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Half the Award Up Front: The MSME Delayed Payments Amendment

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Half the Award Up Front: The MSME Delayed Payments Amendment

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Every fact web-verified against primary sources

> *The Rajya Sabha passed the MSME Development (Amendment) Bill, 2026 on August 3, 2026, by voice vote. Moved by MSME Minister Jitan Ram Manjhi, the Bill amends the Micro, Small and Medium Enterprises Development Act, 2006, principally to address the sector's chronic delayed-payments problem.*

THE PROBLEM BEING ADDRESSED

The existing law already gives an MSME supplier a right to timely payment. **Section 15** of the MSMED Act, 2006 requires a buyer to pay on or before the agreed date, and where there is no agreement, within **45 days** of acceptance or deemed acceptance of goods or services. **Section 16** provides for compound interest at three times the RBI bank rate on delayed payment, and **Section 17** provides for recovery of the amount due, **Section 18** refers a dispute to the **Micro and Small Enterprises Facilitation Council** for conciliation and, failing that, arbitration, **Section 19** requires a buyer to pre-deposit **75 per cent** of the award before an application to set it aside is entertained, and **Sections 20 and 21** provide for the establishment of the Councils by State Governments and for their composition.

The right existed. The problem was the remedy's timeline.

A supplier who won before the Facilitation Council obtained an arbitral award, but the buyer could then apply under **Section 34 of the Arbitration and Conciliation Act, 1996** to set the award aside. Section 19 of the MSMED Act requires the buyer to pre-deposit 75 per cent of the award before such an application is entertained, a requirement the courts have held to be mandatory and non-waivable, though payable in instalments. But that deposit sits with the court, not the supplier, while the challenge is heard. For a micro enterprise, a win on paper that yields no cash for years is functionally indistinguishable from a loss, because the injury is to **working capital**, and working capital does not wait for litigation.

WHAT THE BILL CHANGES

PROVISION	CONTENT
Interim payment	Where an application to set aside an award has been pending for **more than six months**, a court may order payment of **at least 50 per cent** of the awarded amount to the MSME supplier
Mediation timeline	Settlement through mediation within **90 days**
Arbitration timeline	Award within **90 days**
TReDS onboarding	**Mandatory for Central Public Sector Enterprises**
Classification	Made flexible
Registration	**Voluntary digital registration**
Compliance offences	Decriminalised, with graded penalties substituted

The interim-payment mechanism is the operative change. It converts delay from a costless tactic into an expensive one: a buyer who challenges an award purely to postpone payment now faces the prospect of paying half of it out anyway once six months elapse.

TREDS AND WHY MANDATORY CPSE ONBOARDING MATTERS

TReDS, the Trade Receivables Discounting System, is an RBI-licensed electronic platform on which an MSME supplier can auction its receivable invoice to financiers, receiving cash immediately at a discount, with the financier collecting from the buyer on the due date.

The mechanism only works if the **buyer is on the platform**, because the buyer must accept the invoice before it can be financed. Buyer participation has therefore been the binding constraint. Making onboarding mandatory for Central Public Sector Enterprises attacks that constraint at the segment where the delayed-payments problem is both large and, in principle, most amenable to policy direction, since CPSEs are within the government's own control.

THE OBJECTIONS

Routing around the rule. A buyer who wishes to delay can act earlier in the chain rather than later. Delaying **acceptance of goods** postpones the start of the 45-day clock; disputing quality creates a genuine issue that the Facilitation Council must adjudicate; and restructuring the contract to specify longer payment terms, or to place the transaction outside the MSMED framework altogether, avoids the mechanism. The amendment strengthens the tail of the process without touching the head.

The dependence problem. Enforcement requires the supplier to initiate proceedings against a buyer on whom it may depend for future orders. Small suppliers routinely absorb delay rather than litigate, because the relationship is worth more than the receivable. No procedural reform addresses this, and it is the reason statutory payment rights have historically been under-enforced in India.

Judicial capacity. The interim-payment power is discretionary and exercised by courts already carrying the pendency that made the six-month trigger necessary in the first place.

The decriminalisation trade-off. Replacing criminal liability for compliance offences with graded penalties reduces the compliance burden and the scope for harassment, which is welcome. Whether monetary penalties deter as effectively as criminal exposure is an empirical question the Bill assumes rather than answers.

UPSC RELEVANCE

GS Paper 3: Indian economy; growth, development and employment; inclusive growth and issues arising from it; effects of liberalisation; industrial policy.

Prelims pointers:

- Parent Act: **Micro, Small and Medium Enterprises Development Act, 2006**.
- **Section 15** requires payment by the agreed date or within **45 days**, whichever is earlier.
- **Section 16** provides compound interest at **three times the RBI bank rate** on delayed payment.
- **Section 18** refers a dispute to the **Micro and Small Enterprises Facilitation Council** for conciliation and then arbitration; **Section 19** requires the buyer to pre-deposit **75 per cent** of the award before a set-aside application is entertained; **Sections 20 and 21** provide for establishment of the Councils by **State Governments** and for their composition.
- New mechanism: court may order **at least 50 per cent** of the award paid where a set-aside application has been pending **over six months**.
- **90 days** each for mediated settlement and arbitral award.
- **TReDS** is an **RBI**-licensed platform for discounting trade receivables; onboarding becomes **mandatory for CPSEs**.

- Bill moved by **Jitan Ram Manjhi**, Union Minister for MSME; passed by the **Rajya Sabha on 3 August 2026**.

Mains question: "The delayed-payments problem faced by Indian MSMEs is a working-capital crisis rather than a legal one, and procedural reform addresses the symptom." Examine this claim with reference to the MSMED Act framework and the 2026 amendment, and suggest measures that would address the underlying asymmetry between small suppliers and large buyers. (250 words)

📌 FACTS CORNER, KNOWLEDGEPEDIA

THE AMENDMENT:

Amends the MSMED Act, 2006; passed by the Rajya Sabha on 3 August 2026, moved by Jitan Ram Manjhi.

Courts may order at least 50 per cent of an award paid to the MSME where a set-aside application has been pending over six months.

90 days for mediated settlement; 90 days for an arbitral award.

Mandatory TReDS onboarding for Central Public Sector Enterprises.

Flexible classification, voluntary digital registration, decriminalisation of compliance offences with graded penalties.

THE EXISTING FRAMEWORK: SECTION 15 (PAYMENT BY AGREED DATE OR WITHIN 45 DAYS), SECTION 16 (COMPOUND INTEREST AT THREE TIMES THE RBI BANK RATE), SECTION 17 (RECOVERY OF AMOUNT DUE), SECTION 18 (REFERENCE TO THE MICRO AND SMALL ENTERPRISES FACILITATION COUNCIL, CONCILIATION THEN ARBITRATION), SECTION 19 (MANDATORY 75 PER CENT PRE-DEPOSIT BEFORE A SET-ASIDE APPLICATION IS ENTERTAINED), SECTIONS 20-21 (ESTABLISHMENT OF THE COUNCILS BY STATE GOVERNMENTS, AND THEIR COMPOSITION). SECTION 34 OF THE ARBITRATION AND CONCILIATION ACT, 1996 IS THE SET-ASIDE ROUTE THE AMENDMENT TARGETS.

TREDS: AN RBI-LICENSED ELECTRONIC PLATFORM ON WHICH AN MSME AUCTIONS ITS RECEIVABLE INVOICE TO FINANCIERS FOR IMMEDIATE CASH AT A DISCOUNT. IT WORKS ONLY IF THE BUYER IS ONBOARDED AND ACCEPTS THE INVOICE, WHICH IS WHY MANDATORY CPSE PARTICIPATION MATTERS.

Sources: Business Standard, Ministry of Micro, Small and Medium Enterprises, Reserve Bank of India

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