

Unlocking the Potential:

Legal & Justice
Solutions for
Indian MSMEs

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01

Context

In the intricate tapestry of India's economic landscape, Micro, Small, and Medium Enterprises (MSMEs) stand as resilient threads, weaving together growth, innovation, and livelihoods. With nearly **6 crore entities employing approximately 11 crore individuals**, MSMEs represent the cornerstone of India's economic prowess, constituting roughly **40% of the nation's non-farm workforce**. Their significance extends beyond mere numbers; they form the bedrock of distribution networks, infusing vitality into the supply chains of larger enterprises. Contributing substantially, MSMEs account for nearly **25% of India's services GDP** and a formidable **33% towards the country's total manufacturing output**.

Yet, amidst this vibrancy, a sobering reality persists. The journey of MSMEs is often marred by challenges such as poor cash flow, business disputes, and a profound lack of legal awareness. These impediments not only hinder their survival but also impede their potential to thrive in an ever-evolving economic landscape.

A glaring issue plaguing MSMEs is the ordeal of delayed payments, a scourge that cripples their financial health. According to the **Micro, Small, and Medium Enterprises**

Development (MSMED) Act of 2006, delayed payments occur when buyers prolong payables to their Micro and Small Enterprise (MSE) suppliers beyond 45 days. This legal stipulation, while ostensibly protective, inadvertently shackles MSMEs, trapping an estimated **5.9% of the gross value added (GVA)** in the Indian economy, amounting to a staggering **INR 10.7 lakh crores**.

The brunt of this burden is disproportionately borne by micro and small enterprises, accounting for a staggering 80% of the locked-up funds, totalling **INR 8.55 lakh crores**.



Even Government Organizations and Public Sector Undertakings (PSUs) aren't immune to this malaise, further exacerbating the plight of MSMEs. Fundamentally, this conundrum stems from a power asymmetry, wherein smaller suppliers find themselves at the mercy of larger buyers.

In the space of business, the adage **“revenue is vanity, profit is sanity, and cash is king”** resonates profoundly. Indeed, cash flow is the lifeblood of any enterprise, and for MSMEs, it holds the key to sustenance and growth. Positive cash flow enables investments in production cycles, timely statutory payments, and access to credit. However, to bridge cash flow mismatches, MSMEs often resort to borrowing from financial institutions or local money lenders, incurring additional costs that inflate the prices of goods or services provided.

In light of these challenges, the MSME SAMADHAAN facility emerges as a beacon of hope, albeit with limitations. Exclusive to MSMEs registered under the Udyam Aadhar, this platform addresses delayed payment disputes but fails to encompass general business disputes. Despite its noble intentions, the SAMADHAAN portal's efficacy is marred by stark realities. Over the last seven years since its inception, it has managed to dispose of a mere **19.5% of the 1,77,673** applications registered, amounting to a paltry 34,721 cases. This dismal performance underscores the prevailing lack of trust, coupled with the inadequacy and scalability issues haunting the existing framework.

In this white paper, we embark on a comprehensive exploration of legal and justice solutions tailored to the unique needs of Indian MSMEs. By dissecting the intricacies



of their challenges and proposing pragmatic interventions, we aim to unlock the full potential of these enterprises, fostering a landscape where they not only survive but thrive.

02

Three Fundamental Pain Points Faced by MSMEs



Delayed Payment



**General Business
Disputes**



**Lack of Legal
Awareness**

1. Delayed Payments: A Systemic Threat to MSME Liquidity

One of the most pervasive challenges crippling Indian MSMEs is the issue of delayed payments. Despite legal provisions under the MSMED Act mandating payment within 45 days, larger buyers—including public sector undertakings and government departments—routinely flout these terms. The result is a massive liquidity crisis for micro and small enterprises, which account for over 80% of the INR 10.7 lakh crore in locked-up payments across the economy. This chronic delay in receivables severely hampers working capital cycles, disrupts operations,

and forces MSMEs to borrow at high costs just to survive. The impact is not merely financial—it undermines confidence, stifles growth, and often leads to the premature death of otherwise viable businesses. For an economy that relies heavily on MSMEs to generate employment and drive innovation, this systemic failure to ensure timely payments reflects a deep-rooted power imbalance and lack of enforcement, turning cash flow management into a daily struggle for millions of entrepreneurs

2. General Business Disputes: An Unseen Growth Inhibitor

While MSMEs are key contributors to India's supply chains and service economy, they are particularly vulnerable when it comes to managing business disputes. Issues like breach of contract, poor service delivery, quality mismatches, and non-performance are common, yet there is little institutional support for resolution. For MSMEs, pursuing litigation is not only financially unviable but also slow, complex, and intimidating. As a result, many small businesses either abandon claims or absorb losses, eroding margins and trust in commercial relationships. These unresolved disputes often escalate tensions, create long-term instability in supply chains, and discourage future risk-taking. Unlike large corporations with in-house legal teams and established arbitration practices, MSMEs remain largely unprotected, operating in an environment where justice is inaccessible, and the cost of enforcement outweighs the value of the dispute itself. This legal vacuum continues to be a significant but underrecognized factor restraining MSME growth and sustainability.

3. Lack of Legal Awareness: A Silent Competitiveness Gap

A critical yet underappreciated issue hindering the potential of MSMEs in India is the widespread lack of legal awareness. Many MSME owners and operators are unfamiliar with their rights, regulatory obligations, and the legal safeguards available to them under Indian law. This knowledge gap extends across essential areas such as contracts, labor laws, tax compliance, intellectual property, and government schemes. The result is not just procedural non-compliance but also a heightened risk of exploitation, legal penalties, and operational disruptions. In many cases,

MSMEs unknowingly enter into unfavorable agreements or miss opportunities for redress and incentives simply due to lack of information. The problem is especially acute in rural and semi-urban areas, where access to qualified legal advisors is limited, and information dissemination is poor. This legal illiteracy acts as a barrier to formalization, compliance, and long-term competitiveness, leaving a vast segment of India's entrepreneurial base vulnerable and underprepared in an increasingly regulated economic environment.



03

Solutions for MSMEs

3.1 MSE-Facilitation Council as a Platform

3.2 MSME ODR

3.3 Dial Law for MSME

3.1 MSE-Facilitation Council as a Platform

The MSME Samadhan portal and the current framework for handling **delayed payment** applications face numerous challenges, particularly concerning physical and human infrastructure at the state level. Even the **Draft MSME Policy of, 2022** acknowledges the inadequacy of the current system, noting that most states have only one **Facilitation Council (FC)** at the state level, leading to delays and a backlog of cases. The Draft Policy further suggests that there is a pressing need for the establishment of more FCs, with consideration given to setting up an FC in each district where feasible. However, IT infrastructure is deficient across states, hindering the effectiveness of the existing system. Furthermore, the SAMADHAAN portal lacks alignment with key frameworks like **e-Kranti and IndEA**, which are crucial for ensuring **Government-wide Transformation and Re-Architecting Government as a Single Enterprise**.

Hence, the solution of “**MSE-Facilitation Council As A Platform**” will work on an approach of Centralization of the Foundational Core Platform to build the SAMADHAAN 2.0 Platform at the Ministry of MSME level & De-Centralization of Customization of the Pre-Built SAMADHAAN 2.0 Platform to States & UTs.

3.1.1 Value Creation of MSE-Facilitation Council as a Platform

- Single Platform- Integration of Centre & States
- Single Interface
- Single Data
- Federated Approach- State can customise its MSE-Facilitation Council within the Platform

3.1.2 Advantages of MSE-Facilitation Council as a Platform

To State

- Digital MSE-FC Platform customised to their needs
- No physical infrastructure to create multiple MSE-FC throughout state
- Wider & Accessible reach to MSEs to file their references/complaints digitally from anywhere, anytime and from any device
- Create and Manage State-level Neutral Panel
- Formal Council Meetings Digitally
- State-wise Data Analytics and Reporting for deeper insights & policy decisions

To Ministry of MSME (Centre)

- All MSE-FC Arms on a Single Platform i.e. SAMADHAAN 2.0
- Easier National-level Monitoring
- Larger pool of Neutrals from across India
- Formal Communication Platform (Video, Audio & Text) to Coordinate & Collaborate with State Governments
- National-level Data Analytics & Reports for deeper insights & policy decisions

3.2 MSME ODR

3.2.1 What is ODR?

ODR (Online Dispute Resolution) is a mechanism to resolve disputes online through Mediation & Arbitration using an **ODR Platform** where all the participants (including Disputing Parties, Mediator or Arbitrator, Lawyers & Case Managers) perform end-to-end procedures online on a single platform by eliminating paper-based, manual processes & physical appearances.



3.2.2 ODR for MSMEs

In the dynamic space of business, disputes are an inevitable aspect, with approximately 3%-5% of all transactions culminating in disagreements. For Micro, Small, and Medium Enterprises (MSMEs) in India, the lack of a dedicated dispute resolution system, especially for **general business disputes beyond delayed payments**, compounds their challenges. These unresolved conflicts not only impose financial strains but also impede business growth, exacerbating the hardships faced by MSMEs.

According to **NITI Aayog's ODR Policy Plan for India** in 2022, MSME SAMADHAAN primarily addresses issues related to delayed payments, leaving a significant gap in resolving other business disputes. This deficiency is particularly detrimental given that unresolved MSME disputes in the European Union alone account for **2.8% of turnover**, underscoring the urgency for effective dispute resolution mechanisms.

NITI Aayog recommends the establishment of a MSME ODR (Online Dispute Resolution) system, focusing on mediation and arbitration, to provide MSMEs with accessible avenues for out-of-court resolution. Drawing inspiration from the **Asia-Pacific Eastern Co-operation**, which has devised a collaborative framework for resolving low-value disputes, including cross-border business-to-business (B2B) disputes, India can adopt a similar approach. By leveraging technology and collaborative frameworks, the MSME ODR system can empower MSMEs to efficiently resolve disputes, fostering a **conducive environment for business growth and sustainability**.

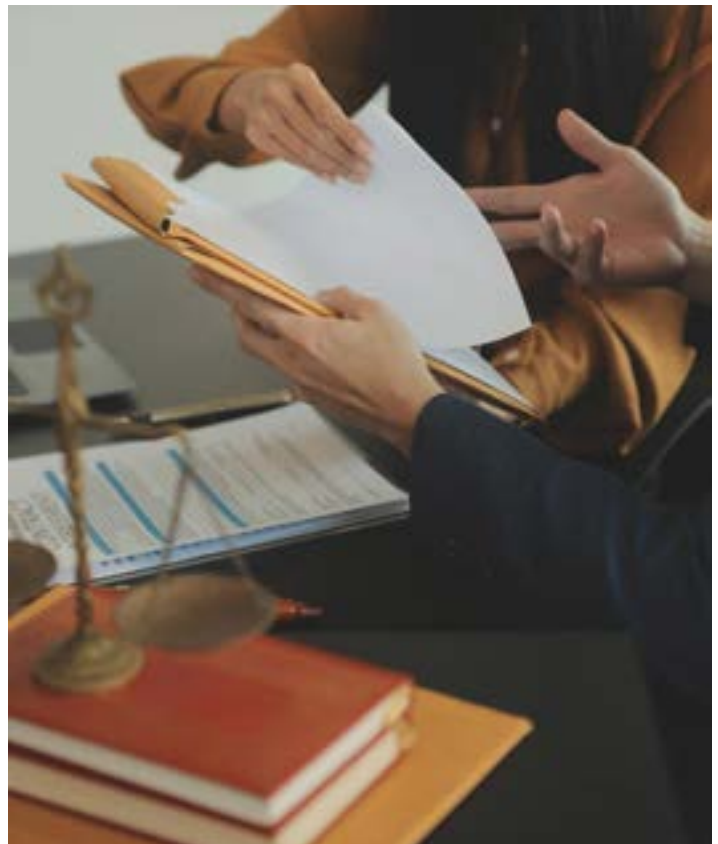
3.2.3 Advantages of ODR for MSMEs

- Digital avenue for MSMEs to resolve disputes other than delayed payments
- Out-of-Court Resolution of Business and Other Disputes of MSMEs
- 80% Time-efficient Resolution of Disputes
- 85% Cost-effective Dispute Resolution
- Fixed/Guaranteed Timely Resolution of Disputes
- No Hardship, Frustration & Inconvenience
- Resolve Disputes from the Comfort of Home
- Transparency & End-to-End Visibility

3.3 Dial Law for MSME

In line with the **Department of Justice's initiative of Tele Law**, aimed at empowering marginalised and economically disadvantaged communities, there arises a parallel need to extend similar support to Micro, Small, and Medium Enterprises (MSMEs). A dedicated legal **helpline number for MSMEs** can serve as a lifeline, offering access to expert guidance on legal rights, remedies, and schemes and programs offered to MSMEs in India.

Much like Tele Law, this initiative would enable MSMEs to consult online with a curated panel of experienced and specialized professionals, including **lawyers, Chartered Accountants, MBAs**, and other relevant experts. These professionals would offer tailored advice on legal matters & MSME policies, schemes and programs, catering specifically to the unique challenges faced by MSMEs.



By providing a centralised platform for legal consultation and guidance, MSMEs can navigate complex legal landscapes, mitigate risks, and make informed decisions crucial for their growth and sustainability. Moreover, such a helpline would democratise access to legal assistance, bridging the gap between MSMEs and legal expertise, regardless of **geographical constraints, linguistic barriers or financial limitations**.

Ultimately, the establishment of a legal helpline for MSMEs aligns with broader efforts to foster an enabling ecosystem for entrepreneurship and economic development. By empowering MSMEs with timely and reliable legal support, this initiative can catalyze innovation, foster compliance, and enhance the resilience of India's MSME sector.

- **Accessibility:** A multilingual helpline ensures accessibility for MSMEs across the nation, breaking down language barriers and ensuring that businesses from various linguistic backgrounds can seek assistance without hindrance.
- **Legal Rights and Remedies:** MSMEs can receive prompt guidance on legal matters, empowering them to understand their rights, navigate legal complexities, and explore appropriate remedies for disputes or challenges they encounter in their business operations.
- **Guidance and Support:** The helpline serves as a reliable resource for MSMEs seeking guidance on a wide range of issues, including compliance requirements, contract negotiations, intellectual property rights, and more. Expert professionals can provide personalized assistance tailored to the specific needs of each business.
- **Information on Policies and Schemes:** MSMEs can stay informed about the latest policies, schemes, and programs introduced by the Ministry for MSME in India.

This includes updates on government initiatives, financial assistance programs, incentives, and regulatory changes relevant to the MSME sector.

- **Empowerment:** By providing access to timely and accurate information, the helpline empowers MSMEs to make informed decisions that can positively impact their growth, sustainability, and compliance with regulatory requirements.
- **Cost-Effective:** Access to the helpline is typically free or offered at minimal cost, making it a cost-effective solution for MSMEs seeking professional guidance and support without incurring significant expenses associated with hiring legal or financial consultants.
- **Efficiency and Convenience:** MSMEs can conveniently seek assistance via phone or online channels, avoiding the need for time-consuming and potentially costly visits to legal offices or government agencies. This enhances efficiency and allows businesses to focus on their core operations.
- **Promotion of Entrepreneurship:** By facilitating access to essential resources and support services, the helpline encourages entrepreneurship and fosters a conducive environment for the growth and success of MSMEs, thereby contributing to economic development and job creation.



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