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Analysing MSME Development (Amendment) Bill, 2026

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Introduction

On 28.07.2026, a bill seeking amendment to the Micro, Small and Medium Enterprises Development Act, 2006 (for short "the Act") was introduced in the Upper House of the Indian Parliament (Rajya Sabha). The Micro, Small, and Medium Enterprises Development (Amendment) Bill, 2026 (for short "the bill") was later passed by the Rajya Sabha on 03.08.2026 and then by the Lower House of the Parliament (Lok Sabha) on 07.08.2026. The bill seeks to further strengthen and promote the Micro, Small, and Medium Enterprises (for short "MSMEs") in furtherance of the aims and objectives of the Act. This short article aims to briefly analyse the MSME Amendment Bill in relation to the Act originally enacted.

New Provisions inserted

New Provision	Particulars
Section 2(da)	A new definition of "Development Commissioner" was introduced who shall be the administrative head of the office of Development Commissioner of the Government of India in the MSME Ministry.
Section 15A	Mandatory settlement of receivables through Trade Receivables Discounting System - The Bill provides that every central public sector enterprise (CPSE) must settle all invoices for procurement of goods or services from MSMEs on the Trade Receivables Discounting System (TReDS). TReDS is an RBI-regulated electronic platform that enables MSMEs to raise funds from financiers against invoices due from buyers. The central and state governments may mandate other public sector enterprises, authorities, or entities to settle invoices through TReDS.
Section 18	Enforcement of mediated settlement agreements and arbitral awards - The mediated settlement agreement or arbitral award made by the Micro and Small Enterprises Facilitation Council (for short "MSEFC") itself or mediation service provider or any institution or centre providing alternative dispute resolution services to which a reference is made under section 18, may be recovered as an arrear of land revenue by the State Government through District Collector or Deputy Commissioner or any such authority notified by the State in this behalf, where the assets of the buyer is located. Further, the amount determined by the mediated settlement agreement or arbitral award shall constitute a valid and legally enforceable debt and is liable to be recognised under the provisions of the Insolvency and Bankruptcy Code, 2016.
Section 22A	Requires notified Central and State Public Sector Enterprises and other notified entities to disclose details of MSME invoices routed through the TReDS.
Section 27A	The Bill designates the Development Commissioner as the adjudicating officer, provides a 30-day appeal period before the MSME Secretary and requires appeals to be disposed of within 60 days.

Amended Provisions

Amended Provision	The Act	The Bill
Section 3(3)(o)	Under the Act, "one officer not below the rank of Joint Secretary to the Government of India" shall be the Member Secretary of the National Board for Micro, Small and Medium Enterprises, ex officio.	Substituted with "the Development Commissioner"
Section 7	The Act classifies enterprises as MSMEs based on investment in: (i) plant and machinery in case of manufacturing, and (ii) equipment in case of services. It also specifies thresholds of investment for classification between MSMEs.	The Bill removes the thresholds and modifies the criteria. It empowers the central government to classify enterprises as MSMEs based on: (i) investment in plant and machinery or equipment and (ii) turnover. The thresholds will be specified by notification.
Section 8	Under the Act, a person intending to establish a medium enterprise engaged in manufacturing must file a memorandum with a specified authority. Other MSMEs may file the memorandum at their discretion.	The Bill instead provides that the filing of the memorandum will be voluntary for all MSMEs. The central government will notify a digital platform for this purpose. State governments may also notify a digital platform for the same.
Section 18	The Act authorises MSEFCs or mediation service providers referred by them to settle payment disputes by mediation. Where a mediation is not successful, the Act requires the dispute to be referred for arbitration.	The Bill adds that mediation must be completed within 90 days from the date fixed for first appearance. The Bill further adds that reference to arbitration must be made within 30 days from the date of termination of mediation. It also adds that an award must be made within 90 days from the date of completion of pleadings. Section 18(6) empowers the Central Government to establish an online dispute resolution mechanism for mediation and arbitration through audio-video and other electronic means which include: video conferencing; electronic filing of pleadings; electronic communication; recording of evidence; etc.
Section 19	The Act provides that an application may be made in a Court for setting aside an order/award of the MSEFC after depositing 75% of the award. Pending disposal, the Court will order a percentage of the deposited amount to be paid to the MSME supplier.	The Bill allows such an application against a mediated settlement agreement as well. The deposit percentage will be as considered reasonable by the Court. The Bill adds that if a case has been pending for more than six months, at least 50% of the awarded amount must be paid to the supplier.
Section 20	The State Government shall, by notification, establish one or more MSEFCs, at such places, exercising such jurisdiction and for such areas, as may be specified in the notification.	The Bill proposes to improve the functioning of MSEFCs and provide for establishment of additional MSEFCs by State Governments; regular meetings for timely disposal of references; provision of physical infrastructure, digital systems and trained manpower.
Section 21	MSEFC shall consist of not less than three but not more than five members to be appointed from amongst the following categories, namely:— (i) Director of Industries, by whatever name called, or any other officer not below the rank of such Director, in the Department of the State Government having administrative control of the small scale industries or, as the case may	The composition of the MSEFC has been substituted to include the following: (a) an officer not below the rank of Joint Director as the Chairperson of the MSEFC; and (b) one or more office-bearers or representatives of associations of micro or small industry or enterprises; and (c) at least one member from the field of law.

	be, MSMEs; and (ii) one or more office-bearers or representatives of associations of micro or small industry or enterprises in the State; and (iii) one or more representatives of banks and financial institutions lending to micro or small enterprises; or (iv) one or more persons having special knowledge in the field of industry, finance, law, trade or commerce.	
Section 27	Under the Act, the offence is punishable with a fine: (i) up to Rs 1,000 for first conviction and ii) between Rs 1,000 and Rs 10,000 for subsequent conviction.	The Bill proposes a graded penalty mechanism for specified contraventions, replacing the existing conviction-based framework with a compliance-oriented framework and the minimum penalties may be increased by 10% every three years, as notified by the Central Government.

Conclusion

Since the enactment of the Act in 2006, the MSME sector has grown significantly and contributing increasingly in the growth of the country. As evident from the insertion, amendment and substitution of provisions outlined above, the bill proposes to bring changes in the existing MSME legal framework by aligning MSME sectors changing needs and requirement. The amendments seek to reduce payment-related constraints, make dispute resolution more time-bound and simplify compliance. The Bill further aims to bring change in the MSME classification and registration, revised MSEFC framework, strengthening of recovery of dues, and decriminalisation of offences.