MSME Development (Amendment) Bill, 2026

Mains: *GS II – Polity & Governance*

Why in News?

Recently, the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2026, was passed by the Parliament in August 2026.

What is the MSMED (Amendment) Bill and the contributions of MSMEs?

- **MSMED Bill** – It is a legislative update to the *Micro, Small and Medium Enterprises Development Act (MSMED Act)* was notified in 2006.
- **Objectives –** To reduce payment-related constraints, make dispute resolution more time-bound and simplify compliance.
- To facilitate the growth, development and competitiveness of MSMEs while promoting Ease of Doing Business.

- **Economic Survey 2025 26: MSME Contribution**
  - Share of Gross Domestic Product (GDP) – 31.1%
  - Contribution to manufacturing output – 35.4%
  - Contribution to exports – 48.58%
- **MSME Scale and Transformation as of August 2026**
- **Registration –** A total of 9.16 crore MSMEs are registered on the Udyam platform.
- **Employment –** These MSMEs collectively employ over 40 crore individuals.
- **Key drivers of change –** It include technological advancements and the adoption of information technology-enabled systems.
- **Coverage –** Rural, semi-urban, and urban areas, play an active role in formal supply chains.

What are the provisions of MSME Development (Amendment) Bill, 2026”?

- **MSMEs classification –** On the basis of:
    - Investment in plant and machinery or equipment; and
    - Turnover.
- **MSME Registration –** The Bill makes filing of the memorandum free and voluntary for all MSMEs.
- The Centre will notify a national MSME platform, with States free to launch their own; MSMEs registered on these platforms will also gain access to State scheme benefits.
- **Payments through Trade Receivables Discounting System (TReDS)**
- **Mandatory Use of TReDS** – All CPSEs must settle MSME invoices via the TReDS platform to resolve payment delays.
- **State-Level Adoption** – States may require their PSEs, authorities, or entities to also use TReDS for invoice settlement.
- **Micro and Small Enterprises Facilitation Councils (MSEFCs) Framework**
- States may set up multiple MSEFCs and provide infrastructure, digital systems, and trained manpower to ensure faster resolution of MSME payment disputes.

- **Mediation and Arbitration –** Central Government may establish an online mechanism for mediation or arbitration, with specific timelines such as:
    - **Mediation Timeline –** MSEFC/mediator must complete mediation within 90 days of first appearance.
    - **Arbitration Referral –** If mediation ends, MSEFC must refer case to arbitration within 30 days.
    - **Arbitral Award –** Arbitration body must deliver award within 90 days after pleadings conclude.
- **Dispute Resolution**
- **Pending Applications –** Courts may release part of the deposit to MSME suppliers while applications are under consideration.
- **Delay Beyond 6 Months –** At least 50% of the awarded amount must be paid if set-aside applications remain pending beyond six months.

- **Recovery of Dues –**Mediated settlements or arbitral awards under Section 18 can be recovered as arrears of land revenue.

- **Jurisdictional Authority** – Recovery is carried out by the District Collector/Deputy Commissioner or other notified authority with jurisdiction over the buyer’s assets.

- **Decriminalisation of Offences**

- **Incorrect Information –** The first instance will result in a warning. Any further instances will result in a penalty.

- **Non-disclosure of Dues –** The first instance will result in a warning, the second in a penalty, and any further instances in a fine**.**

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MSME DEVELOPMENT ACT, 2006 vs AMENDMENT BILL, 2026

AREAS OF REFORM	THE MICRO, SMALL AND MEDIUM ENTERPRISES DEVELOPMENT ACT, 2006	THE MICRO, SMALL, AND MEDIUM ENTERPRISES DEVELOPMENT (AMENDMENT) BILL, 2026
1. MSME CLASSIFICATION	MSMEs are classified on the basis of prescribed **investment thresholds** for: • Plant and machinery in • manufacturing; and • Equipment in services.	MSMEs are classified on the basis of: 1. **Investment** in plant & machinery or equipment; and 2. **Turnover.**
2. MSME REGISTRATION	Medium enterprises engaged in manufacturing are **required** to file a memorandum with specified authority. Filing of memorandum is voluntary for other MSMEs.	• The Bill makes filing of the memorandum **free and voluntary** for all MSMEs. • Central Govt. to notify national platform; States may notify state digital platforms. • State scheme benefits may be extended to MSMEs registered on national & state-level platforms.
3. PAYMENTS THROUGH TReDS	Addressed through introduction of a **new provision** in the Bill.	• All CPSEs must settle invoices for goods & services procured from MSMEs through the **TReDS platform**. • States may mandate their PSEs, authorities or entities to use TReDS for invoice settlement.
4. MSEFCs FRAMEWORK	State Governments may establish **one or more** MSE Facilitation Councils.	State Governments can establish **multiple MSEFCs** to enable faster resolution of payment-related disputes. They are empowered to provide adequate infrastructure, digital systems & trained manpower.
5. MEDIATION & ARBITRATION	The MSEFCs or referred mediation service providers are authorised to settle payment disputes by **mediation**. Where a mediation is not successful, the dispute may be **referred for arbitration**.	Central Govt. may establish **online mechanism** for mediation or arbitration. **Timelines: 90 days** mediation → **30 days** to arbitration → **90 days** for arbitral award.
6. DISPUTE RESOLUTION	Application to set aside a Council's order / award may be filed in court after depositing **75%** of the awarded amount.	Court may release reasonable portion to MSME supplier while application pending. If case pending **> 6 months**, court to pay **≥ 50%** of award to MSE supplier.
7. RECOVERY OF DUES	Addressed through introduction of a **new provision** in the Bill.	Mediated settlement/ arbitral award recoverable as '**arrears of land revenue**' through Collector/ Deputy Commissioner or notified authority.
8. DECRIMINALISATION OF OFFENCES	• False registration info: Fine up to **₹1,000** (first conviction) and **₹1,000–₹10,000** (subsequent convictions). • Failure to report unpaid dues in annual accounts: Fine **≥ ₹10,000**.	• Non-filing registration / non-supply info: **Warning** first; penalty later (decriminalised). • Incorrect information: **Warning** first; penalty later. • Non-disclosure of unpaid dues by buyers: **Warning** first; penalty second; **fine** third & subsequent instances.

CPSEs – Central Public Sector Enterprises | PSEs – Public Sector Enterprises |
MSEFCs – Micro and Small Enterprises Facilitation Councils

What are the digital platforms and institutional mechanisms to support the bill?

- **Expanding Formal Recognition**

- **Udyam Portal Recognition** – Provides free, paperless, self-declaration registration giving MSMEs official recognition.

- **Informal Enterprise Inclusion –** Extends recognition to micro enterprises outside GST/Income Tax systems, verified via authorised partners.

- **Improving Access to Financing –** TReDS is an electronic platform that enables MSMEs to finance or discount trade receivables.

- It operates in accordance with guidelines issued by the Reserve Bank of India.

- **Enabling Online Dispute Resolution (ODR) –** The ODR Portal was launched in June 2025.

- It offers MSEs a low-cost, end-to-end digital mechanism for resolving delayed payment disputes, including small-value claims.

- **Strengthening the MSEFC Network –** MSEFCs are set up to adjudicate disputes arising from payment delays faced by Micro and Small Enterprises.

What are the challenges?

- **Weak recovery mechanisms –** Delays in executing MSEFC rulings hinder timely payment collection.

- **Resource deficits –** New councils lack guaranteed funding, technology, and adequate staffing.

- **Credit access gaps –** MSMEs face challenges obtaining institutional loans due to high collateral requirements.

- **Expansion anxiety –** MSMEs are concerned about losing incentives once they exceed eligibility thresholds.

- **Compliance burden –** GST, labor, and environmental regulations continue to impose significant demands.

- **Competitiveness challenge –** The lack of a technology upgrade strategy leaves MSMEs exposed to import competition.

What lies ahead?

- This bill seeks to strengthen the foundations of an MSME’s journey from a small enterprise to a growing business.
- It provides for a stronger regulatory framework to help MSMEs operate and expand in an evolving business environment.

Reference

PIB | MSME Development (Amendment) Bill, 2026

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