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## India, South Africa Explore Stronger MSME Cooperation

Union MSME Minister Jitan Ram Manjhi held talks with South Africa's Minister of Small Business Development, Stella Tembisa Ndabeni, in New Delhi to strengthen bilateral cooperation in the MSME sector. The meeting focused on expanding collaboration in areas such as access to finance, enterprise formalization, digitalization, entrepreneurship, and skill development. Both countries reaffirmed their commitment to fostering a supportive ecosystem for MSMEs to drive economic growth, employment generation, and inclusive development.

**Source: https://www.pib.gov.in**

## MSME Ministry Reviews Impact of West Asia Crisis on Small Businesses

Union MSME Minister Jitan Ram Manjhi chaired a high-level review meeting in New Delhi to assess the potential impact of the West Asia crisis on India's MSME sector. The meeting reviewed concerns related to raw material availability and prices, supply chain disruptions, exports and imports, gas supplies, transportation, logistics, and working capital. The Minister directed officials to closely monitor the evolving situation and formulate timely strategies to address emerging challenges. Reaffirming the government's commitment to protecting MSMEs, he highlighted the sector's vital contribution to employment, manufacturing, and exports, and noted that initiatives such as Aatmanirbhar Bharat, the Credit Guarantee Scheme for Micro and Small Enterprises (CGSMSE), digital empowerment, and financial inclusion have strengthened the sector's resilience.

**Source: https://www.pib.gov.in/**

## National SC-ST Hub Scheme Boosts Inclusive Entrepreneurship and Public Procurement

The Ministry of MSME's National SC-ST Hub (NSSH) Scheme has been empowering Scheduled Caste and Scheduled Tribe entrepreneurs since 2016 by improving access to finance, technology, market linkages, training, and government procurement opportunities. Success stories from Jharkhand, Gujarat, and Rajasthan highlight how financial support under the Special Credit Linked Capital Subsidy Scheme enabled entrepreneurs to modernize their businesses, secure government contracts, expand production, and create jobs.


The scheme aims to strengthen SC/ST-owned MSMEs and increase their participation in public procurement under the Government's Public Procurement Policy. Its impact is reflected in a 37-fold increase in public procurement from SC/ST-owned MSMEs—from ₹99.37 crore in 2015-16 to ₹3,738.34 crore in 2025-26. More than 1.79 lakh existing and aspiring SC/ST entrepreneurs have benefited from the initiative so far.

**Source : https://www.pib.gov.in/**

## OSOP Initiative Boosts Market Access for Divyangjan Artisans under PM Vishwakarma

The Ministry of MSME is promoting economic empowerment of Divyangjan artisans through the One Station One Product (OSOP) initiative under the PM Vishwakarma Scheme. The initiative provides dedicated retail outlets at major railway stations, enabling artisans to showcase and sell their products, expand market access, and build sustainable livelihoods. So far, 28 Divyangjan beneficiaries across 12 states have been allotted stalls covering trades such as sculpture, carpentry, cobbling, toy making, metalwork, tailoring, and basket making.

The initiative has transformed the lives of several artisans by increasing sales and creating sustainable income opportunities. Success stories from Indore, Deoghar, and Jaipur highlight how Divyangjan entrepreneurs have benefited from improved market access and skill development. Through OSOP, the Ministry aims to foster financial independence, inclusive growth, and greater socio-economic empowerment for Divyangjan artisans while preserving India's traditional crafts.

**Source: https://www.pib.gov.in/**

# Maharashtra Industries, Investment & Services Policy 2025: A New Growth Framework for MSMEs

## Introduction

Micro, Small and Medium Enterprises (MSMEs) are widely recognised as the backbone of Maharashtra's industrial economy, contributing significantly to employment generation, manufacturing output, exports, and regional development. In an increasingly competitive business environment, policy support plays a crucial role in enabling MSMEs to expand operations, improve competitiveness, adopt new technologies, and attract investments.

Against this backdrop, the Government of Maharashtra introduced the **Maharashtra Industries, Investment & Services Policy 2025.** The policy serves as the State's integrated framework for promoting industrial growth, facilitating investments, and supporting both manufacturing and service-sector enterprises. From an MSME perspective, the policy represents more than an incentive scheme it provides a comprehensive framework that combines fiscal support, institutional facilitation, and region-based industrial development.

| Parameter | Position under MIISP 2025 |
|---|---|
| **Policy name** | Maharashtra Industries, Investment & Services Policy 2025 |
| **Issue date** | 31 December 2025 |
| **Validity** | 5 years, up to about 30 December 2030 |
| **Core audience** | Manufacturing and service sector enterprises, including MSMEs |
| **Key MSME relevance** | SGST reimbursement, stamp duty exemption, interest subsidy, capital subsidy, power support, service-sector inclusion, digital facilitation |
| **Institutional support** | Invest Maharashtra, proposed MSME portal, MSME-focused commissionerate / facilitation mechanism. |
| **Geographic approach** | Zone / taluka classification with higher incentives for less-developed regions |
| **Major conditionalities** | Eligibility criteria, local employment, location, investment completion timelines, application and compliance requirements |

Unlike earlier policy frameworks that often required businesses to navigate multiple independent schemes, MIISP 2025 seeks to provide a more integrated approach by bringing together industrial promotion, investment facilitation, and service-sector development under a common policy architecture. The policy also emphasises digital governance and institutional support through initiatives such as Invest Maharashtra and a proposed dedicated MSME facilitation mechanism, with the objective of improving transparency and ease of doing business.

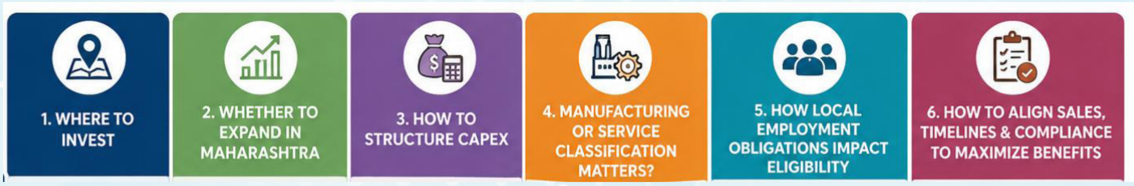
## Why MIISP 2025 Matters for MSMEs

The significance of MIISP 2025 extends beyond the financial incentives available under the policy. It reflects a broader policy direction aimed at encouraging investment, supporting enterprise growth, and promoting balanced regional industrialisation across Maharashtra.

One of the notable developments is the policy's broader recognition of both manufacturing and service-sector enterprises. This acknowledges the evolving nature of MSMEs, where many businesses today operate in technology-enabled, logistics, professional services, engineering, warehousing, and knowledge-based sectors in addition to conventional manufacturing activities. By extending policy support beyond manufacturing, MIISP 2025 enhances its relevance for a much wider spectrum of enterprises.

The policy also continues Maharashtra's long-standing strategy of linking incentive intensity with geographical development. Incentive structures are designed around zone and taluka classifications, with comparatively higher benefits available for developing, under-developed, no-industry and other identified regions. This approach aims to promote more balanced industrial growth while encouraging investment in areas requiring greater economic development.

An equally important feature is the emphasis on institutional and digital facilitation. The policy highlights measures intended to simplify access to government support, improve application processes, and strengthen coordination between industry and government institutions. Such initiatives can be particularly valuable for MSMEs, where procedural efficiency often influences the practical accessibility of policy benefits.




## Growing Relevance of MSMEs in Maharashtra

According to the Economic Survey of Maharashtra 2025–26, Maharashtra had **approximately 63.85 lakh registered MSMEs on the Udyam Portal as of December 2025**, comprising around 62.12 lakh micro enterprises, 1.55 lakh small enterprises and 0.18 lakh medium enterprises, collectively providing employment to approximately 252.84 lakh persons. These figures underline the significant contribution of MSMEs to the State's economy and reinforce the importance of an enabling policy environment for sustainable enterprise growth. The document also reiterates that Udyam Registration remains mandatory for MSMEs seeking to avail Government benefits.

## A Policy Beyond Financial Incentives

For MSMEs, MIISP 2025 should not be viewed merely as a schedule of subsidies or reimbursements. The policy influences several strategic business decisions, including project location, investment planning, sector selection, employment generation, and long-term expansion strategies. Accordingly, businesses and professional advisors must evaluate the policy holistically rather than considering individual incentives in isolation.

For Chartered Accountants, the policy also expands the scope of professional advisory services. Appropriate project structuring, eligibility evaluation, documentation planning, investment classification, compliance management, and incentive mapping can significantly influence the benefits ultimately available to an enterprise. Consequently, a comprehensive understanding of the policy becomes essential not only for MSMEs but also for professionals guiding them through investment and expansion decisions.

## MSME Classification, Policy Coverage and Eligibility Framework under MIISP 2025

The effectiveness of any industrial incentive policy depends not only on the benefits offered but also on the eligibility conditions governing access to those benefits. The Maharashtra Industries, Investment & Services Policy 2025 (MIISP 2025) establishes a structured framework for identifying eligible enterprises based on project size, investment, location, sector and employment parameters. For MSMEs, understanding these foundational aspects is essential before evaluating the incentives available under the policy.

### Policy-specific MSME Classification

One of the noteworthy features of MIISP 2025 is the introduction of a policy-specific MSME classification based on investment in plant and machinery or equipment. Under the reported framework:

**MSME Classification under MIISP 2025**

| Enterprise Category | Investment in Plant & Machinery / Equipment |
|---|---|
| Micro Enterprise | Up to ₹25 million |
| Small Enterprise | Above ₹25 million up to ₹250 million |
| Medium Enterprise | Above ₹250 million up to ₹1,250 million |

Unlike the overall project cost, the policy places emphasis on investment in plant and machinery or equipment for determining the MSME category. Consequently, enterprises with relatively higher expenditure on land and buildings but lower investment in plant and machinery may still qualify within the prescribed MSME limits under the policy. Businesses should therefore carefully evaluate their capital expenditure structure while planning new projects or expansions.

### Coverage of Manufacturing and Service Sector Enterprises

A significant development under MIISP 2025 is the explicit recognition of both manufacturing and service-sector projects. While manufacturing enterprises continue to remain central to Maharashtra's industrial ecosystem, the policy also acknowledges the growing contribution of service-based businesses to employment generation and economic development.

For manufacturing projects, eligibility is linked to factors such as minimum fixed capital investment, direct employment generation and project location. In contrast, service-sector projects are generally classified with reference to minimum employment criteria, with varying thresholds across different zones. Reported policy summaries also indicate an 80% local employment requirement for qualifying units.

The inclusion of service-sector enterprises significantly broadens the scope of the policy and enhances its relevance for modern MSMEs engaged in activities such as digital and knowledge services, logistics support, warehousing operations, business process support, repair and technical services, and design-led engineering solutions. This reflects the changing structure of Maharashtra's economy, where services increasingly complement traditional manufacturing activities.

## Planning Before Claiming Benefits

For MSMEs, understanding the eligibility framework is as important as understanding the incentives themselves. Early evaluation of enterprise classification, sector, project location, investment composition and employment strategy enables businesses to align their projects with the policy requirements from the outset. Such planning not only reduces compliance risks but also strengthens the prospects of successfully availing the benefits offered under MIISP 2025.

## Key Incentives for MSMEs under MIISP 2025

The Maharashtra Industries, Investment & Services Policy 2025 derives much of its significance from the range of fiscal and non-fiscal incentives proposed for eligible MSMEs. Rather than relying on a single subsidy, the policy adopts a multi-dimensional incentive framework that seeks to reduce project costs, improve liquidity during the initial years of operation and encourage investment across different regions of the State. However, the availability and quantum of benefits remain subject to the prescribed eligibility conditions, project classification, location and applicable ceilings.

## Stamp Duty Exemption

Stamp duty is one of the significant upfront costs incurred while acquiring industrial land, executing lease agreements or registering project-related transactions. MIISP 2025 provides relief by offering stamp duty exemption ranging from 50% to 100%, depending upon the location of the project.

## Gross SGST Reimbursement

Among the flagship incentives under MIISP 2025 is the reimbursement of 100% of the gross SGST payable on the first sale of eligible products billed and delivered within Maharashtra, subject to the prescribed ceilings and eligibility period.

## Zone-wise Incentive Ceiling

The policy follows a geographically differentiated incentive structure by prescribing different overall ceilings based on the location of the project. Reported policy summaries provide the following framework for manufacturing MSMEs:

| Taluka / Area Classification | Overall Ceiling as % of FCI | Eligibility Period |
|---|---|---|
| A | 30% | 5 years |
| B | 40% | 7 years |
| C | 50% | 7 years |
| D | 60% | 10 years |
| D+ | 70% | 10 years |
| Vidarbha, Marathwada, Ratnagiri, Sindhudurg, Jalgaon and Dhule | 80% | 10 years |
| No industry districts / Naxalism affected areas / Aspirational districts | 100% | 10 years |

## Capital and Interest Subsidy

The policy also proposes capital subsidy for eligible thrust-sector units. Reported summaries indicate that qualifying projects may receive capital subsidy ranging from 50% to 100% of specified project capital, subject to a ceiling of 20% of Fixed Capital Investment up to ₹250 million. This incentive is particularly relevant for MSMEs operating in identified priority and thrust sectors.

In addition, eligible enterprises may avail an interest subsidy of up to 5% per annum, subject to a maximum of ₹10 million and other prescribed conditions. By lowering borrowing costs, this measure can improve project viability, strengthen cash flows during the initial years of operation and support debt-funded investments.

## Power-related Incentives

Power costs constitute a significant operating expenditure for several manufacturing activities. To address this, MIISP 2025 provides 100% electricity duty exemption for eligible new MSME units in Group C, Group D and Group D+ areas. In addition, eligible new units in Group D, Group D+ and below may receive a power tariff subsidy of ₹1 per unit for three years, subject to a ceiling of ₹1 crore.

## Strategic Considerations for MSMEs and the Role of Chartered Accountants

While the incentives available under the Maharashtra Industries, Investment & Services Policy 2025 are significant, the actual realization of these benefits depends on timely planning, appropriate documentation and continuous compliance. Accordingly, MSMEs should view the policy not merely as a source of financial assistance but as a strategic framework that should be integrated into business planning from the project conception stage itself.

## Strategic Planning for MSMEs

The policy highlights that project location can materially influence the quantum and duration of incentives. Since the incentive ceilings vary across different zones and talukas, businesses should evaluate location-related benefits before finalizing investment decisions. Similarly, the composition of capital expenditure assumes importance because the policy-specific MSME classification is linked primarily to investment in plant and machinery or equipment. Proper segregation of eligible assets, therefore, becomes essential while structuring projects.

Businesses intending to avail SGST-linked incentives should also assess their sales model, customer location, invoice flow, dispatch pattern and first-sale structure to ensure alignment with the policy requirements. Where local employment constitutes an eligibility condition, recruitment planning should be undertaken at an early stage so that the prescribed employment norms can be maintained throughout the incentive period. Enterprises planning expansion should likewise evaluate the timing and structure of their investments to preserve eligibility under the policy framework.

## Role of Chartered Accountants

MIISP 2025 also creates meaningful opportunities for Chartered Accountants to support MSMEs beyond traditional compliance services. The policy requires professional inputs across multiple stages of the project lifecycle, including project structuring, investment planning, subsidy evaluation, documentation, GST reconciliation, payroll verification and post-approval compliance.

Professional advisors can assist enterprises in identifying the appropriate project classification, evaluating location-specific incentives, preparing subsidy computations, designing documentation systems and maintaining audit-ready records. Their involvement can help businesses align investments with policy requirements, strengthen claim documentation and support ongoing compliance throughout the incentive period.

## Conclusion

The Maharashtra Industries, Investment & Services Policy 2025 represents an important step in strengthening Maharashtra's industrial ecosystem by extending support to both manufacturing and service-sector enterprises. Through a combination of fiscal incentives, institutional facilitation and region-based incentive structures, the policy seeks to promote investment, employment generation and balanced regional development across the State.

For MSMEs, however, the value of the policy extends beyond the incentives themselves. Realising its benefits requires careful project planning, accurate classification, timely implementation, comprehensive documentation and sustained compliance with the prescribed conditions. Businesses that proactively integrate these considerations into their investment decisions are likely to be better positioned to utilise the opportunities offered under the policy.

For Chartered Accountants, MIISP 2025 presents an opportunity to play a strategic advisory role by assisting enterprises in navigating the policy framework, enhancing compliance readiness and supporting informed business decisions. As Maharashtra continues to strengthen its industrial and investment landscape, professional guidance will remain an important factor in enabling MSMEs to effectively leverage the policy and contribute to the State's long-term economic growth.

***-By CA Nikhil Narendra Chhallani***

# MSME Policy Framework for Women Entrepreneurs in India: Evaluating Credit, Capacity Building, Market Access and Enterprise Growth

## 1. Introduction

India's vision of becoming a developed economy by 2047 is closely linked to the growth of its **Micro, Small and Medium Enterprises (MSME)** sector, which is a major contributor to employment, industrial production, exports, and inclusive economic development. According to the **Union Budget 2025–26**, India has **5.93 crore registered MSMEs**, employing over **25 crore people**, while MSME products accounted for **45.73% of the country's exports during 2023–24**. These figures underscore the sector's pivotal role in strengthening India's economy.

Beyond their economic contribution, MSMEs also play a critical role in achieving several Sustainable Development Goals (SDGs), particularly SDG 5 (Gender Equality), SDG 8 (Decent Work and Economic Growth), SDG 9 (Industry, Innovation and Infrastructure) and SDG 10 (Reduced Inequalities). Therefore, strengthening women-led MSMEs is not merely an economic priority but also a strategic requirement for inclusive national development.

Women led MSMEs are increasingly becoming important catalysts of inclusive economic growth by generating employment, promoting local value addition, strengthening household incomes, and enhancing regional economic development across manufacturing and service sectors. However, despite sustained policy support, women-owned MSMEs continue to face challenges including limited access to formal finance, inadequate collateral, low financial and digital literacy, weak market linkages, and restricted opportunities for business expansion. As a result, many enterprises remain confined to the micro-enterprise segment.

Recognising these challenges, the Government of India has gradually shifted from welfare-oriented interventions to a comprehensive MSME policy framework focused on credit access, entrepreneurship development, digital formalisation, market integration, and capacity building. This article critically examines the major MSME policies supporting women owned enterprises , evaluates their contribution to enterprise creation and growth, identifies persistent implementation challenges, and proposes measures to strengthen women-led MSMEs as a key pillar of India's inclusive and sustainable economic development.

## 2. Strengthening Financial Inclusion through MSME Credit Policies

### 2.1 Prime Minister's Employment Generation Programme (PMEGP)

The **Prime Minister's Employment Generation Programme (PMEGP)**, launched in **2008** by the Ministry of MSME and implemented through the **Khadi and Village Industries Commission (KVIC)**, is India's flagship credit-linked subsidy scheme for promoting first-generation entrepreneurs and establishing new non-farm micro-enterprises. The scheme supports only new enterprises and finances projects up to **₹50 lakh** in the manufacturing sector and **₹20 lakh** in the service sector through a combination of institutional bank credit and government-funded margin money subsidy. Recognising the structural financial barriers faced by women, PMEGP classifies them under the **Special Category**, requiring only a **5% beneficiary contribution** compared to **10%** for the general category, while offering a higher subsidy of **25% in urban areas and 35% in rural areas**, against **15% and 25%**, respectively, for general applicants. This differential support significantly lowers the entry barrier for women aspiring to establish MSMEs. Since its inception, PMEGP has generated over **36.33 lakh employment opportunities**, with **women accounting for nearly 40% of all assisted enterprises** and receiving approximately **45% of the total margin money subsidy** disbursed. The scheme has also promoted inclusive development, with **54% of beneficiaries belonging to SC, ST, and OBC communities**, and nearly **80% of enterprises established in rural areas**.

Illustrative case studies documented by KVIC indicate that several women beneficiaries have successfully transformed household enterprises into sustainable MSMEs through PMEGP support, generating local employment and increasing family income. By integrating subsidised credit with entrepreneurship development, PMEGP has emerged as one of the Government's most effective policy instruments for promoting women-led micro-enterprises and expanding inclusive entrepreneurship in rural and semi-urban India.

### 2.2 Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)

Access to institutional finance remains a major challenge for women led MSMES due to limited ownership of collateral assets. To address this gap, the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)** was established jointly by the Ministry of MSME and the **Small Industries Development Bank of India (SIDBI)** in 2000 to promote collateral-free lending for micro and small enterprises. Unlike conventional financial assistance schemes, CGTMSE does not lend directly to entrepreneurs but provides credit guarantees to banks, significantly reducing their lending risk and encouraging greater credit flow to eligible MSMEs. Under the revised scheme effective **1 April 2025**, collateral-free loans up to **₹10 crore** are covered under the guarantee mechanism. Recognising the financial constraints faced by women led MSMEs , CGTMSE offers **90% guarantee coverage** for women-led MSMEs compared to the standard **75%**, along with a **10% concession in the Annual Guarantee Fee (AGF)**. These provisions improve the likelihood of loan approval while reducing the cost of institutional finance. Over the years, CGTMSE has evolved into one of India's largest credit guarantee mechanisms, strengthening formal credit access for women-owned enterprises across manufacturing and service sectors. Documented cases published by the Trust demonstrate that several women led MSMEs have successfully established or expanded businesses through collateral-free bank loans backed by CGTMSE, enabling investments in machinery, increased production, employment generation, and long-term banking relationships. By shifting lending from collateral-based to viability-based assessment, CGTMSE has become a critical policy instrument for promoting financial inclusion and supporting the sustainable growth of women-led MSMEs.

The recent enhancement of guarantee limits under CGTMSE also aligns with India's objective of improving credit penetration among growth-oriented MSMEs and reducing dependence on collateral-based lending, particularly for women led MSMEs with limited asset ownership.

### 2.3 Pradhan Mantri MUDRA Yojana (PMMY): Financing India's Micro and Nano Enterprises

Launched in **2015**, the **Pradhan Mantri MUDRA Yojana (PMMY)** addresses the financing needs of India's micro and nano enterprises by providing **collateral-free loans** through banks, regional rural banks, small finance banks, microfinance institutions, and non-banking financial companies. The scheme supports non-corporate, non-farm enterprises through three progressive loan categories: **Shishu** (up to ₹50,000), **Kishore** (₹50,000 to ₹5 lakh), and **Tarun** (₹5 lakh to ₹10 lakh), enabling businesses to access higher levels of institutional finance as they grow. For women owned enterprises , many of whom begin with home-based or informal businesses, PMMY has become a crucial entry point into the formal MSME ecosystem. Government data show that **approximately 68% of all MUDRA loan accounts have been sanctioned to women**, accounting for **more than 19 crore loan accounts** and **over ₹6.36 lakh crore** in sanctioned credit.

The scheme has enabled millions of women to establish and expand enterprises across sectors such as food processing, tailoring, handicrafts, retail, beauty and wellness, dairy, and digital services, while simultaneously helping them build formal banking relationships and credit histories. By facilitating the transition of nano enterprises into formal micro businesses through a structured and collateral-free financing framework, PMMY has significantly strengthened financial inclusion and broadened the entrepreneurial base of women-led MSMEs in India. However, while PMMY has significantly expanded access to micro-credit, the transition of beneficiaries from the Shishu category to the Kishore and Tarun categories remains relatively limited, indicating the need for stronger post-credit handholding and enterprise scaling support.

### 2.4 Union Budget 2025-26: New Credit Initiative for First-time Women led MSMEs

Recognising that access to growth capital remains a key challenge for aspiring entrepreneurs, the **Union Budget 2025–26** announced a dedicated credit initiative to support **five lakh first-time women, Scheduled Caste (SC), and Scheduled Tribe (ST) entrepreneurs** over the next five years. Under the proposed scheme, eligible beneficiaries will receive **term loans of up to ₹2 crore** to establish new enterprises, with the framework drawing upon the experience of **Stand-Up India** by integrating credit facilitation, mentoring, and enterprise support. From an MSME policy perspective, the initiative represents a significant advancement in India's women led entrepreneurship ecosystem. While **Pradhan Mantri MUDRA**

**Yojana (PMMY)** supports nano enterprises and **Prime Minister's Employment Generation Programme (PMEGP)** and **Stand-Up India** primarily cater to micro and greenfield businesses, the new initiative addresses the financing gap for women led MSMEsseeking to establish larger manufacturing, technology-driven, and export-oriented enterprises. If implemented effectively, it has the potential to strengthen women-led MSMEs by facilitating enterprise expansion, employment generation, and greater participation in high-growth sectors of the economy.

The effectiveness of this initiative will ultimately depend upon timely implementation, simplified approval processes and strong institutional mentoring.

## 3. Capacity Building and Entrepreneurial Development

While access to finance is indispensable for enterprise creation, the long-term success of women-owned MSMEs depends equally on entrepreneurial capabilities. Financial assistance alone cannot ensure enterprise sustainability if entrepreneurs lack technical knowledge, managerial competence, market understanding, digital literacy, or business planning skills. Numerous studies have shown that women led MSMES, particularly first-generation business owners, often face additional challenges arising from limited exposure to formal business environments, inadequate professional networks, and restricted access to mentorship opportunities. Recognising these constraints, the Government of India has progressively complemented credit-based interventions with capacity-building programmes that seek to strengthen entrepreneurial competencies across different stages of enterprise development.

Unlike financial assistance schemes that primarily reduce capital constraints, these initiatives invest in developing human capital by equipping women led enterprises with the knowledge, technical skills, confidence, and institutional support required to establish, manage, and expand competitive enterprises. This integrated approach reflects the growing understanding that entrepreneurship is not merely a function of finance but also of capability development, continuous learning, and ecosystem support.

Global evidence consistently demonstrates that financial capital alone does not create successful enterprises. Enterprise sustainability depends equally upon entrepreneurial capability, managerial competence, digital readiness, continuous mentoring, and a supportive business ecosystem. Consequently, modern MSME policy increasingly integrates financial assistance with entrepreneurship development.

### 3.1 Entrepreneurship and Skill Development Programme (ESDP)

The **Entrepreneurship and Skill Development Programme (ESDP)**, implemented by the Ministry of MSME, serves as one of the Government's flagship interventions for promoting entrepreneurial capacity among aspiring and existing MSME entrepreneurs. The programme aims to develop an entrepreneurial mindset while enhancing the managerial and technical competencies necessary for establishing sustainable enterprises. Rather than providing financial assistance, ESDP focuses on preparing individuals to become successful entrepreneurs through structured training and skill development.

Women constitute one of the priority beneficiary groups under ESDP. Special training programmes are organised to encourage women's participation in entrepreneurship, particularly in manufacturing, food processing, handicrafts, textiles, healthcare, digital services, and other sectors with significant MSME potential. According to the Ministry of MSME, these programmes have contributed to strengthening entrepreneurial awareness among women across rural and urban India by providing structured training through MSME Development and Facilitation Offices, Technology Centres, and partner institutions. By improving entrepreneurial competence before enterprise creation, ESDP complements financial schemes such as PMEGP and MUDRA, thereby increasing the probability of enterprise survival and long-term business growth

### 3.2 Yashasvini Initiative

Recognising that entrepreneurial potential often remains untapped due to inadequate awareness and limited institutional exposure, the Ministry of MSME launched the **Yashasvini Campaign** to strengthen women's participation in entrepreneurship through awareness generation, mentoring, and ecosystem development. Unlike conventional training programmes, Yashasvini adopts an outreach-oriented approach by engaging directly with aspiring women led MSMEs across educational institutions, industrial clusters, and emerging entrepreneurial ecosystems, particularly in Tier II and Tier III cities.

The campaign also seeks to improve institutional linkages between educational institutions, incubation centres, financial institutions, district industries centres and MSME Development Institutes. Such ecosystem-based interventions are expected to increase entrepreneurial awareness among young women and encourage formal enterprise creation.

### 3.3 PM Vishwakarma: Empowering Women Artisans and Traditional Enterprises

For women artisans engaged in occupations such as tailoring, weaving, toy making, handicrafts, basket weaving, and other traditional crafts, the scheme provides an opportunity to transition from informal livelihood activities to structured micro-enterprises. The combination of advanced skill training and modern toolkits enhances productivity and product quality, while digital and financial literacy interventions improve participation in formal markets. Concessional credit support further enables artisans to modernise production processes and expand business operations.

Since a substantial proportion of women artisans operate in the informal economy, PM Vishwakarma also contributes towards preserving traditional crafts while simultaneously promoting enterprise formalisation and livelihood diversification.

## 4. Market Access and Digital Competitiveness

While access to finance and entrepreneurial capacity are essential prerequisites for enterprise creation, long-term business sustainability depends on an enterprise's ability to access markets, adopt technology, improve productivity, and integrate into formal value chains. Many women-owned MSMEs in India continue to operate at a subsistence level despite receiving financial assistance because they struggle to identify customers, participate in organised markets, adopt quality standards, or compete with established businesses. Consequently, the Government of India has increasingly shifted its policy focus from enterprise creation towards enterprise competitiveness by introducing initiatives that promote market access, formalisation, digital governance, and productivity enhancement. These interventions are particularly significant for women led MSMEs, as they address structural constraints that extend beyond finance and directly influence business growth. Increasingly, digital platforms have become great equalisers by enabling women led MSMEs to overcome geographical limitations and directly access national and international markets.

### 4.1 Procurement and Marketing Support (PMS) Scheme

The scheme supports MSMEs by facilitating participation in **national and international trade fairs**, exhibitions, vendor development programmes, buyer-seller meets, and marketing events. These platforms enable enterprises to showcase products, understand market trends, establish commercial relationships with institutional buyers, and explore export opportunities. For women-owned enterprises, which frequently operate with limited marketing resources and professional networks, such exposure plays a crucial role in expanding market reach and improving business visibility.

An important feature of the PMS Scheme is the preferential support extended to women owned enterprises. Eligible women-owned MSMEs receive enhanced financial assistance for participation in exhibitions and trade fairs, including reimbursement of expenses relating to space rental, product display, and transportation, subject to the scheme guidelines. By reducing the financial burden associated with market promotion, the scheme encourages women owned enterprises to participate in business development activities that might otherwise remain inaccessible due to cost constraints. Beyond financial assistance, buyer-seller interactions organised under the scheme facilitate direct engagement with government departments, public sector undertakings, large corporations, and private procurement agencies, thereby improving opportunities for long-term commercial partnerships.

### 4.2 Udyam Registration: Formalising Women-owned Enterprises

The introduction of the **Udyam Registration** system in July 2020 marked a significant milestone in the formalisation of India's MSME sector. Replacing the earlier Udyog Aadhaar Memorandum, the digital registration framework simplified enterprise recognition through an entirely online, paperless, and self-declaration-based process integrated with Aadhaar and Permanent Account Number (PAN) verification. This reform significantly reduced procedural barriers that had previously discouraged small entrepreneurs from entering the formal economy.

For women led MSMEs, formalisation through Udyam Registration has implications that extend well beyond obtaining an MSME certificate. Registration serves as the gateway to the entire MSME support ecosystem, enabling enterprises to access collateral-free credit schemes, government subsidies, procurement preferences, delayed payment protection under the MSMED Act, technology upgradation programmes, quality certification support, and capacity-building initiatives. It also enhances the credibility of enterprises while facilitating interactions with banks, investors, customers, and government agencies.

The subsequent introduction of the **Udyam Assist Platform (UAP)** further expanded formalisation by enabling informal micro enterprises, particularly those financed through self-help groups and other grassroots financial institutions, to obtain official MSME recognition. This initiative has been particularly beneficial for women led MSMEs operating household enterprises that previously remained outside the formal regulatory framework.

### 4.3 Digital Platforms and Market Integration

India's expanding digital public infrastructure has further strengthened market access opportunities for women-owned MSMEs. The **Government e-Marketplace (GeM)** has transformed public procurement by enabling registered MSMEs to supply goods and services directly to government departments through a transparent and technology-driven platform. Women owned enterprises benefit from simplified procurement processes, wider market visibility, and opportunities to compete for government contracts without relying on traditional intermediaries.

Similarly, the **Open Network for Digital Commerce (ONDC)** has emerged as a significant initiative for democratising digital commerce. By creating an interoperable e-commerce network, ONDC reduces dependence on proprietary online marketplaces and enables small enterprises to reach customers through multiple digital platforms.

The integration of ONDC with logistics providers, payment systems and digital marketplaces has the potential to significantly reduce entry barriers for women-owned MSMEs, thereby improving market accessibility and business competitiveness.

## 5. Persistent Challenges in Women-led MSMEs

Despite the progress made through India's MSME policy framework, women led MSMEs continue to face structural and institutional barriers that limit enterprise growth and competitiveness. While initiatives such as PMEGP, CGTMSE, Stand-Up India, PMMY, and Udyam Registration have expanded access to finance and formalisation, their impact remains uneven due to implementation gaps and persistent socio-economic constraints.

The most significant challenge continues to be **access to finance**. According to the **International Finance Corporation (IFC)**, nearly **90% of women-owned enterprises in India rely on informal sources of finance**, resulting in a substantial formal credit gap. Although schemes like CGTMSE promote collateral-free lending, limited ownership of land and productive assets, coupled with conservative lending practices and inconsistent implementation by financial institutions, continues to restrict access to growth capital, particularly for first-generation entrepreneurs.

The financing challenge is not merely a supply-side issue. Demand-side constraints such as inadequate financial documentation, absence of audited financial statements, weak business plans and limited credit histories further reduce the bankability of many women-owned enterprises.

Another critical challenge is the prevalence of **informal enterprises and low financial and digital literacy**. Many women-owned businesses operate without formal registration, accounting systems, or statutory compliance, preventing them from accessing institutional credit, government procurement, technology support, and other policy benefits. At the same time, limited awareness of banking procedures, digital financial services, taxation, and e-commerce platforms restricts effective utilisation of government schemes, particularly in rural and semi-urban areas.

Women-led MSMEs also remain underrepresented in **technology-intensive and export-oriented sectors**. Limited adoption of advanced technologies, automation, artificial intelligence, and digital commerce, combined with inadequate knowledge of export procedures, quality standards, and international marketing, constrains business productivity and scalability.

Another emerging concern is the digital divide. Although government services have increasingly shifted to online platforms, inadequate digital infrastructure and varying levels of digital literacy continue to affect the ability of many women led MSMEs to fully utilise available policy benefits.

Finally, **awareness, social, and implementation barriers** continue to weaken policy outcomes. Many entrepreneurs remain unaware of available schemes and institutional support, especially in remote districts with limited outreach. Family responsibilities, mobility constraints, restricted professional networks, and gender stereotypes further influence entrepreneurial participation. In addition, procedural delays, varying administrative capacities across states, and inconsistent interpretation of scheme guidelines often reduce the effectiveness of otherwise well-designed policy interventions. Addressing these interconnected challenges will be essential for enabling women-owned MSMEs to transition from micro enterprises into competitive, growth-oriented businesses.

## 6. Emerging Trends in Women Entrepreneurship

The policy landscape for women-led MSMEs is undergoing rapid transformation through increasing adoption of digital commerce, artificial intelligence, financial technologies, platform-based businesses, social commerce, green enterprises and export-oriented manufacturing. Future MSME policy should therefore focus not only on enterprise creation but also on improving competitiveness within digitally integrated value chains. Emerging technologies such as AI-enabled business analytics, digital payments, cloud computing and e-commerce marketplaces are expected to significantly improve productivity and market access for women-owned enterprises.

## 7. Policy Recommendations and Way Forward

To maximise the impact of existing MSME policies, future reforms should focus on strengthening implementation rather than introducing additional schemes. First, **gender-**

**responsive financing** should be expanded through collateral-light lending models, faster loan approvals, digital credit assessment, and dedicated growth capital for women-owned manufacturing and technology enterprises. This would enable businesses to scale beyond the micro-enterprise stage.

Second, policy support should extend beyond credit by establishing a **strong national mentorship ecosystem** involving industry experts, academic institutions, incubators, chartered accountants, and successful entrepreneurs. Continuous guidance on financial management, regulatory compliance, intellectual property, digital transformation, and business strategy can significantly improve enterprise sustainability.

Third, greater emphasis should be placed on **technology adoption and market competitiveness**. Capacity-building programmes should incorporate training in artificial intelligence (AI), digital marketing, e-commerce, financial technologies, and cybersecurity, while dedicated export promotion initiatives should provide market intelligence, quality certification support, and participation in international trade fairs to enhance global market access.

Fourth, the Government should strengthen **cluster-based industrial ecosystems** and establish **district-level MSME facilitation centres** to improve awareness, project preparation, digital registration, and access to government schemes, particularly in rural and aspirational districts. Shared infrastructure and common facility centres can further improve productivity and reduce operational costs for women-led enterprises.

Finally, periodic impact assessment of women-specific MSME schemes should be institutionalised through measurable performance indicators such as enterprise survival rates, employment generation, credit absorption, export participation and business scaling. Evidence-based evaluation would facilitate continuous policy improvement and efficient resource allocation.

Finally, stronger **policy convergence** among ministries, financial institutions, and implementing agencies is essential. Integrated digital platforms and coordinated service delivery can simplify compliance, reduce duplication, and create a seamless support ecosystem. Collectively, these measures would strengthen the transition from women-owned micro businesses to competitive, growth-oriented MSMEs capable of contributing more significantly to India's economic development.

## 8. Conclusion

India has established a robust MSME policy framework that has significantly improved women's access to finance, entrepreneurship support, formalisation, and market opportunities. Schemes such as PMEGP, CGTMSE, PMMY, and Udyam Registration have strengthened women-led enterprise creation and financial inclusion. However, challenges related to growth capital, technology adoption, market access, and policy implementation continue to limit enterprise scalability. Going forward, India's MSME policy must evolve from facilitating enterprise creation to fostering enterprise competitiveness, innovation, productivity and global integration. A holistic ecosystem combining finance, capacity building, technology adoption, mentoring and market access will be critical for enabling women-led MSMEs to emerge as a major driver of India's vision of Viksit Bharat 2047.

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***-By Chitranshi Baranwal***

# MSMEs in India: The Growth Engine of the Indian Economy – Regulatory Framework, Government Support and Emerging Opportunities

## Introduction

Micro, Small and Medium Enterprises (MSMEs) are widely regarded as the backbone of the Indian economy. They serve as catalysts for industrialization, innovation, entrepreneurship, and employment generation while contributing significantly to exports and regional development. In an economy as diverse as India, MSMEs bridge the gap between large industries and local markets by promoting inclusive and balanced economic growth.

The Government of India has consistently prioritized the MSME sector through policy reforms, financial incentives, technological support, and ease-of-doing-business initiatives. The introduction of Udyam Registration, digital lending platforms, collateral-free credit schemes, and stringent provisions against delayed payments have transformed the MSME ecosystem in recent years.

For Chartered Accountants, the MSME sector presents significant opportunities in advisory, assurance, taxation, compliance, financial planning, and strategic consulting. Understanding the legal and regulatory framework governing MSMEs has therefore become indispensable for professionals as well as entrepreneurs.

## MSMEs at a Glance

- More than **8.5 crore** MSMEs in India.
- Contribute approximately **30% of GDP**.
- Around **36% of manufacturing output**.
- Nearly **45% of exports** (direct and indirect contribution).
- Generate employment for over **39 crore persons**.

## Statutory Framework Governing MSMEs

| Statute | Relevant Provision | Significance |
|---|---|---|
| MSMED Act, 2006 | Sections 7, 8 | Classification and Registration of MSMEs |
| MSMED Act, 2006 | Sections 15–24 | Delayed payment mechanism and interest |
| Income-tax Act, 1961 | Section 43B(h) | Deduction linked with timely payment to Micro & Small Enterprises |
| Companies Act, 2013 | Section 134 | Disclosure of internal financial controls and governance |
| GST Laws | Section 16 of the CGST Act | Timely payment impacts ITC reversal in certain situations |

*Table 1*

## Important Provisions under the MSMED Act

| Section | Subject | Practical Impact |
|---|---|---|
| 7 | Classification | Defines MSME categories |
| 8 | Udyam Registration | Recognition of MSMEs |
| 15 | Time limit for payment | Maximum 45 days |
| 16 | Interest on delayed payment | Three times RBI Bank Rate |
| 17 | Recovery | Principal + Interest |
| 18 | MSEFC | Conciliation & Arbitration |
| 19 | Appeal | Deposit of 75% of award amount |
| 22 | Financial Statement Disclosure | Disclosure of MSME dues |

*Table 2*

## Meaning and Classification of MSMEs

The Micro, Small and Medium Enterprises Development Act, 2006 (MSMED Act) provides the legal framework for the promotion and development of MSMEs in India. The Government revised the classification criteria with effect from 1 April 2025 by adopting a composite criterion based on investment in plant and machinery or equipment and annual turnover.

| Category | Investment Limit | Annual Turnover Limit |
|---|---|---|
| Micro Enterprise | Up to ₹2.5 Crore | Up to ₹10 Crore |
| Small Enterprise | Up to ₹25 Crore | Up to ₹100 Crore |
| Medium Enterprise | Up to ₹125 Crore | Up to ₹500 Crore |

*(Ministry of Micro, Small and Medium Enterprises Notification S.O. 1364(E) dated 21 March 2025 (effective from 1 April 2025)).*

*Table 3*

The revised classification removed the distinction between manufacturing and service enterprises, thereby simplifying compliance and encouraging business expansion without fear of losing MSME status prematurely.

## Economic Significance of MSMEs

The MSME sector plays a pivotal role in India's socio-economic development. It contributes substantially to employment generation, industrial production, exports, and entrepreneurship.

Some key contributions include:

- Generation of employment opportunities across urban and rural areas.
- Promotion of innovation and indigenous manufacturing.
- Significant contribution towards exports.
- Balanced regional development by encouraging industries in semi-urban and rural regions.
- Development of ancillary industries supporting large manufacturing units.
- Promotion of women entrepreneurship and first-generation entrepreneurs.

The sector has also become an important pillar in achieving the objectives of **Atmanirbhar Bharat**, **Make in India**, **Digital India**, and **Startup India**.

## Udyam Registration – A Gateway to Benefits

The Government introduced the Udyam Registration Portal to simplify MSME registration through a completely paperless and self-declaration-based process.

Registration provides numerous advantages including:

- Recognition as an MSME under the MSMED Act.
- Priority sector lending from banks.
- Eligibility for collateral-free loans.
- Lower interest rates under various schemes.
- Preference in Government procurement.
- Protection against delayed payments & eligible to register as eligible buyer under TReDS – Invoice discounting for MSMEs portal.
- Access to subsidies for technology upgradation, quality certification and skill development.

Entrepreneurs are encouraged to maintain updated information on the portal to ensure uninterrupted eligibility for Government benefits.

## Government Schemes Supporting MSMEs

The Government has launched several initiatives to improve access to finance, technology and markets. Recognising the pivotal role of MSMEs in India's economic development, the Government of India has introduced several schemes aimed at improving access to finance, technology, market linkages, quality standards and capacity building. These initiatives seek to enhance the competitiveness and sustainability of MSMEs while fostering innovation and employment generation.

1. **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**

   Access to collateral-free credit remains a major challenge for MSMEs. To address this issue, the Government, in collaboration with the Small Industries Development Bank of India (SIDBI), established the **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)**. Under this scheme, eligible Micro and Small Enterprises can avail collateral-free credit facilities from member lending institutions, thereby facilitating easier access to institutional finance and encouraging entrepreneurship.

2. **Raising and Accelerating MSME Performance (RAMP) Programme**

   The **Raising and Accelerating MSME Performance (RAMP)** Programme is a World Bank-supported initiative launched by the Ministry of MSME to strengthen the institutional and financial ecosystem for MSMEs. The programme focuses on enhancing market access, improving credit availability, strengthening state-level implementation capacity, promoting technology adoption, and improving business resilience. It also supports policy reforms aimed at increasing the competitiveness of Indian MSMEs in domestic and international markets.

3. **Zero Defect Zero Effect (ZED) Certification Scheme**

The **MSME Sustainable (ZED) Certification Scheme** encourages MSMEs to adopt globally accepted quality standards while promoting environmentally sustainable manufacturing practices. The scheme provides financial assistance for certification, encourages continuous quality improvement, reduces wastage and enhances the credibility of Indian products in global markets. Certified enterprises also enjoy improved marketability and greater confidence among customers and financial institutions.

4. **Lean Manufacturing Competitiveness Scheme**

To improve operational efficiency and productivity, the Government promotes the adoption of **Lean Manufacturing** techniques among MSMEs. The scheme encourages enterprises to minimise waste, optimise resource utilisation, improve product quality, reduce production costs and enhance overall competitiveness through internationally recognised manufacturing practices such as Kaizen, 5S, Just-in-Time (JIT) and Visual Management.

5. **Procurement and Marketing Support (PMS) Scheme**

The **Procurement and Marketing Support (PMS) Scheme** assists MSMEs in expanding their market presence through participation in domestic and international trade fairs, buyer-seller meets, vendor development programmes and marketing assistance initiatives. The scheme enhances market access, promotes branding of MSME products and enables enterprises to explore new business opportunities both within India and abroad.

6. **PM Vishwakarma Scheme**

The **PM Vishwakarma Scheme** aims to empower traditional artisans and craftspeople engaged in occupations such as carpentry, blacksmithing, pottery, tailoring, masonry, goldsmithing and related trades. The scheme provides skill upgradation, toolkit incentives, concessional credit support, digital transaction incentives and marketing assistance, thereby integrating traditional enterprises into the formal economy and improving their income-generating capacity.

7. **Public Procurement Policy for Micro and Small Enterprises**

To promote inclusive growth, the Government has mandated that Central Ministries, Departments and Public Sector Enterprises procure a prescribed percentage of their annual purchases from Micro and Small Enterprises. Special procurement targets have also been earmarked for enterprises owned by women and Scheduled Caste/Scheduled Tribe entrepreneurs. This policy significantly enhances market access and business opportunities for eligible MSMEs.

8. **Digital Lending and Financial Inclusion Initiatives**

The Government and financial regulators have introduced several digital initiatives to improve access to finance, including integration of GST data, Income-tax records, Account Aggregator Framework, Udyam Assist Platform and digital loan assessment models. These initiatives have reduced documentation requirements, accelerated loan processing and improved formal credit penetration among MSMEs.

**Practical Significance for Chartered Accountants**

Chartered Accountants play a critical role in enabling MSMEs to maximise the benefits of these schemes by advising clients on eligibility conditions, documentation requirements, financial planning, subsidy claims, certification processes and regulatory compliance. Their professional guidance helps enterprises improve governance, strengthen financial management and effectively leverage Government support for sustainable growth.

**Professional Insight:** Government support for MSMEs has evolved beyond financial assistance to encompass quality enhancement, technology adoption, digital transformation, market access and sustainable manufacturing. Chartered Accountants are uniquely positioned to guide enterprises in aligning these initiatives with their long-term business strategies.

## Delayed Payment Provisions – Strengthening Financial Discipline

One of the most significant protections available to MSMEs under the MSMED Act relates to delayed payments.

### Time Limit for Payment

Where goods or services are supplied by a registered MSME:

- Payment must be made within the agreed period, which cannot exceed **45 days** from the date of acceptance or deemed acceptance.
- In the absence of a written agreement, payment must be made within **15 days**.

### Interest on Delayed Payment

If payment is delayed beyond the prescribed period:

- Interest becomes payable automatically.
- Interest is calculated at **three times the bank rate notified by the Reserve Bank of India**.
- The interest is compounded monthly.
- Parties cannot contract out of this statutory liability.

### Facilitation Council

The MSMED Act provides for Micro and Small Enterprises Facilitation Councils (MSEFC) to resolve payment disputes through conciliation and arbitration, offering a comparatively faster dispute resolution mechanism.

These provisions encourage prompt payments and improve liquidity for MSMEs.

Delayed Payment Mechanism (*Figure 1*)

Supply of Goods/Services
↓
Payment Due
↓
Paid within time?
↓ ↓
Yes | No
↓ | ↓
No Consequence | Interest u/s16
↓
Reference to MSEFC
↓
Conciliation
↓
Arbitration
↓
Award

### Compliance Matrix for Buyers

| Compliance Area | Requirement | Responsibility |
|---|---|---|
| Vendor Identification | Obtain Udyam Certificate | Purchase Department |
| Due Date Tracking | 15/45 days | Accounts Department |
| Section 43B(h) Review | Before year-end | Tax Team |
| Schedule III Disclosure | At year-end | Finance Department |
| Audit Verification | Outstanding balances | Statutory Auditor |

*Table 4*

## Strengthening MSMEs through Timely Payments: An Analysis of Sections 15–24 of the MSMED Act, 2006

**Section 15-Payment shall be made:**

- within the agreed period not exceeding **45 days**, or
- within **15 days** where no written agreement exists.

**Section 16 – Interest**

If payment is delayed,

- interest is mandatory,
- payable at **three times the RBI Bank Rate**,
- compounded with monthly rests.

**Section 17**

Supplier becomes entitled to recover both

- principal amount and
- statutory interest.

**Section 18**

Disputes may be referred to the Micro and Small Enterprises Facilitation Council (MSEFC) for conciliation and arbitration.

**Section 19**

Where the buyer challenges the award, generally **75% of the awarded amount** must be deposited before the court entertains the application.

**Section 22**

Specified companies are required to disclose outstanding principal and interest payable to MSMEs in their annual financial statements.

Note :- Sections 15–24 apply only where the supplier is a Micro or Small Enterprise registered under the MSMED Act. Medium Enterprises do not get the benefit of delayed payment provisions.

## Income-tax Implications

A significant compliance development is the linkage between the MSMED Act and the Income-tax Act.

Section 43B(h) (Section 37 of the Income Tax Act, 2025) is applicable only to purchases from **Micro and Small Enterprises**. Payments to Medium Enterprises are outside its scope. Further, the provision applies only where expenditure is otherwise allowable under the Income-tax Act and does not extend to capital expenditure.

Under the Income-tax Act, expenditure payable to a Micro or Small Enterprise is allowable as a deduction only if payment is made within the time prescribed under Section 15 of the MSMED Act. Payments made beyond the prescribed period are allowed as deductions only in the year of actual payment.

This provision has compelled businesses to strengthen vendor management systems, improve cash flow planning and monitor outstanding balances more effectively.

Businesses should therefore:

- Identify MSME vendors who is either manufacturer or service provider through proper declarations.
- Maintain updated Udyam Registration details.
- Track ageing of MSME creditors separately.
- Ensure timely payments before statutory deadlines.

Let's understand this with the help of an illustration: -

ABC Ltd. purchases goods worth **₹8,00,000** from a registered Micro Enterprise on **15 January 2026**.

Credit period agreed: **45 days**

Due Date: **1 March 2026**

Actual payment made: **20 June 2026**

Accounting treatment:

- Expense booked in FY 2025–26
- Deduction under Section 43B(h) **not allowable** in AY 2026–27
- Deduction available only in the year of actual payment
- Interest payable under Section 16 of the MSMED Act remains separately payable and is not allowable as a tax deduction.

Summary of whole implication under the Income Tax Act *(Figure 2)*

Purchase from Micro/Small Enterprise
↓
Is payment made within Section 15?
↓ ↓
Yes No
↓ ↓
Deduction Allowed Deduction Deferred
↓
Allowed only on Actual Payment

## Access to Finance – The Lifeline of MSMEs

Despite numerous reforms, access to affordable finance continues to be one of the major challenges for MSMEs.

Traditional lending often requires:

- Extensive documentation.
- Collateral security.
- Strong credit history.

Recent reforms have improved the situation through:

- Digital loan assessment.
- GST-based lending.
- Cash-flow based financing.
- Trade Receivable Discounting System (TReDS).
- Account Aggregator framework.
- Fintech-based working capital solutions.

Financial literacy among entrepreneurs remains equally important to ensure effective utilization of available credit facilities.

**Challenges Facing MSMEs**

Although the sector has witnessed remarkable growth, several challenges continue to hinder its full potential.

**Limited Access to Capital**

Many enterprises still struggle to obtain adequate working capital and long-term finance.

**Compliance Burden**

Frequent regulatory changes relating to GST, Income-tax, labour laws and environmental regulations increase compliance costs.

**Technology Gap**

A considerable number of MSMEs continue to rely on outdated production techniques, affecting productivity and competitiveness.

**Skilled Workforce**

Retention of skilled manpower remains difficult, particularly for enterprises located in smaller cities.

**Delayed Payments**

Despite statutory safeguards, delayed realization of receivables continues to affect cash flows.

**Cyber Security Risks**

Increasing digitalization has exposed MSMEs to cyber fraud, data breaches and financial scams, highlighting the need for stronger internal controls.

### Emerging Opportunities

The future of MSMEs appears promising owing to several structural reforms.

#### Digital Transformation

Cloud accounting, ERP systems, AI-based analytics and digital payments are improving operational efficiency.

#### Export Opportunities

Global diversification of supply chains has created opportunities for Indian manufacturers to expand exports.

#### Green Manufacturing

Increasing focus on sustainability and ESG compliance offers new business prospects.

#### Government Procurement

The Government's emphasis on domestic manufacturing under the Public Procurement Policy provides a stable market for eligible MSMEs.

#### Artificial Intelligence

AI-powered accounting, inventory management, forecasting and customer service solutions are becoming increasingly affordable for small enterprises.

## Emerging Opportunities for Chartered Accountants

Chartered Accountants are strategic partners in the growth journey of MSMEs. Their role extends well beyond statutory audits and tax compliance.

Professionals can assist MSMEs in:

- Business structuring and entity selection.
- Udyam Registration and compliance.
- GST advisory and return filing.
- Income-tax planning.
- Financial reporting.
- Internal financial controls.
- Budgeting and MIS reporting.
- Working capital management.
- Bank finance and project reports.
- Risk management.
- Digital accounting implementation.
- Due diligence and valuation.
- Succession planning and business restructuring.

With increasing regulatory complexity, the demand for professional advisory services is expected to grow substantially.

**Professional Checklist for Chartered Accountants**

- Obtain Udyam Registration Certificate from vendors.
- Maintain a separate MSME creditors register.
- Verify whether the supplier qualifies as Micro or Small Enterprise.
- Monitor ageing of outstanding balances.
- Ensure payments are released within statutory timelines.
- Review applicability of Section 43B(h) before finalisation of tax audit.
- Verify disclosures under Schedule III and CARO wherever applicable.

**Reporting under Tax Audit**

- Clause 26 of Form 3CD requires reporting of disallowance under Section 43B
- Tax auditors should verify MSME declarations, payment dates and ageing.

**Reporting under CARO**

Auditors reporting under CARO 2020 should examine whether undisputed statutory dues and trade payables have been appropriately recognised. Though CARO does not specifically require reporting of MSME dues, outstanding MSME liabilities often become an important audit consideration while evaluating compliance with applicable laws and the financial statement disclosures.

## Trade Receivables Discounting System (TReDS): Transforming MSME Working Capital

One of the most significant initiatives introduced by the Reserve Bank of India (RBI) to address the persistent issue of delayed payments and working capital constraints faced by MSMEs is the **Trade Receivables Discounting System (TReDS)**. It is an electronic platform that enables MSMEs to convert their trade receivables into immediate liquidity by discounting invoices through multiple financiers in a transparent and competitive environment.

TReDS facilitates financing based on invoices raised by MSME sellers on their corporate and government buyers. Once the buyer accepts the invoice on the platform, banks and financial institutions bid competitively to finance the receivable. This enables MSMEs to receive payment immediately, while the financier collects the amount from the buyer on the due date.

**Key Participants in TReDS**

The TReDS ecosystem comprises the following participants:

- **MSME Sellers:** Micro and Small Enterprises supplying goods or services.
- **Buyers:** Corporates, Public Sector Undertakings (PSUs), Government Departments and other entities purchasing goods or services from MSMEs.
- **Financiers:** Scheduled Commercial Banks, NBFC-Factors and other financial institutions permitted by the RBI to undertake receivables financing.
- **TReDS Platform Operators:** RBI-authorised entities providing the electronic infrastructure for invoice acceptance, bidding and settlement.

**How TReDS Works**

1. MSME supplies goods or services and raises an invoice.
2. The invoice is uploaded on the TReDS platform.
3. The buyer verifies and accepts the invoice electronically.
4. Multiple financiers bid to discount the invoice.
5. The MSME receives immediate payment from the selected financier.
6. On the due date, the buyer pays the financier directly.

**Benefits of TReDS**

- Improved liquidity without waiting for long credit periods.
- Competitive discounting rates due to participation of multiple financiers.
- Reduced dependence on traditional working capital loans.
- Digital, transparent and paperless financing process.
- Better cash flow management and improved business continuity.
- Lower financing costs for creditworthy transactions.
- Enhanced financial discipline among buyers.

**RBI Recognition and Regulatory Framework**

The TReDS framework has been established by the **Reserve Bank of India** under the **Payment and Settlement Systems Act, 2007**. RBI has authorised multiple entities to operate TReDS platforms and has continuously expanded the framework to improve participation by corporates, government entities and financial institutions. Large buyers are increasingly being encouraged to onboard TReDS platforms, thereby strengthening the receivables financing ecosystem for MSMEs.

**Practical Illustration**

**ABC Engineering**, a Micro Enterprise, supplies machinery components worth **₹25 lakh** to a Public Sector Undertaking with a credit period of **90 days**. Instead of waiting three months for payment, the enterprise uploads the accepted invoice on a TReDS platform. Competing financiers offer discounting rates, and the invoice is financed immediately. ABC Engineering receives funds within a few days, enabling it to purchase raw materials, pay wages and execute new orders without borrowing through conventional working capital facilities.

**Role of Chartered Accountants**

Chartered Accountants can play a proactive role in facilitating MSMEs' adoption of TReDS by identifying eligible receivables, advising clients on platform registration, ensuring proper documentation, evaluating financing costs and integrating TReDS into the enterprise's overall working capital management strategy. They can also assist buyers in strengthening internal controls over invoice acceptance and payment processes to maximise the benefits of the system.

**Professional Insight:** TReDS should not merely be viewed as an invoice discounting mechanism; it is a strategic tool for improving liquidity, reducing dependence on bank overdrafts, and fostering a robust payment culture within the MSME ecosystem.

## Recent Policy Developments

- Revised MSME classification effective **1 April 2025**, increasing investment and turnover thresholds to enable enterprises to scale without immediately losing MSME status. (*Ministry* *of Micro, Small and Medium Enterprises Notification S.O. 1364(E) dated 21 March 2025 (effective from 1 April 2025)).*

- Union Budget 2025–26 enhanced the credit guarantee cover for eligible micro and small enterprises, introduced credit cards for micro enterprises, and announced additional measures to improve access to finance and support first-time entrepreneurs.
- The Ministry of MSME continues to expand digital initiatives such as the Udyam Registration Portal, MSME Samadhaan, and the Champions Portal to simplify compliance and grievance redressal.
- During 2026, the Ministry initiated a nationwide consultation exercise to gather stakeholder feedback for strengthening the MSME manufacturing ecosystem, indicating further policy reforms may follow.

## Important Judicial Pronouncements

Judicial pronouncements have played a significant role in clarifying the scope and applicability of the MSMED Act, 2006, particularly concerning dispute resolution, delayed payment claims and the powers of the Micro and Small Enterprises Facilitation Council (MSEFC). Some landmark decisions are discussed below:

**Gujarat State Civil Supplies Corporation Ltd. v. Mahakali Foods Pvt. Ltd. & Ors.**

In this landmark judgment, the Supreme Court comprehensively interpreted the provisions of Sections 15 to 18 of the MSMED Act, 2006. The Court held that the **Micro and Small Enterprises Facilitation Council (MSEFC) possesses wide powers to conduct conciliation either by itself or through an institution and, upon failure of conciliation, to refer the dispute for arbitration or itself act as an arbitral tribunal under the provisions of the Arbitration and Conciliation Act, 1996.**

The Court further observed that the MSMED Act is a **beneficial legislation** enacted to protect Micro and Small Enterprises from delayed payments and therefore deserves a liberal interpretation. It also clarified that the existence of an arbitration clause in the underlying contract does not bar the jurisdiction of the MSEFC, as the statutory remedy under the MSMED Act overrides contractual dispute resolution mechanisms to the extent provided by the Act.

**Key Takeaway:** The decision reinforces the supremacy of the dispute resolution mechanism under the MSMED Act and strengthens the legal protection available to Micro and Small Enterprises against delayed payments.

**Principal Chief Engineer v. Manibhai & Bros. (Sleeper)**

The Supreme Court reiterated that the provisions relating to delayed payments under the MSMED Act are intended to ensure timely realization of dues by Micro and Small Enterprises. The Court emphasized that statutory interest under the Act is compensatory in nature and forms an integral part of the legislative framework designed to promote financial discipline among buyers.

**Key Takeaway:** Buyers cannot evade statutory liability merely by relying upon contractual terms inconsistent with the provisions of the MSMED Act.

**Practical Significance for Chartered Accountants**

These judicial pronouncements underscore the importance of identifying MSME vendors, ensuring compliance with statutory payment timelines, evaluating exposure to interest liability, and advising clients on appropriate contractual and financial practices. Chartered Accountants should also consider these rulings while conducting statutory audits, tax audits, internal audits and due diligence assignments involving MSME transactions.

**Professional Insight:** These decisions reaffirm that the MSMED Act is a welfare legislation intended to protect the liquidity of Micro and Small Enterprises. Consequently, businesses should not view compliance with the Act merely as a legal obligation but as an essential element of sound corporate governance and responsible financial management.

## Way Forward

India aspires to become a developed economy over the coming decades, and MSMEs will remain central to this vision. Continued policy support, easier access to finance, technological adoption, improved infrastructure, simplified compliance and timely realization of payments are essential to unlocking the sector's full potential.

Entrepreneurs should view compliance not merely as a legal obligation but as a strategic tool for improving governance, attracting investment and enhancing business credibility. Likewise, professionals must proactively guide MSMEs in navigating regulatory changes and adopting best governance practices.

## Conclusion

MSMEs represent the entrepreneurial spirit of India. Their contribution to employment generation, exports, innovation and inclusive economic growth makes them indispensable to the nation's development. While challenges relating to finance, technology and compliance persist, sustained Government support and digital transformation are creating unprecedented opportunities.

The success of the MSME ecosystem depends upon collaborative efforts among entrepreneurs, financial institutions, policymakers and professionals. Chartered Accountants, with their multidisciplinary expertise, are uniquely positioned to act as trusted advisors in this transformation. By fostering sound governance, financial discipline and strategic growth, they can play a decisive role in building a stronger, more competitive and globally integrated MSME sector.

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***-By CA Harshit Arya***

# QUIZ

**1. An AI-powered dashboard helps business owners by:**

A) Giving real-time business insights and KPIs

B) Hiding financial data

C) Slowing down decision-making

D) Replacing auditors completely

**2. What is the major benefit of AI in pricing strategies?**

A) Random product pricing

B) Dynamic pricing based on demand & competition

C) Increasing prices only

D) Ignoring customer segments

**3. Which of the following is NOT a typical challenge faced by MSMEs?**

A. Access to finance

B. Skilled manpower

C. Regulatory compliance

D. Excessive market dominance

**4. The apex body at the state level responsible for MSME development in most of the states is**

A) Khadi Village Industries Boards

B) MSME-Dis

C) Directorate of Industries

D) State Industrial & Infrastructure Development Corporation

**5. Credit Guarantee Trust Fund is a Scheme developed by the Government of India and another institution to provide collateral fee loan on payment of guarantee fee to bank by the MSME**

A) Reserve Bank of India

B) Mudra Bank

C) Small Industries development Bank of India

D) State Bank of India

**6. Which document is mandatory for Startup recognition?**

A. PAN Card

B. Business Plan

C. DPIIT Recognition Certificate

D. GST Registration

**7. What does DPIIT stand for?**

A. Department of Public Investment & Infrastructure Technology

B. Department for Promotion of Industry and Internal Trade

C. Department of Private Industry & Innovation Technology

D. Directorate of Policy, Industry & International Trade

**8. Which tax benefit is available to eligible Startups under Income Tax Act?**

A. Section 80C

B. Section 80D

C. Section 80-IAC

D. Section 44AD

**9. Which scheme provides collateral-free loans to MSMEs and Startups?**

A. PMJDY

B. CGTMSE

C. Atal Pension Yojana

D. PMFBY

**10. Revenue-Based Financing (RBF) is typically suitable for businesses with:**

A. Unpredictable revenues

B. Fixed-asset heavy operations

C. Recurring or subscription-based cash flows

D. No revenue model

**Answers:**

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


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