MSMEs – Next Wave of Non-Financial Regulatory Reforms

INTRODUCTION

The Financial Year 2025-26 is challenging as well as exciting for Indian economy and, in particular for, MSME sector. The upper limits for Investment and Turnover have been increased and now match global standards. Aggregated webportal https://my.msme.gov.in/ has facilitated easier access to various active schemes. The year has already seen launch of dedicated webpotal for online dispute redressal system for msme www.odr.msme.gov.in.

Remaining five months of the Financial Year 2025-26 will further ease the life of MSME entrepreneurs as the focus is now shifting towards:

- Trust Based Regulatory Framework
- Reduction of compliance burden
- Deregulation
- Multiple Compliance exemptions for MSME Sector
- Inspection from Factory to Market

Entreprenurial life will certainly be easy if on one fine morning MSME entrepreneur wakes up and find:

- Definition of 'Small Company' under Companies act, 2013 has been aligned with MSME (Development) Act, 2006; CSR is not aplicable on MSME entities; One Board meeting is sufficient in a Financial Year; Self signed financials are acceptable and auditor's hiring is optional.
- Doing away with quarterly GST return; enhanced GST exemption limits from INR 40 Lakhs to INR 1 Crore for goods sector and from INR 20 lakhs to INR 50 lakhs for service sector.
- Reduction in high penal interest rates for delayed tax and statutory payments from 18% to 12%; lower down harsh penalties for minor errors from INR 25K to INR 5K.
- Suitable changes in MSME (Development) Act, 2006 to allow sole mediator and sole arbitrator for recovery of delayed payments; online adjudication process for faster resolution of payment disputes.
- Expansion of credit guarantee schemes for medium enterprises in addition to micro and small enterprises; increase in credit guarantee limits form INR 10 Crores to INR 50 crores per borrower.

EXISTING SCENARIO

Increasing 'Global Economic Tensions' and 'Multiple War Zones' have shifted focus on 'Looking Within'. MSMEs need to be treated as **New Growth Engines**. As per Economic Times report, MSMEs contribute:

- 35% of Manufacturing Output
- 46% of Exports
- 30% of Gross Value Addition
- Employ 30 Crore people

As of now, MSMEs are tied up by > 1400 compliances on Y-o-Y basis and follow > 40 regulatory changes per day. Failure to meet these 'non-financial regulatory compliances (NFRC)' leads to:

- Stress on meagre financial resources;
- Eats quality time of top team; and
- Shifts focus of MSME entrepreneurs from growth to compliances.

It is next to impossible to track regulatory changes on daily basis as MSMEs lack qualfied full time employees as they can't afford such employees.

HIGH LEVEL COMMITTEE LED BY SH RAJIV GAUBA

During his Independence day speech on 15th August, 2025, the Hon'ble Prime Minister, Sh. Narendra Modi talked about the need for next generation economic reforms. PM Said, "Current rules, laws, policies, and procedures must be redrafted to suit the 21st century, to fit the global environment, and to align with the vision of making *Bharat* **a developed nation by 2047**."

On August 19, 2025, a **'High Level Committee on Non Financial Regulatory Reforms (HLC-NFRR)'** has been constituted. The committee is headed by longest serving Former Cabinet Secretary, Sh. Rajiv Gauba. The Committee has a short tenure of one year and is expected to submit reports to Department of Economic Affairs, Ministry of Finance. Presently Sh. Rajiv Gauba is a full time member of Niti Aayog.

The HLC-NFRR's overview:

- **Establishment:** The committee was constituted by India's Cabinet Secretariat in 2025, with representatives from government departments and industry chambers.

- **Purpose:** To identify next generation economic reforms in space of non-financial regulatory reporting.
- **Methodology:** 11 working groups constituted for 360 degree regulatory reforms.
- **Scope:** The Committee is likely to suggest ease of doing business in respect of wide variety of laws, rules, regulations, etc.
- **Interim Reports:** Interim reports of Gauba Panel are not available in public domain. Select matters are reported in public domain by PIB (Press Information Bureau) and leading financial dailies.

TIME BOUND RECOMMENDATIONS BY HLC-NFRR

Interim findings relating to MSMEs suggest that MSMEs face constraints due to complex rules. Rajiv Gauba panel has suggested 38 point agenda with a goal to shift towards **trust-based regulatory framework** and reduce the 'licence and inspection raj' with approach of shift **inspection to market** instead of work place. The interim findings comprises of recommendations with focus on:

- Reduction in penalties and compliance burden.
- Sharper cost competitiveness.
- Higher productivity and proftiability.
- Adoption of speed in approvals with the integration of AI and technology.
- EoDB – through simplification of rules and procedures with upward shifting of limits.

The High Level panel has also suggested implementation schedule for each interim recommendation. Key recommendations are as under:

S. No.	Recommendation and Relevant Law	Purpose	Area
1.	Revision in definition of 'Small Company'.	To be in sync with MSME Development Act	**Company Law**
2.	Board meeting per year to be reduced to One.	To reduce compliance burden	**Company Law**
3.	Exemption from CSR requirements and other CSR linked regulatory obligations.	To reduce compliance burden and focus on growth	**Company Law**
4.	Relaxation from Appointment of Statutory Auditor for small companies with upto ₹1 Crore turnover.	To promote trust based regulatory approach	**Company Law**
5.	Relaxation from Annual Filing with focus on Event Based Filings.	To promote trust based regulatory approach	**Company Law**
6.	Reduction in High Penalty Interest (For short staffed micro enterprises) from 18% PA to 12% PA.	To reduce delayed compliance financial burden	**Direct Taxes, Indirect Taxes and Others**
7.	Reducing Penalties for Minor errors – from INR 25000 to 5000.	To reduce financial burden	**Multiple Laws**
8.	GST (For Micro Enterprises) – Annual Return instead of quarterly return with turnover upto INR 10 crore.	To reduce compliance frequency	**GST Laws**
9.	GST (For Small Enterprises) – Quarterly return instead of monthly return with turnover upto INR 100 crore.	To reduce compliance frequency	**GST Laws**
10.	GST (For Goods based enterprises) – increase exemption limit from INR 40 Lakh to INR 1 Crore.	Ease of Doing Business	**GST Laws**
11.	GST (For Other than Goods based enterprises) – increase exemption limit from INR 20 Lakh to INR 50 Crore.	Ease of Doing Business	**GST Laws**
12.	Tax Audit – To increase threshold from INR 1 Crore to INR 2 Crore.	Ease of Doing Business	**Income Tax Laws**
13.	Introduction of Credit Guarantee Scheme (for Medium Enterprises): Through existing trust CGTMS and by creation of separate corpus	To Fuel Growth	**Strategic**
14.	Increase in maximum Credit Guarantee limit: From INR 10 Crore to INR 50 Crore.	To Fuel Growth	**Strategic**

15.	Introducing concept of sole mediator and sole arbitrator	Expedite delayed payment recovery	**MSME Laws**
16.	Online Adjudication Process	Expedite delayed payment recovery	**MSME Laws**
17.	Expand MSME Facilitation Councils	Expedite delayed payment recovery	**Strategic**

THE PROFESSIONAL OPPORTUNITY

New developments will bring forth new professional opportunities. Company Secretaries, in particular, 'Practising Company Secretaries' can easily upgrade themselves to connect with MSMEs and vibrant MSME associations in their respective cities:

- **Creating Awareness:**

  Changes are likely to be widespread and are unlikely to happen in one go. Changes are likely to be in a series. Sensitization of MSMEs through forums will help in getting connected with them for compliance management. Company Secretaries in Practice can easily create awareness and handhold MSMEs for various subsidies offered by Central & State Governments and other bodies.

- **Legal Representative for Delayed Payments:**

  The condition of MSEFCs (Micro and Small Enterprises Facilitation Councils) in relation to Recovery of Delayed Payment is due for overhaul. Even online arbitration is being talked about. The changing face has the potential to transform opportunities. Company Secretaries in Practice have online capabilities (not only for filing but for attending VCs) and for representing MSMEs for 'Delayed Payment Recovery'. Alternative Dispute Resolution (ADR) mechanism is just on cards. ICSI has also set up an International ADR Centre in NOIDA. ODR (Online Dispute Resolution) mechanism is super-fast procedure. Company Secretaries in Practice can easily develop the procedural capabilities.

- **Grooming up for Role as Mediator and Arbitrator:**

  Gauba panel has suggested for online arbitration as well. As per estimate, 60% of the MSME recovery matters will enter ADR phase. Practicing Company Secretaries who have completed their 'Post Membership Qualification in Alternative Dispute Resolution / Arbitration' will be very comfortable in acting as Mediator/Arbitrator. To become mediator on MSME ODR portal, they need to enrol with Institution/Centres which are empanelled from their State on MSME ODR Portal. PCS looking for such opportunities are advised to develop capacities and empanel as Mediator/ Arbitrator.

CONCLUSION

Every new change brings new challenges. MSMEs are nervous to adopt every new change. They require services of professionals not only to get sensitized about changes but also to enjoy fruits of changes made by the system. Changes in the arena of MSMEs are just on cards and may happen at faster pace than expected. Every new change will be golden opportunity for CS to enter into domain of MSMEs.

They just need to take care of five equally crucial steps mentioned hereunder:

- Careful reading of each new change and analysis of its impact and outcome for MSMEs;
- Sensitize MSMEs on individual and collective level;
- Understand the role of VC and online mechanism;
- Attend Programmes (Study Circle, Workshops and Programmes) of ICSI Chapters to develop capacities;
- Gear up to work with MSMEs (keeping in mind that ready information may not be available).

Be ready many more such initiatives are in the offing. First movers will certainly be in advantageous position.

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