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# Startups and MSMEs: How Legal Frameworks Can Foster Innovation and Growth in India

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## ABSTRACT

*Startups and MSMEs form the backbone of India's economy and play a significant role in GDP contribution, employment generation, innovation, and exports. As India aspires to become a more potent global economic heavyweight, it has become increasingly imperative to create legal support and regulatory instruments to unlock the full potential of these enterprises. This paper examines how specially-tailored legal frameworks can boost innovations while easing compliance burdens, enhancing credit access, and securing protection of intellectual property rights to promote sustainable growth for startups and MSMEs. India has established a number of initiatives that support MSMEs and startups, such as the Startup India Mission, MSME Development Act, 2006 and some recent developments in labor and taxation. Such measures aim at improving the ease of doing business, providing incentives for innovations, and reducing bureaucratic bottlenecks. The paper demonstrates how such legislative interventions have enhanced credit flow, job generation, and technological advancement within important sectors, such as Fintech, Edtech, Healthtech, and manufacturing. Alongside, the Union Budget 2025-26 has lent further credence to the above-mentioned momentum to promote credit guarantees, development plans for specific sectors, and enhanced budgetary allocations. Despite significant advances, challenges remain: contract enforcement inefficiencies, convoluted compliance mechanisms, and enormous ambiguity with regulation are still hampering growth. The paper stresses the imperative for reforms such as -well-tailored tax regimes, better IPR protection, export facilitation and ultimately, digital tools of governance among others. A specific interest is raised on the legal regime that fosters entrepreneurship, mitigates risk, and connects to global markets. Through the analysis of current policies, identification of gaps, and recommendations for reforms, this paper concludes that a sound and dynamic legal framework will be a very important input for strengthening India's startup and MSME ecosystem, generating domestic growth, and making India a strong and innovative economy in the global setting.*

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## I. INTRODUCTION

Micro, Small, and Medium Enterprises (MSMEs) and startups are one of the major key players behind contemporary India's economic progress.<sup>2</sup> They contribute significantly to the GDP<sup>3</sup>, jobs generation, and technological development<sup>4</sup>. In India, where it aspires to be a well-knit powerhouse in the economic arena,<sup>5</sup> there is a great impetus to create a business-friendly environment harnessed through useful legal frameworks. Regulatory reforms can realize the true potential of MSMEs and Start-Ups by reducing bureaucratic interference, improving access to finance, ensuring enforcement of contracts, and protecting intellectual property rights.

There are several initiatives taken by the Indian government to promote entrepreneurship such as the Startup India Initiative<sup>6</sup>, the MSME Development Act, 2006,<sup>7</sup> and recent labor and tax reforms<sup>8</sup>. In innovation-driven enterprises, these legal frameworks have enhanced ease of doing business, credit accessibility and boosted investment. However, there are still challenges such as overly complicated compliance requirements, obstacles in enforcement of contracts, and regulatory uncertainties that ideally hinder growth. To overcome such hurdles, MSMEs and Startups will need to engage in specific and targeted interventions under the law so that both can thrive.

Startups, in particular, drive disruptive innovation, contributing to industries like Fintech, Edtech, Healthtech, and e-commerce.<sup>9</sup> Strong intellectual property right protections, simple tax regimes, and digital-friendly regulations provide these ventures with a considerable advantage<sup>10</sup>. Similarly, MSMEs form the backbone of India's manufacturing and service sectors<sup>11</sup>, requiring legal support in terms of contract enforcement, labor flexibility, and

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<sup>2</sup> MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, <https://msme.gov.in/about-us/about-us-ministry> (last visited Feb. 8, 2025).

<sup>3</sup> MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2035073> (last visited Feb. 8, 2025).

<sup>4</sup> *Id.*

<sup>5</sup> PIB Delhi, *India: World's Fastest-Growing Major Economy*, MINISTRY OF INFORMATION AND BROADCASTING (Jan 18, 2025, 4:11 PM), <https://pib.gov.in/PressReleasePage.aspx?PRID=2094025>.

<sup>6</sup> MINISTRY OF COMMERCE AND INDUSTRY, <https://www.startupindia.gov.in/content/sih/en/about-startup-india-initiative.html> (last visited Feb. 8, 2025).

<sup>7</sup> The MSME Development Act, 2006, No. 27, Acts of Parliament, 2006 (India).

<sup>8</sup> Kiran Rathee, *India Offers Tax Relief for Foreign Tech Experts to Boost Electronics Sector Growth*, THE ECONOMIC TIMES (Feb. 10, 2025, 8:41 AM) <https://economictimes.indiatimes.com/jobs/hr-policies-trends/india-offers-tax-relief-for-foreign-tech-experts-to-boost-electronics-sector-growth/articleshow/118095556.cms?from=mdr>.

<sup>9</sup> PIB Delhi, *Nine Years of Startup India*, MINISTRY OF COMMERCE AND INDUSTRY (Jan. 15, 2025, 5:30 PM), <https://pib.gov.in/PressReleaseIframePage.aspx?PRID=2093125>.

<sup>10</sup> Font-Cot, F., Lara-Navarra, P. and Serradell-Lopez, E. (2023), "Digital transformation policies to develop an effective startup ecosystem: the case of Barcelona", *Transforming Government: People, Process and Policy*, Vol. 17 No. 3, pp. 344-355. <https://doi.org/10.1108/TG-01-2023-0006>.

<sup>11</sup> TATA AIA Life Insurance, <https://www.tataaia.com/blogs/msme/what-is-msme.html> (last visited Feb. 10, 2025).

financial inclusion. Strengthening the legal landscape for startups and MSMEs will not only promote entrepreneurship but also enhance India's global competitiveness.

This essay explores how India's legal frameworks can be optimized to foster innovation and growth in startups and MSMEs. By examining existing policies, identifying key challenges, and recommending reforms, this discussion aims to highlight how legal structures can drive sustainable business expansion, job creation, and economic resilience. A robust regulatory framework will ensure that India's entrepreneurial ecosystem continues to flourish, paving the way for long-term economic development.

## II. THE ROLE OF STARTUPS AND MSMEs IN ECONOMIC GROWTH

The growth, innovation, and employment generation in India is highly supported by Startups and Micro, Small, and Medium Enterprises (MSMEs). It is estimated that over 63 million MSMEs contribute to nearly 30% of India's GDP and employ over 110 million people<sup>12</sup>. Their position in India's economy cannot be overstated. Besides, the country is now the third-largest startup ecosystem globally<sup>13</sup>, with more than 100 unicorns each valued at more than \$1 billion<sup>14</sup>. These businesses helped in regional development, inclusive growth, and connected India to global value chains.

**Employment Generation and Regional Development:** Job creation is one of the most important contributions of startups and MSMEs. While big corporate houses need huge capital for investment, MSMEs currently employ more than 25 crore people<sup>15</sup>, and additionally, MSMEs and startups can create jobs at comparatively less investment, thus playing an important role in tackling unemployment in India. MSMEs also help in rural industrialization<sup>16</sup>, which curbs rural outmigration conditions. Substantial job market created by startup companies changed the working styles due to AI, blockchain, fintech, and other evolving industries.

**Driving Innovation and Technological Advancement:** Startups are actively disrupting various industries with their technological innovations. By offering new business models, they improve productivity and, in turn, increase competitiveness in the given sector. Many sectors,

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<sup>12</sup> Aruna Sharma, *Msmes Account for 30% Of GDP, Employ Over 110 Million: Call for a Balanced Regulatory Approach*, (Aug. 1, 2024, 09:38 AM) <https://government.economictimes.indiatimes.com/blog/msmes-account-for-30-of-gdp-employ-over-110-million-call-for-a-balanced-regulatory-approach/112183821>.

<sup>13</sup> *Id.*

<sup>14</sup> Jessica Rajan, *60% Of Indian Unicorn Founders Achieved \$1-Billion Valuation in Maiden Attempt: Report*, (Oct 12, 2024) <https://economictimes.indiatimes.com/tech/technology/60-of-unicorn-founders-achieved-1-billion-valuation-in-maiden-attempt-report/articleshow/114150164.cms?from=mdr>.

<sup>15</sup> PIB Delhi, *Budget 2025-26: Fuelling MSME Expansion*, MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES (Feb. 05, 2025 5:27 PM), <https://pib.gov.in/PressReleasePage.aspx?PRID=2099687>.

<sup>16</sup> MINISTRY OF MICRO, SMALL AND MEDIUM ENTERPRISES, [https://my.msme.gov.in/mymsme/reg/Msme\\_Background.aspx](https://my.msme.gov.in/mymsme/reg/Msme_Background.aspx) (last visited Feb. 8, 2025).

in particular, have been transformed due to fintech, edtech, healthtech, and agritech-based start-ups, which are modernized parts of their industries and delivered efficient services. Secondly, these MSMEs innovate by charging into new technologies, automating their processes, and collaborating with larger entities in the fields of research and development.<sup>17</sup> The legal environment must thus support not only patent protection but also R&D tax incentives and registration of the business to maintain the vigor and momentum of this growing ecosystem.

**Enhancing Global Trade and Economic Diversification:** MSMEs and Startups are critical when it comes to exports, contributing nearly 45% to total exports of India. This borrowing will have an influx of digital platforms along with government policies like Make In India and Atmanirbhar Bharat enabling these enterprises to be a part of the global supply chain. Accordingly, a proactive legal framework would further push their share of international trade by streamlining export regulations, improving access to credit, and providing protection for new technologies.

### III. AN OVERVIEW OF THE BUDGET 2025 STIMULATING MSMEs AND STARTUPS EXPANSION

Several initiatives are included in the Union Budget 2025–2026 to bolster the MSME sector by improving finance availability, assisting startups and first-time entrepreneurs and encouraging labor-intensive industries.

The investment and turnover limits for classification have been increased by **2.5 times and 2 times**, respectively<sup>18</sup>, which means that businesses with **higher investments in plant & machinery or equipment and greater annual turnover** can still **qualify as MSMEs** and enjoy the associated benefits.

Rs. in Crore	Investment		Turnover	
	Current	Revised	Current	Revised
<b>Micro Enterprises</b>	<b>1</b>	<b>2.5</b>	<b>5</b>	<b>10</b>
<b>Small Enterprises</b>	<b>10</b>	<b>25</b>	<b>50</b>	<b>100</b>
<b>Medium Enterprises</b>	<b>50</b>	<b>125</b>	<b>250</b>	<b>500</b>

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Fig. Credit: Ministry of Micro, Small and Medium Enterprises

<sup>17</sup> Tereshchenko, E., Salmela, E., Melkko, E. *et al.* Emerging best strategies and capabilities for university–industry cooperation: opportunities for MSMEs and universities to improve collaboration. A literature review 2000–2023. *J Innov Entrep* 13, 28 (2024), <https://doi.org/10.1186/s13731-024-00386-4>.

<sup>18</sup> *Supra* note 14.

<sup>19</sup> *Id.*

### Enhanced Credit Availability

- The credit guarantee cover for micro and small enterprises has been increased from ₹5 crore to ₹10 crore, enabling additional credit of ₹1.5 lakh crore over five years.
- Startups will see their guarantee cover double from ₹10 crore to ₹20 crore, with a reduced fee of 1% for loans in 27 priority sectors.
- Exporter MSMEs will benefit from term loans up to ₹20 crore with enhanced guarantee cover.<sup>20</sup>

### Sectoral Development and Job Creation

A **Focus Product Scheme** for the footwear and leather sector aims to enhance design and component manufacturing, generating 22 lakh jobs and achieving a turnover of ₹4 lakh crore. The **toy sector** will benefit from cluster development, boosting India's position as a global toy hub. Additionally, a **National Institute of Food Technology, Entrepreneurship and Management** will be set up in Bihar to support the food processing industry. This will help to generate large-scale employment, particularly for semi-skilled and unskilled workers, and strengthens domestic manufacturing, ultimately adding to global competitiveness.

### Manufacturing and Clean Tech Growth

The **National Manufacturing Mission** under 'Make in India' will provide policy support to industries of all sizes.<sup>21</sup> A special emphasis on **clean tech manufacturing** will promote domestic production of solar PV cells, EV batteries, wind turbines, and high-voltage transmission equipment. This encourages self-sufficiency in high-tech and green manufacturing industries and lowers reliance on imports from foreign nations.

### Budgetary Allocations

The budget for the MSME Ministry has significantly increased, from ₹7,572.20 crore in 2020-21 to ₹23,168.15 crore in 2025-26,<sup>22</sup> which shows the government's strong support and commitment to the sector. However, the **revised estimates for 2024-25 dropped to ₹17,306.70 crore**<sup>23</sup>, indicating possible budget reallocations. This ensures continuous financial backing for MSME initiatives and reflects the government's commitment to MSME growth.

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<sup>20</sup> *Supra* note 14.

<sup>21</sup> *Id.*

<sup>22</sup> *Id.*

<sup>23</sup> *Id.*

## MSME Sector Performance

The MSME sector's share in **Gross Value Added (GVA)** has risen from **27.3% in 2020-21 to 30.1% in 2022-23**<sup>24</sup>, showing growing economic significance. MSME exports have grown from ₹3.95 lakh crore during 2020-21 to ₹12.39 lakh crore during 2024-25<sup>25</sup>, accounting for 45.79% of total exports as of May 2024. This reinforces India's status as a global manufacturing center and prompts more MSMEs to join the global trade.

## IV. LEGAL FRAMEWORKS SUPPORTING STARTUPS AND MSMEs

### Ease of Doing Business Reforms

The ease of doing business is a key element that promotes a large-scale startup and MSME ecosystem to thrive. India has made some significant strides in the right direction, moving upwards in the *World Bank's Ease of Doing Business rankings*<sup>26</sup> particularly in parameters such as ease of starting a business, insolvency, and construction permits, among others. The introduction of various digital registration systems such as Online Registration System (ORS),<sup>27</sup> Digital India Land Records Modernization Programme<sup>28</sup>, etc., has simplified a lot of the bureaucratic delays through streamlined compliance norms, and regulatory reforms.

The *Udyam Registration* for MSMEs<sup>29</sup> is perhaps one of the most important steps, wherein the licensing regime has been simplified into a process of self-declaration. Similarly, Startup India made such processes an online one for startup recognition, which makes the incorporation process relatively smooth. *The Insolvency and Bankruptcy Code (IBC) 2016*<sup>30</sup> has also given a faster mechanism for business failures to allow a smooth exit for struggling startups and MSMEs.

In addition, reforms such as "Ease of Doing Business 2.0" aim to decriminalize petty business offenses and reduce compliance burden<sup>31</sup>. In the same way, trimming regulations, establishing

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<sup>24</sup> *Supra* note 14.

<sup>25</sup> Budget- 2025-26 – MSMEs, (2025), <https://hindupost.in/business-economy/budget-2025-26-msmes/> (last visited Feb 19, 2025).

<sup>26</sup> MAKE IN INDIA, <https://www.makeinindia.com/eodb> (last visited Feb. 11, 2025).

<sup>27</sup> GOVERNMENT OF INDIA, <https://www.digitalindia.gov.in/initiative/online-registration-system/> (last visited Feb 11, 2025).

<sup>28</sup> MINISTRY OF RURAL DEVELOPMENT, <https://pib.gov.in/PressReleasePage.aspx?PRID=1989671> (last visited Feb. 11, 2025).

<sup>29</sup> NATIONAL GOVERNMENT SERVICES PORTAL, <https://services.india.gov.in/service/detail/msme--udyam-registration-online> (last visited Feb. 11, 2025).

<sup>30</sup> The Insolvency and Bankruptcy Code, 2016, No. 31, Acts of Parliament, 2016 (India).

<sup>31</sup> Chandrajit Banerjee, *Why We Need to Decriminalise Economic Laws*, THE NEW INDIAN EXPRESS (Apr. 7, 2022), <https://www.newindianexpress.com/opinions/2022/Apr/07/why-we-need-to-decriminalise-economic-laws-2439317.html>.

clarity in business policies, and using technology in compliance management will further enhance India's business environment for entrepreneurs.

### Financial and Credit Support

Access to credit has been a fundamental challenge, but the government in this budget has come up with some captivating schemes for MSMEs. A **new Credit Card scheme** for micro enterprises registered on the Udyam portal will provide ₹5 lakh in credit, with 10 lakh cards issued in the first year. Additionally, a **₹10,000 crore Fund of Funds** will support startups, while **5 lakh first-time women, SC, and ST entrepreneurs** will receive term loans of up to ₹2 crore under a new five-year scheme.<sup>32</sup> This enables micro-enterprises to access formal credit, reducing dependency on informal lending, strengthens financial stability, encourages digital transactions, promotes business expansion, and most importantly encourages entrepreneurship among women and marginalized groups.

Moreover, the *Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)* gives credit to MSMEs without collateral,<sup>33</sup> lowering their reliance on strict banking conditions. The MUDRA (Micro Units Development and Refinance Agency) Scheme also extends low-interest credit to micro-enterprises<sup>34</sup>, enabling entrepreneurs across various industries to venture.

For startups, the *Fund of Funds for Startups (FFS)*, managed by SIDBI,<sup>35</sup> acts as a major funding initiative under the Startup India scheme. The Alternative Investment Funds (AIFs) also play a crucial role in financing high-risk, high-growth startups<sup>36</sup>. Moreover, to promote more investments and startups, the Finance Act (No. 2) 2024 standardized the income tax rates on long-term capital gains (LTCG) from investments in listed and unlisted shares<sup>37</sup>.

### Intellectual Property Rights (IPR) Protection

Intellectual Property Rights (IPR) are very important for promoting innovation in startups and MSMEs through the protection of their inventions, designs, and trademarks. Strong IPR promotes research and development, competitiveness, and investment by providing legal protection for new ideas.

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<sup>32</sup> *Supra* note 14.

<sup>33</sup> Coverage of Collateral Free Loans, <https://www.bankofbaroda.in/business-banking/msme-banking/loans-and-advances/coverage-of-collateral-free-loans> (last visited Feb 19, 2025).

<sup>34</sup> Offerings, <https://www.mudra.org.in/Offerings> (last visited Feb 19, 2025).

<sup>35</sup> Past investors day highlights - SIDBI Fund of Funds, <https://www.sidbivcf.in/en/news/past-investors-day-highlights> (last visited Feb 19, 2025).

<sup>36</sup> SEBI, *Enhancing Trust in the Alternative Investment Funds ecosystem*, SEBI 1, 2 (2024) [https://www.sebi.gov.in/sebi\\_data/meetingfiles/apr-2024/1713324885850\\_1.pdf](https://www.sebi.gov.in/sebi_data/meetingfiles/apr-2024/1713324885850_1.pdf).

<sup>37</sup> Regulatory Updates, [https://www.startupindia.gov.in/content/sih/en/startupgov/regulatory\\_updates.html](https://www.startupindia.gov.in/content/sih/en/startupgov/regulatory_updates.html) (last visited Feb 19, 2025).



In the past, businesses depended on tangible assets to assess their competitiveness in the market<sup>38</sup>. But with the development of information technology and the service economy, intangible assets such as human capital, ideas, brands, and creativity are becoming increasingly important. Even in traditional sectors, permanent innovation and creativity are becoming crucial to ensure competitiveness. To leverage these assets effectively, protection of intellectual property (IP) is necessary. Patenting, trademarking, and designing increase the market value of a company by converting intangible assets into unique, transferable properties. In the absence of IP protection, innovative ideas and designs can be freely exploited by undeserving third parties, causing a serious erosion of their value in the eyes of the original creators.

Startups with limited resources and human power, survive and grow based on innovation, and hence IP protection becomes important not only in India but also in the International market. The Startup Intellectual Property Protection (SIPP) scheme helps achieve this by offering legal assistance for patents, trademarks, and designs.<sup>39</sup> The World Intellectual Property Organization's (WIPO) Technology and Innovation Support Centers (TISCs), in collaboration with the Department for Promotion of Industry and Internal Trade (DPIIT), assist Indian innovators in managing and commercializing their IP<sup>40</sup>. The SIPP initiative seeks to raise awareness, mentorship, and offer financial rewards for educational institutions and startups. It provides for an 80% rebate of patent filing charges and fast-track examination and a 50% rebate on filing of trademarks under the new Trademark Rules.<sup>41</sup> These programs incentivize startups to protect, monetize, and maximize their innovations to build sustainable long-term growth and competitiveness in markets.

And, therefore, WIPO gave a very well defined statement: *"In short, IP protection makes intangible assets "a bit more tangible" by turning them into valuable exclusive assets that can often be traded in the marketplace."*<sup>42</sup>

### **Contract Enforcement and Dispute Resolution**

Efficient contract enforcement and dispute resolution are crucial for the confidentiality of the businesses, especially important for startups and MSMEs engaging in commercial transactions.

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<sup>38</sup> WORLD INTELLECTUAL PROPERTY ORGANISATION, [https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip\\_panorama\\_1\\_learning\\_points.pdf](https://www.wipo.int/export/sites/www/sme/en/documents/pdf/ip_panorama_1_learning_points.pdf) (last visited Feb 21, 2025).

<sup>39</sup> INTELLECTUAL PROPERTY INDIA, [https://ipindia.gov.in/writereaddata/Portal/News/885\\_1\\_approved\\_SIPP\\_scheme.pdf](https://ipindia.gov.in/writereaddata/Portal/News/885_1_approved_SIPP_scheme.pdf) (last visited Feb. 21, 2025).

<sup>40</sup> *Id.*

<sup>41</sup> *Id.*

<sup>42</sup> *Supra* note 37.

However, India ranks 163 out of 190 countries in contract enforcement<sup>43</sup> which shows its poor condition due to lengthy judicial procedures, high litigation costs, and backlog in commercial courts.

While the Indian Contract Act 1872 is there for the standard form of Contract, the Commercial Courts Act of 2015<sup>44</sup> was enacted to solve the above-mentioned challenges by allowing the courts to handle business-related disputes. The Arbitration and Conciliation (Amendment) Act, 2021<sup>45</sup>, has further strengthened alternative dispute resolution mechanisms, encouraging startups and MSMEs to resolve disputes expeditiously through arbitration, mediation, and conciliation rather than through lengthy court trials.

For MSMEs facing payment delays, the MSME Development Act, 2006, mandates that buyers settle dues within 45 days<sup>46</sup>, failing which they must pay compound interest on the outstanding amount. The MSME Samadhaan Portal provides a platform for small businesses to file complaints and recover delayed payments.<sup>47</sup>

These initiatives help businesses to run smoothly, but some of them seem better in paper only, rather than in action. Let's analyze the challenges when it comes to actually enforcing them into action.

## V. CHALLENGES IN IMPLEMENTATION

While the country has advanced towards better ratings on Ease of doing business<sup>48</sup>, it has not yet liberated startups and MSMEs from the bureaucratic hurdles needed to obtain licenses, approvals and clearances. The multiplicity of laws and regulatory bodies tends to result in delays and excessive paperwork, as well as widespread corruption. For example, even after the advent of Udyam Registration, MSMEs still find it difficult to navigate the digital system due to a lack of awareness and technical support.

Nonetheless, many startups and MSMEs have an uphill task accessing formal credit, owing to the plethora of government schemes for financial assistance. Banks shy away from lending due to high perceived risks, collateral requirements, and stringent credit evaluation processes.

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<sup>43</sup> Business Standard, *Ease of Doing Business: Why India Is Faltering in Enforcing Contracts*, (2019), [https://www.business-standard.com/article/economy-policy/hamstrung-judiciary-the-reason-why-india-falters-on-enforcing-contracts-119103101234\\_1.html](https://www.business-standard.com/article/economy-policy/hamstrung-judiciary-the-reason-why-india-falters-on-enforcing-contracts-119103101234_1.html) (last visited Feb 23, 2025).

<sup>44</sup> Commercial Courts Acts, (2019), <https://nalsa.gov.in/the-commercial-courts-acts-rules/the-commercial-courts-acts> (last visited Feb 23, 2025).

<sup>45</sup> The Arbitration and Conciliation (Amendment) Act, 2021, No. 05, Acts of Parliament, 2021 (India).

<sup>46</sup> What are the guidelines for delayed payment of dues to the MSE borrowers? | Ministry of Micro, Small & Medium Enterprises, <https://msme.gov.in/faqs/q33-what-are-guidelines-delayed-payment-dues-mse-borrowers> (last visited Feb 23, 2025).

<sup>47</sup> FAQ, <https://samadhaan.msme.gov.in/mysmsme/msefc/FAQ.aspx> (last visited Feb 23, 2025).

<sup>48</sup> EASE OF DOING BUSINESS, Make In India <https://www.makeinindia.com/eodb> (last visited Feb 23, 2025).

Though this year's budget envisages an optimistic view of credit taking, the clock again stops at the point, how much of the initiatives are actually to be implemented in action. And to compound the pain, late payments from large companies and government agencies put additional strain on the cash flows of the business, thereby threatening the sustainability of these businesses.

On one hand, India has strengthened its IPR framework, while on the other, infringement and counterfeiting largely flourish in India, particularly in sectors such as pharma, tech, and fashion. Startups and MSMEs often lack the resources to enforce their intellectual property rights in legal proceedings, which makes them easy prey for exploitation in the market.

Some relief had been given to small businesses by reforms like GST and corporate tax cuts; however, frequent policy changes and compliance changes create confusion for small businesses. Many MSMEs suffer from the phenomenon of filing GST returns and claiming input tax credits, interpreting exemptions, etc., taking compliance costs and legal disputes further up along. Many labor law reforms are introduced, but hiring and firing restrictions, stiff employment policies, and skill shortages prevail regarding startups or MSMEs. Most small businesses cannot afford mandatory employee benefits, while procedural complications discourage hiring formal employees.

## **VI. RECOMMENDATIONS AND CONCLUSION**

From the improving legal ecosystem for startups and MSMEs, India must now focus on streamlining regulations, strengthening enforcement, and improving institutional support. Despite widespread reforms, the compliance burden continues to pose difficulties. The government must further digitize regulatory compliance procedures through a single-window clearance system, wherein approvals across departments will minimize bureaucratic inefficiencies and corruption. Reduce the mandatory licenses and automate compliance tracking to facilitate the smoothness of work.

For startups and MSMEs, one of the major problems is access to finance, as access to funding is often limited by strict lending norms. A considerable credit guarantee scheme expansion, facilitating provision of collateral-free loans to banks, and improvement in invoice financing, e.g., through TReDS,<sup>49</sup> which will eventually allow financial operations to be much smoother. In addition, improving financial literacy for owners of small businesses will enable them to make informed decisions and effectively use available resources.

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<sup>49</sup> TReDS, Small Industries Development Bank of India <https://www.sidbi.in/treds> (last visited Feb 23, 2025).

Strong protection of intellectual property rights encourages innovation. Weak enforcement of IPR laws becomes a deterrent for startups contemplating investments in R&D. Such opportunities could be created by introducing expedited treatment for patent and trademark registration, creating specialized IP courts for fast resolution of disputes, and conducting awareness campaigns for businesses interested in protecting their innovations. As important as the above is the establishment of a stable and predictable tax policy that is used for long-term business planning. GST compliance should be simplified; filing returns should be made less cumbersome; and sector-specific tax incentives should be introduced to foster a better environment for business growth. Frequent tax mechanism changes should be avoided unless they are necessary to avoid uncertainty for investors and entrepreneurs.

Additionally, improving contract enforcement and dispute resolution mechanisms is essential to building investor confidence. Expanding commercial courts, adopting digital case management systems, and promoting online dispute resolution (ODR) will facilitate faster resolution of business conflicts.

Startups and MSMEs are central to India's economic development, driving innovation, employment, and wealth creation. Nevertheless, the bureaucracy inefficiencies, lack of funds, poor IPR enforcement, and sluggish dispute resolution still hinder their optimal application. For India to attain the status of the world's largest entrepreneurship hub, legal frameworks should evolve to become more transparent, predictable, and business-friendly. Effective implementation is important, over and beyond formulating policies, ensuring that reforms are practical and not just theoretical. Regulatory agencies must actively reduce delays, leverage technology for governance, and proactively address industry concerns. By fostering a dynamic legal environment and eliminating obstacles to growth, India can solidify its position as a global startup and MSME hub, attracting foreign investment, boosting exports, and ensuring inclusive economic growth. With the right legal and policy reforms, startups and MSMEs can truly become the backbone of India's economic future.

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