequences.

d. Independence Concerns

In some institutions, especially smaller co-operative banks, concurrent auditors may face practical difficulties in maintaining independence due to:

- Long association with branches
- Management influence
- Inadequate rotation policies
- Fee dependency

Audit effectiveness significantly deteriorates when independence is compromised.

e. Inadequate Follow-up Mechanism

Concurrent audit reports lose effectiveness if observations are not acted upon promptly.

Common issues include:

- Delayed compliance
- Repetitive irregularities
- Weak accountability systems
- Poor monitoring of corrective action

An audit framework without structured follow-up becomes merely procedural rather than preventive.

f. Skill Gaps Among Auditors

Modern banking requires auditors to understand:

- Data extraction tools
- AI-assisted banking systems
- Cybersecurity frameworks
- Fraud analytics
- Regulatory technology (RegTech)

However, many concurrent audit teams still operate using traditional verification methodologies, creating a mismatch between risks and audit capability.



7. Best Practices in Concurrent Audit Frameworks

a. Risk-Based Concurrent Audit Approach

Banks should adopt risk-based concurrent audit models instead of uniform transaction checking.

High-risk areas requiring greater scrutiny include:

- Large advances
- Treasury operations
- Digital banking
- Forex transactions
- Related-party exposures
- Rapidly growing branches

Risk-based allocation improves audit efficiency and resource utilisation.

b. Technology-Enabled Audit Systems

Banks should increasingly integrate technology into concurrent audit processes.

Important tools include:

- Data analytics platforms
- Automated exception reporting
- AI-based transaction monitoring
- Continuous auditing software
- Centralised audit dashboards

Technology allows auditors to identify abnormal patterns that manual checking may overlook.

For example, an automated exception-reporting system may identify several loan accounts where stock statements have not been submitted within the stipulated time despite continued utilisation of working capital limits. Such exceptions may not be easily detected through manual scrutiny of large transaction volumes but can be promptly highlighted through technology-enabled audit tools, allowing timely corrective action.

c. Strong Auditor Rotation Policies

Periodic rotation enhances independence and objectivity.

Best practices include:

- Rotation of audit firms every 3–5 years
- Cooling-off periods
- Restriction on non-audit services
- Independent performance evaluation

Auditor familiarity risk must be actively managed.

d. Integration with Enterprise Risk Management

Concurrent audit should not operate in isolation.

Audit findings should feed into:

- Operational risk assessment
- Fraud risk management
- Compliance monitoring
- Internal control improvement
- Strategic governance discussions

An integrated approach strengthens organisational resilience.

e. Specialised Training and Capacity Building

Continuous professional education is critical.

Concurrent auditors should receive training in:

- RBI regulations
- Cybersecurity
- Fraud analytics
- Treasury operations
- AML compliance
- Data analysis tools

The dynamic nature of banking risks makes continuous learning indispensable.

f. Timely Escalation and Reporting Mechanism

Audit observations should be classified based on severity.

- g.** RBI's concurrent audit guidelines do not prescribe uniform reporting timelines for all categories of audit observations. Instead, banks are expected to establish Board-approved reporting and escalation mechanisms commensurate with the nature, materiality, and risk level of audit findings. Accordingly, high-risk observations involving fraud indicators, serious control failures, regulatory non-compliance, or significant financial exposure are generally escalated immediately to senior management and the Audit Committee of the

Board, whereas routine operational observations may be reported through periodic audit review mechanisms.**Strengthening Audit Documentation**

Well-maintained documentation enhances audit defensibility and regulatory reliability.

Audit documentation should include:

- Scope of work
- Sample selection basis
- Evidence obtained
- Management responses
- Risk categorisation
- Follow-up status

Comprehensive documentation also supports peer review and regulatory inspections.

8. Role of Chartered Accountants in Concurrent Audit

Chartered Accountants conducting concurrent audits carry significant professional responsibility. Their role extends beyond routine verification into risk identification and governance enhancement.

Professional expectations include:

- Maintaining independence
- Exercising professional skepticism
- Ensuring confidentiality
- Reporting material irregularities objectively
- Updating technical knowledge continuously

The standards of professional conduct expected from Chartered Accountants become even more critical in banking audits because failures may affect public confidence and financial stability.

9. The standards of professional conduct expected from Chartered Accountants become even more critical in banking audits because deficiencies in audit quality may have implications not only for individual institutions but also for public confidence in the financial system. Recognising this significance, the ICAI has issued several authoritative publications and professional pronouncements relevant to bank audits, including the **Guidance Note on Audit of Banks**, the **Technical Guide on Audit of Banks**, the **Code of Ethics**, the **Standards on Auditing (particularly SA 200, SA 230 and SA 240)**, the **Quality Management Standards (SQM 1 and SQM 2)**, and the **Peer Review Manual**. These frameworks emphasise auditor independence, professional skepticism, audit documentation, quality control, ethical conduct, and continuous professional education, all of which are fundamental to maintaining the integrity and reliability of banking audits.
- Future of Concurrent Audit in Indian Banking**

The future of concurrent audit is expected to be increasingly technology-centric.

Emerging developments likely to shape concurrent audits include:

- AI-driven audit analytics
- Continuous automated auditing
- Blockchain-based transaction verification
- Predictive fraud detection systems
- Real-time regulatory reporting
- Integrated cyber risk audits

Auditors will gradually move from sample-based checking toward exception-based intelligent auditing systems.

In co-operative banks, supervisory focus is expected to intensify further, particularly after recent governance failures and fraud incidents witnessed in certain institutions. This will require stronger audit frameworks, better governance standards, and enhanced professional accountability.

10. Conclusion: Forward Looking Insights

Concurrent audit has evolved into one of the most critical pillars of banking governance and risk management. In an environment characterised by digital disruption, increasing fraud sophistication, regulatory complexity, and heightened stakeholder expectations, the importance of an effective concurrent audit framework cannot be overstated.

For commercial banks, the challenge lies in integrating advanced technology, analytics, and risk intelligence into audit systems capable of handling large-scale complex operations. For co-operative banks, the priority remains strengthening governance structures, improving audit quality, enhancing professional competence, and ensuring independence of auditors.

An effective concurrent audit framework is not merely a regulatory requirement. It is a strategic risk management mechanism that protects depositor confidence, strengthens operational integrity, and enhances institutional sustainability.

The future effectiveness of concurrent audits will depend upon how successfully banks combine human professional judgment with technological intelligence. Chartered Accountants, as trusted professionals, will continue to play a central role in ensuring that concurrent audit systems remain relevant, reliable, and responsive to emerging banking risks.

Ultimately, concurrent audit should not be viewed as a fault-finding exercise. Instead, it should function as a constructive governance tool that supports transparency, accountability, operational discipline, and long-term financial stability in India's banking sector.

-By CA Pushkar Raj Joshi

COVER STORY — MSME RESILIENCE SPECIAL

Impact of the Global Crisis

From COVID-19 to the Strait of Hormuz What Every Indian MSME Must Know to Survive and Thrive

ABSTRACT

Indian Micro, Small, and Medium Enterprises (MSMEs) — the sector that accounts for nearly 30% of India's GDP, over 45% of its exports, and employs upwards of 110 million people — have faced a turbulent half-decade of back-to-back global crises. From the catastrophic disruptions of COVID-19 (2020–2022) and the Russia–Ukraine supply chain shocks (2022–2023), to the Red Sea–Strait of Hormuz shipping crisis of 2024–2025, Indian MSMEs have been stress-tested as never before. This article examines the cascading economic pressures, sector-specific damage, government policy responses, and the strategic imperatives that will determine which MSMEs survive and which transform adversity into competitive advantage.

63.4M

MSME Enterprises in India

~30%

Share of India's GDP

45%

Share of Total Exports

110M+

Workforce Employed

01 Setting the Stage — The MSME Backbone of India

India's MSME sector is not merely a component of the economy — it is its circulatory system. Defined under the MSMED Act and revised under the Aatmanirbhar Bharat framework in 2020, Indian MSMEs span every conceivable segment: from handloom weavers in Varanasi and auto-component manufacturers in Pune, to IT service firms in Hyderabad and pharmaceutical exporters in Ahmedabad. The sector includes approximately 63.4 million enterprises, with micro units comprising over 99% of that base.

What makes the MSME story particularly critical is its role as an employment absorber. With organised manufacturing unable to scale fast enough to accommodate India's demographic dividend, MSMEs have historically served as a pressure valve — absorbing rural migration, generating livelihoods in Tier-2 and Tier-3 cities, and creating the sub-supply ecosystems that large corporations depend upon. Yet, this same structural characteristic — informality, thin capitalisation, short liquidity horizons, and dependence on physical supply chains — is precisely what made the sector so vulnerable when global shocks arrived in rapid succession between 2020 and 2025.

“India's MSMEs employ more people than the entire population of Germany. Their fragility is a national risk; their resilience is a national imperative.”

02 COVID-19 (2020–2022) — The Existential Shock

The onset of COVID-19 in March 2020 delivered an existential shock to Indian MSMEs. The nationwide lockdown — one of the most stringent globally — brought virtually all economic

activity to a halt for 68 days in its first phase alone. Unlike large corporates with treasury reserves, capital market access, and remote-work infrastructure, most MSMEs had none of these buffers. The consequences were immediate and severe.

According to the All India Manufacturers' Organisation (AIMO), approximately 35% of small businesses shuttered permanently within the first year. An ILO–UNDP joint study estimated that India lost 122 million jobs in April 2020 alone, with the informal MSME ecosystem absorbing the brunt. Revenue losses across MSME sub-sectors ranged from 40% in food processing to over 90% in hospitality and textiles. The textile cluster of Surat lost an estimated Rs. 7,500 crore in monthly revenues during the first lockdown, while leather goods MSMEs in Agra reported near-total collapse.

The credit crunch compounded matters. Despite the RBI's Emergency Credit Line Guarantee Scheme (ECLGS) — which eventually disbursed over Rs. 3.6 lakh crore to more than 1.3 crore MSME accounts — the pipeline was slow and burdened by documentation that smaller units could not meet. NPAs in MSME lending rose from 9.6% pre-COVID to an estimated 17.2% by late 2021 as moratorium periods ended and cash flows failed to recover.

MSME Sector	Estimated Revenue Impact (FY 2020-21)
Textiles & Apparel	-65% (Surat, Tiruppur clusters severely hit)
Food Processing	-38% (Supply chain disruption; labour shortage)
Auto Components	-55% (OEM shutdowns cascaded downstream)
Hospitality & Tourism	-88% (Near-total collapse; protracted recovery)
IT/ITeS (Micro Units)	-22% (Partial resilience via digital transition)
Pharmaceuticals / CRAMS	+12% (Counter-cyclical; demand surge benefit)
Leather & Footwear	-72% (Agra, Kanpur clusters particularly hit)

Table 1: Sector-wise Revenue Impact on Indian MSMEs — FY 2020-21 | Source: AIMO, SIDBI, Author Analysis

03 Russia–Ukraine War (2022–2023) — Supply Chain Fractures

Just as Indian MSMEs were beginning to show tentative post-COVID recovery, the Russia–Ukraine war erupted in February 2022, rewriting global commodity, energy, and food markets almost overnight. For Indian MSMEs, the impact arrived through three primary channels: raw material inflation, shipping cost escalation, and buyer demand uncertainty.

Crude oil prices spiked above USD 130 per barrel in March 2022, driving up transportation, packaging, and energy costs across the MSME spectrum. Plastic processing units in Rajkot and Ahmedabad saw polymer input costs rise 40–55%. Steel prices, critical for engineering clusters in Ludhiana and Coimbatore, surged 30–35% year-on-year. Wheat and sunflower oil shortages impacted agro-processing MSMEs in Maharashtra, Madhya Pradesh, and Punjab.

On the export front, European buyers — a critical market for Indian MSME exports in gems and jewellery, textiles, and engineering goods — began deferring orders as consumer confidence in the EU plummeted. FIEO data showed MSME export growth slowing from 26% in FY22 to just 5.4% in FY23 for non-pharma segments. Meanwhile, freight rates on key



trade lanes, already elevated from post-COVID container shortages, remained stubbornly high through much of 2022.

“Three cascading crises in five years. Indian MSMEs did not fail — but the institutional ecosystem around them often did.”

04 The Red Sea & Strait of Hormuz Crisis (2024–2025)

By late 2023, a new geopolitical flashpoint had emerged with direct consequences for Indian trade: Houthi rebel attacks on commercial shipping in the Red Sea, coupled with escalating tensions around the Strait of Hormuz — the narrow chokepoint through which approximately 21% of global oil trade transits. By January 2024, over 20 major shipping lines had suspended or re-routed their Red Sea services, defaulting to the longer Cape of Good Hope route around southern Africa.

The freight consequences were stark. Container freight rates on the Asia-to-Europe route surged from approximately USD 1,500 per FEU in November 2023 to over USD 6,000 per FEU by March 2024 — a 300% increase in under five months. For an Indian MSME exporting readymade garments from Bengaluru to Hamburg, this translated directly into either margin compression or lost market competitiveness, as buyers facing higher landed costs shifted sourcing to Bangladesh, Vietnam, or Turkey.

India’s oil import bill — 85% of which transits routes proximate to the Strait of Hormuz — came under pressure, with the Indian rupee depreciating to over Rs. 83.5 per USD by mid-2024. For MSME importers of industrial machinery, chemicals, and electronic components, the double burden of higher freight and a weaker rupee added 8–14% to effective input costs on average. The Confederation of MSME (CMSME) estimated that approximately 1.8 lakh MSME export orders worth Rs. 22,000 crore were either cancelled, renegotiated, or delayed during Q1–Q3 of FY 2024-25.

Impact Parameter	Estimated Impact on Indian MSME Exports (FY 2024-25)
Freight rate increase (Asia–Europe)	Up 250–300%; transit extended by 10–14 days
Additional logistics cost per container	USD 4,000–5,000 above FY23 baseline
MSME export orders disrupted	~1.8 lakh orders; Rs. 22,000 Cr notional value
Rupee depreciation import impact	8–14% increase in effective landed cost
Sectors most affected	Textiles, Engineering Goods, Gems & Jewellery
Sectors partially insulated	IT/Software Services, Pharma API exports

Table 2: Red Sea–Hormuz Shipping Crisis — MSME Export Impact Metrics | Source: CMSME, FIEO, Author Analysis

05 Policy Responses — Gains, Gaps & Unfinished Agenda

The Government of India responded to each crisis phase with a mix of fiscal stimulus, credit facilitation, and regulatory relief — some measures genuinely effective, others limited by implementation gaps. The Aatmanirbhar Bharat package of May 2020 earmarked over Rs. 20 lakh crore across five tranches, with a significant portion directed at MSMEs through the ECLGS, equity infusion via funds-of-funds, and a Subordinate Debt Scheme for stressed units. The Udyam Registration Portal, launched in July 2020, simplified formalisation — with over 2.3 crore MSMEs registered by FY25.

For the shipping crisis of 2024, the Ministry of Commerce activated an Emergency Freight Support package, providing partial reimbursement of enhanced freight costs for select export categories under the RoDTEP scheme. The RBI maintained accommodative monetary policy through most of FY24 to cushion rupee volatility impacts. Yet, structural gaps persist. MSME credit penetration remains below 16% of formal banking credit despite MSMEs representing 30% of GDP. The TReDS platform, designed to ease MSME receivables financing, processed only Rs. 62,000 crore in FY24 against a potential market of over Rs. 20 lakh crore — a utilisation gap that speaks volumes about systemic under-reach.

06 Six Resilience Imperatives for Indian MSMEs

The crises of the last five years have surfaced uncomfortable structural truths. Six imperatives emerge clearly from the evidence:

- **Supply Chain Diversification:** Dependence on single-country sourcing — particularly China for raw materials and components — proved catastrophic during COVID. MSMEs must build multi-vendor, multi-geography supply chains with strategic domestic buffer stocks, supported by the government’s PLI schemes for input substitution.
- **Digital Transformation as a Survival Tool:** MSMEs that had invested even minimally in e-commerce platforms, ERP systems, and digital payments demonstrated significantly better survival rates. Platforms like ONDC and GeM offer immediate, low-cost scalability opportunities that MSME leaders must prioritise.

- Financial Engineering and Forex Hedging: Exposure to foreign exchange risk without any hedging mechanism is a critical vulnerability for MSME exporters. Forward contracts, natural hedging via multi-currency pricing, and access to currency derivatives through BSE/NSE are tools that MSME CFOs must actively deploy.
- Cluster-Level Trade Finance Consortia: Individual MSMEs cannot negotiate freight contracts or open Letters of Credit with the bargaining power of large corporates. Sector associations — FIEO, CII-MSME cells, state MSME development corporations — must facilitate freight consortiums and group insurance programmes urgently.
- Regulatory Compliance as Risk Mitigation: The DPDP Act 2023, GST compliance maturity, and SEBI's MSME listing regulations under the SME IPO framework are not mere compliance boxes — they are credibility signals that improve access to formal capital, export market trust, and government procurement eligibility.
- Leadership Mindset and Scenario Planning: The most resilient MSMEs were not necessarily the largest or best-capitalised — they were those whose owner-managers had institutionalised basic scenario planning: maintaining a 90-day liquidity runway, knowing their break-even at 50% capacity, and having a pre-identified fallback product or market.

“Resilience is not a luxury reserved for large enterprises. For an MSME, it is the price of admission to the next decade.”

07 Conclusion — From Survival to Strategic Advantage

The trajectory from COVID-19 to the Strait of Hormuz represents something more than an unfortunate sequence of events. It represents the new permanent reality of an era defined by polycrisis — the simultaneous and compounding occurrence of multiple systemic shocks. For Indian MSMEs, the response cannot be to hope for calmer waters. It must be to build better ships.

India stands at a rare strategic juncture. As global supply chains de-risk away from China, as the China+1 strategy accelerates across sectors from electronics to pharmaceuticals to textiles, and as India's domestic consumption market matures into one of the world's largest, the structural opportunity for Indian MSMEs is genuinely historic. But opportunity without resilience is merely exposure to a different kind of risk.

The government's role — through initiatives like the MSME Champions Portal, the RAMP (Raising and Accelerating MSME Performance) scheme, and PLI-linked supply chain integration — is to lower the cost of resilience and formalisation. The MSME's role is to stop treating resilience as an overhead cost and start treating it as its most important strategic investment. The crises of the last five years were also, for those who looked carefully, a masterclass in what Indian MSMEs are truly capable of when pressed. That capacity for survival — transformed into intentional, designed resilience — could yet be India's defining competitive advantage in the global economy of the 2030s.

-By Prof. Kapil Kumar Suri

QUIZ

1. A service startup using digital platforms can scale because:

- A. It increases manual effort
- B. It enables wider reach with lower incremental cost
- C. It avoids technology
- D. It limits customer base

2. AI-based fraud detection systems help MSMEs by:

- A. Increasing fraud
- B. Identifying unusual transactions and risks
- C. Eliminating financial records
- D. Avoiding audits

3. Data is considered an asset for MSMEs because it:

- A. Increases confusion
- B. Provides insights for better decision-making
- C. Replaces employees
- D. Eliminates competition

4. Which tool is commonly used for data visualization in MSMEs?

- A. Power BI
- B. Calculator
- C. Notepad
- D. Paint

5. Data-driven decision making helps MSMEs to:

- A. Improve efficiency and profitability
- B. Increase uncertainty
- C. Avoid planning
- D. Reduce competitiveness

6. Digital transformation enables MSMEs to:

- A. Expand into global markets through digital platforms
- B. Limit operations locally



- C. Avoid customers
- D. Reduce growth opportunities

7. Startups can leverage AI to:

- A. Build scalable and innovative business models
- B. Increase manual work
- C. Avoid technology
- D. Reduce innovation

8. Which of the following is a new business opportunity created by AI?

- A. AI-based consulting services
- B. Paper-based accounting
- C. Manual auditing
- D. Offline billing

9. Chartered Accountants in the digital era primarily act as:

- A. Only compliance officers
- B. Strategic advisors and digital transformation partners
- C. Manual bookkeepers
- D. Data entry operators

10. Consultants can create value for MSMEs by:

- A. Avoiding technology implementation
- B. Guiding digital transformation and AI adoption
- C. Increasing manual processes
- D. Reducing efficiency

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



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