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The MSME Development (Amendment) Bill, 2026: Fixing India's Delayed-Payment Problem

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CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

The MSME Development (Amendment) Bill, 2026: Fixing India's Delayed-Payment Problem

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> *Union Minister for Micro, Small and Medium Enterprises Jitan Ram Manjhi introduced the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2026 in the Rajya Sabha on July 28, 2026, to tackle chronic delayed payments to MSME suppliers by large buyers, including public-sector entities.*

WHAT THE BILL CHANGES

The Bill amends the **MSME Development Act, 2006**, and targets the two weakest links in the existing payment-dispute chain: the incentive for a large buyer to litigate rather than pay, and the absence of a mandatory digital settlement rail for the public sector's own dues.

PROVISION	EFFECT
Set-aside applications and arbitral awards	Where a buyer's application to set aside an arbitral award in an MSME's favour has been **pending for more than six months**, the court may direct payment of **at least 50 per cent of the awarded amount** to the MSME supplier as an interim measure
CPSE settlement through TReDS	Central Public Sector Enterprises are mandated to route invoice settlement through the **Trade Receivables Discounting System (TReDS)**
State-level Facilitation Councils	States are enabled to constitute **additional Micro and Small Enterprises Facilitation Councils (MSEFCs)** with a rationalised composition
Adjudication timelines	Prescribes tighter timelines for resolution of delayed-payment references before the Facilitation Councils

THE PROBLEM THE BILL IS ANSWERING

Under Section 15 of the parent Act, a buyer must pay an MSME supplier within the period agreed in writing, and in any case not later than **45 days** from acceptance of goods or services. Under Section 16, delayed payment attracts compound interest at **three times the RBI's notified bank rate**. Sections 17 and 18 give an aggrieved MSME the right to refer the dispute to the **Micro and Small Enterprises Facilitation Council (MSEFC)**, which conducts conciliation and, failing that, arbitration under the Arbitration and Conciliation Act, 1996.

The design flaw the 2026 Bill addresses is what happens **after** an MSME wins that arbitration. A buyer who loses at the MSEFC can, and routinely does, challenge the award under **Section 34 of the Arbitration and Conciliation Act, 1996**, and that challenge can stall payment for years while the case moves through the courts, even though the underlying claim has already been adjudicated. Large buyers, including some government entities, have used this route as a low-cost way to defer cash outflow, since the interest exposure under Section 16 is frequently smaller than the working-capital benefit of holding on to the money. The Bill breaks that calculus by providing that once a set-aside application has been **pending for more than six months**, the court may direct payment of at least half the award upfront, while the appeal proceeds on the merits, so the delay itself stops being cost-free for the buyer.

WHY TREDS MATTERS

TReDS is a Reserve Bank of India-regulated electronic platform on which an MSME can auction its trade receivables (approved invoices) to financiers, banks and NBFCs, and receive early payment at a discount, without waiting for the buyer's payment cycle to complete. Three platforms currently operate under RBI authorisation: **RXIL, Invoicemart and M1xchange**. Because CPSEs sit on a large share of aggregate public-sector procurement, mandating their settlement through TReDS both formalises MSME receivables financing and creates payment-behaviour data that regulators can monitor.

PARAMETER	DETAIL
Regulator	Reserve Bank of India
Live platforms	RXIL, Invoicemart, M1xchange
Participants	MSME sellers, corporate/government buyers, banks and NBFCs as financiers
Function	Auction-based early discounting of approved invoices, without recourse to the MSME

SCALE OF THE MSME SECTOR

PARAMETER	FIGURE
Estimated number of MSMEs in India	About 6.3 crore
Contribution to India's GDP	About 30 per cent
Contribution to exports	Roughly 45 per cent
Classification basis (2020 revision)	Composite criteria of investment and turnover

The 2020 revision to the MSME classification abolished the earlier manufacturing-versus-services distinction and moved to a single composite test of investment in plant and machinery/equipment and annual turnover, so that a firm is classified as micro, small or medium on the same criteria regardless of sector.

UPSC RELEVANCE

GS Paper 3: Indian Economy and issues relating to planning, mobilisation of resources, growth, development and employment; Infrastructure; Effects of liberalisation on the economy, changes in industrial policy and their effects on industrial growth.

GS Paper 2: Statutory bodies (Facilitation Councils); Parliament, introduction and passage of Bills.

Prelims pointers:

- The parent Act is the **MSME Development Act, 2006**.
- Section 15 sets the payment deadline at **45 days**; Section 16 prescribes **compound interest at three times the RBI's notified bank rate** for delayed payment.
- The 2026 Bill requires courts to direct payment of **at least 50 per cent** of an arbitral award once a set-aside application under Section 34 of the Arbitration and Conciliation Act, 1996 has been **pending for more than six months**.
- **TReDS** is regulated by the **RBI**; live platforms are **RXIL, Invoicemart and M1xchange**.
- The **2020 classification revision** replaced the manufacturing/services distinction with a composite investment-and-turnover test.
- India has an estimated **6.3 crore MSMEs**, contributing about **30 per cent of GDP** and **45 per cent of exports**.

FACTS CORNER, KNOWLEDGEPEDIA

MSME DEVELOPMENT (AMENDMENT) BILL, 2026:

Introduced by Union Minister Jitan Ram Manjhi, Rajya Sabha, July 28, 2026.

Amends the MSME Development Act, 2006.

Mandates CPSE invoice settlement through TReDS.

Directs courts to order payment of at least 50 per cent of an arbitral award once a set-aside application has been pending for more than six months.

Enables States to constitute additional Micro and Small Enterprises Facilitation Councils.

MSME DEVELOPMENT ACT, 2006, PAYMENT PROVISIONS:

Section 15: payment within 45 days of acceptance.

Section 16: delayed payment attracts compound interest at three times the RBI notified bank rate.

Sections 17-18: reference to the MSEFC for conciliation, then arbitration under the Arbitration and Conciliation Act, 1996.

TREDS:

Regulated by the Reserve Bank of India.

Platforms: RXIL, Invoicemart, M1xchange.

Enables without-recourse early discounting of MSME receivables.

MSME SECTOR SCALE:

About 6.3 crore MSMEs in India.

Contribute about 30 per cent of GDP and about 45 per cent of exports.

2020 classification revision: composite investment-and-turnover criteria, manufacturing/services distinction abolished.

Sources: PIB, Ministry of MSME, PRS Legislative Research, Business Standard

Source: The MSME Development (Amendment) Bill, 2026: Fixing India's Delayed-Payment Problem — Ujiyari.com | Free UPSC & State PCS Current Affairs

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