MSME 2.0: THE 2026 AMENDMENT, ICMAI AND THE FUTURE ROLE OF CMAs

Abstract

The Micro, Small and Medium Enterprises Development (Amendment) Act, 2026 comes at a time when the character of the Indian MSME sector is itself changing. The business environment in which the original MSMED Act was enacted in 2006 was very different. Registration is now increasingly digital, electronic invoices are common, formal finance has expanded, the Trade Receivables Discounting System (TReDS) has emerged as a mechanism for unlocking receivables and a growing number of smaller enterprises are looking beyond traditional bank finance towards organised capital markets. The 2026 amendment responds to this changing environment through revisions relating to classification, registration, payment of MSME invoices, dispute resolution, recovery, reporting and penalties. This paper looks at these changes not merely as amendments to a statute but from the larger perspective of MSME finance and enterprise management. Particular attention is given to delayed payments, working capital and financial discipline. The paper also examines the possible role of the Institute of Cost Accountants of India (ICMAI), its MSME & Start-up Promotion Board and Cost and Management Accountants in helping smaller enterprises convert legal reform into better business decisions. The central argument is that the law can create a more supportive environment, but stronger MSMEs will ultimately emerge only when enterprises understand their costs, manage liquidity better and become more financially prepared for growth.

CMA Manoj Kumar Anand
Vice President, ICMAI
vicepresident@icmai.in

CMA (Dr.) K Ch A V S N Murthy
Council Member & Chairman,
MSME & Start-up Promotion Board. ICMAI
a2zmurthy@gmail.com

Dr. Ranjith Krishnan
Associate Professor, Christ University, Delhi NCR
ranjithk.iyer@gmail.com

CMA Arunabha Saha
Practicing Cost Accountant, Thane
saha.arunabha@gmail.com

"The illiterate of the 21st century will not be those who cannot read and write, but those who cannot learn, unlearn, and relearn." - Alvin Toffler

Introduction

The **Micro, Small and Medium Enterprises Development Act, 2006** was enacted in a business setting that now appears quite distant. GST had not arrived, Udyam registration did not exist, electronic invoicing was not part of ordinary commercial practice and TReDS had not yet entered the MSME financing landscape. Twenty years later, even a relatively small enterprise may supply to a listed company, transact almost completely through digital channels, access institutional credit and, after reaching a certain scale, consider an SME listing. The need to revisit the legislation was therefore not surprising. Parliament passed the Micro, Small and Medium Enterprises Development (Amendment) Bill, 2026 in August 2026 against precisely this background of technological change, IT-enabled systems and the changing business environment.

The **Micro, Small and Medium Enterprises Development (Amendment) Act, 2026** should, however, be understood as an updating of the earlier framework rather than as a completely new approach to MSME regulation. The 2006 legislation had already recognised the seriousness of delayed payments and had created an institutional mechanism for resolving disputes. What the new amendment does is to add a more visible digital and financial layer to that framework. Registration becomes easier and more technology-oriented, TReDS receives a statutory place in specified payment transactions, dispute settlement is expected to move within more defined timelines and the compliance structure becomes more administrative and graded. There is also an important legal qualification: enactment does not necessarily mean that every amended provision became operational immediately, since individual provisions may depend upon notified commencement. For an academic discussion, it is therefore better to treat 2026 as the beginning of a new regulatory phase rather than assume that the entire architecture became operational overnight.

From the MSMED Act, 2006 to the 2026 Amendment

A comparison with the earlier Act is necessary because it prevents us from presenting every protection in the new framework as something invented in 2026. The original MSMED law had already dealt with delayed payment to micro and small enterprises and had established the Micro and Small Enterprises Facilitation Council mechanism. Similarly, protection requiring a substantial pre-deposit when a buyer challenges an award was not wholly new to the 2026 framework. The more important contribution of the amendment is that it tries to make an existing system function in a very different commercial environment. For instance, the amendment modifies the classification framework by empowering the Central Government to classify enterprises using both investment and turnover and to notify the relevant thresholds. It also provides for a digital registration architecture and changes the manner in which several payment and dispute-related provisions operate.

This distinction is useful because MSME policy in India is gradually moving from merely identifying and protecting smaller businesses towards helping them formalise, finance themselves and eventually scale. The 2006 law gave MSMEs a statutory identity and important protections; the 2026 reform attempts to make that system more compatible with electronic commerce, digital finance and integrated supply chains. The Government itself has linked the amendment with formalisation, ease of doing business and the ability of MSMEs to scale. It would therefore be too narrow to read the amendment only as a list of altered sections. Its larger importance lies in the attempt to connect law, technology, finance and enterprise growth.

An infographic of the above paragraphs is given hereunder as a ready reckoner.

Source: Conceptualized by authors and designed using AI Tool

Classification, Registration and the Larger Question of Growth

MSME classification is usually discussed as though it is simply an eligibility question. For a growing enterprise, however, it is often a strategic one. A firm approaching a classification threshold may have to decide whether to install additional machinery, increase capacity or move into a new market. At that point the entrepreneur may initially worry about whether the business will move from one MSME category to another, but the more meaningful questions are financial. What additional turnover will the investment generate? What will happen to fixed cost? What level of capacity utilisation is required? Should the expansion be financed from internal accruals or debt? And, perhaps most importantly, will the investment earn an adequate return? The amended classification framework gives greater statutory recognition to investment as well as turnover, although it should be remembered that the combined criterion had already developed through earlier policy changes.

There is a policy issue here which deserves more attention. MSME incentives should help enterprises grow; they should not make entrepreneurs afraid of becoming larger. A successful micro enterprise should ideally become small, a sound small enterprise should move towards the medium category and a competitive medium enterprise should eventually be prepared to operate beyond the MSME framework. If an entrepreneur deliberately postpones expansion only to preserve a particular classification, the policy may have protected the enterprise but has not necessarily promoted its development. Registration raises a similar issue. Digital and voluntary registration is welcome, but registration should not be mistaken for financial formalisation. A business can have an Udyam registration number and still lack proper product costing, debtor ageing, inventory analysis or cash-flow forecasting. In many smaller businesses the promoter knows the bank balance every morning but may have little idea of what the cash position will look like after three months. Financial formalisation therefore has to go beyond a portal. It means gradually developing enough information to know which products make money, where cash is blocked and whether growth can be financed without putting excessive strain on the enterprise.

TReDS, Delayed Payments and the Working-Capital Problem

Among the changes associated with the 2026 framework, the enhanced role of **TReDS** is perhaps the one with the clearest financial significance. Delayed payment has remained one of the most persistent difficulties faced by smaller suppliers. Government data itself show the growing importance of the platform: the value of invoices discounted through TReDS increased sharply in the years preceding the amendment. The new framework seeks to bring settlement of specified public-sector MSME invoices more directly within the TReDS architecture, with scope for wider application through notification.

The attraction of TReDS becomes clearer when one distinguishes profit from cash. Suppose an MSME supplies goods worth ₹1 crore to a large buyer. The transaction may carry a reasonable margin and the revenue may already have been recognised, but wages, electricity bills, raw-material suppliers, GST liabilities and bank interest do not wait merely because the customer has not released payment. The enterprise may therefore appear profitable in its accounts and still face a serious liquidity shortage. This is not a theoretical problem; it is one of the reasons why working capital often becomes a more immediate concern for an MSME than reported profit.

TReDS can reduce this pressure by converting a receivable into a financing opportunity, but it should not be viewed as a magic solution. Discounting has a cost, and repeated discounting can itself become expensive. The entrepreneur needs to know whether the financing cost is lower than existing bank borrowing, whether certain customers consistently delay payments and whether that cost of delayed credit has been considered while fixing the selling price. A customer producing substantial turnover may look attractive until one calculates the cost of financing the receivable for several additional months. This is where management accounting becomes useful. Debtor ageing, customer-wise profitability, cash-conversion-cycle analysis and comparison of financing alternatives are all areas in which CMAs can contribute. The more useful question is not merely whether an invoice can be discounted, but whether the commercial relationship remains profitable after the cost of financing that invoice is recognised.

Dispute Resolution, Recovery and Financial Discipline

The amendment also attempts to bring greater speed to delayed-payment disputes by providing clearer timelines for mediation and arbitration and by encouraging digital processes. The broader purpose is understandable. A small enterprise should not have to wait years merely to establish that money which was contractually due should actually be paid. The economic cost of such delay can be substantial. If ₹25 lakh remains locked in a dispute, a micro enterprise may have to borrow more, postpone payments to its own suppliers or defer a planned investment. Even if the business ultimately succeeds in the dispute, the interest and opportunity cost incurred during the waiting period may already have weakened it.

This is why the dispute-related provisions should be viewed not merely as legal reforms but as measures affecting working capital. Faster resolution reduces uncertainty and may reduce the amount of business capital trapped in unresolved claims. Yet stronger legal rights cannot completely compensate for poor financial records. An enterprise that begins searching for purchase orders, invoices, delivery evidence and payment correspondence only after a dispute has arisen is already at a disadvantage. A reasonably organised accounting and documentation system can therefore act as a form of risk management. The expression "dispute-ready accounting" may sound unusual, but the idea is quite simple: the financial trail behind a commercial transaction should be clear enough that a claim can be established without reconstructing the entire business relationship months later.

This also shows the complementary role that professionals can play. Lawyers will continue to deal with the legal interpretation, mediation, arbitration and litigation issues. CMAs can contribute by reconciling financial claims, computing amounts and interest and organising the underlying transaction data. The point is not to blur professional boundaries, but to recognise that commercial disputes often involve both a legal story and a financial story, and the quality of the latter can influence how effectively the former is presented.

Institutional Strengthening and Ease of Doing Business

The amendment's renewed attention to the Micro and Small Enterprises Facilitation Council framework may not receive the same public attention as TReDS, but its success is equally important. Statutory timelines are meaningful only if institutions have enough capacity to meet them. It is relatively easy to write a 90-day objective into legislation; achieving it consistently across different States, case loads and administrative structures is considerably more difficult. Trained personnel, regular sittings, digital infrastructure and the quality of information supplied by the parties will eventually decide whether the reform works as intended.

The same applies to reporting. As more transactions move through electronic systems, larger organisations dealing with hundreds or thousands of MSME vendors will need to identify MSME suppliers correctly, monitor due dates and notice payment exceptions earlier. This may gradually move MSME payment compliance away from being a year-end accounting issue and closer to ordinary financial governance. For CMAs working within companies, supplier-payment dashboards, overdue analysis and exception reports can therefore have both compliance and managerial value.

The shift towards graded penalties and administrative adjudication also fits into the wider philosophy of ease of doing business. But easier compliance should not be read as weaker accountability. In many respects, digitalisation may make compliance more visible. A well-managed enterprise should therefore be able to identify an approaching default before it becomes an adjudication matter. The emphasis increasingly moves from curing problems after they occur to designing information systems that prevent avoidable problems in the first place.

The Emerging Professional Space for CMAs

The 2026 amendment does not create an

exclusive statutory role for Cost and Management Accountants, and it would be academically incorrect to suggest that it does. The opportunity for CMAs comes from the financial problems that MSMEs already face and from the fact that several of the reforms make those problems more visible. Costing is an obvious example. Many small entrepreneurs know the market price of their products extremely well but may be less certain about their complete cost. Raw material and direct wages are normally visible; idle capacity, overhead, wastage, financing cost and administrative expenses are often less carefully allocated. It is therefore possible for the product with the highest sales to be only a modest contributor to profit.

A CMA can introduce product costing, contribution analysis, budgets and performance information in a form that suits the scale of the enterprise. The intention should not be to impose the financial architecture of a large corporation on a small manufacturer. A short monthly statement showing margins, receivables, inventory, borrowing and cash may be far more useful than an elaborate report that the entrepreneur never reads. The same practical approach applies to working capital. TReDS is one financing route, but it cannot substitute for proper receivable management, inventory control or cash planning.

Access to finance creates another natural area of work. Entrepreneurs tend to explain a business through customers, orders, machinery and production, while banks look for projected cash flows, debt-service capacity, working-capital requirements and financial viability. A CMA can help translate the operational strength of the business into financial terms. Project appraisal, pricing, cost reduction, restructuring and performance measurement follow from the same logic. These are not new professional activities invented by the amendment; the new framework simply increases their relevance as MSMEs become more digitally connected and financially formal.

Role of the MSME & Start-up Promotion Board of ICMAI

The **MSME & Start-up Promotion Board of the Institute of Cost Accountants of India** gives the profession an existing institutional platform from which this engagement can be expanded. ICMAI currently maintains the Board as one of its specialised bodies, and its activities have included programmes dealing with MSME strategy, cost competitiveness, activity-based costing and financial discipline. Its publication *MSME TITBITS* also provides a continuing knowledge platform for the sector.

The more interesting question is how the Board can move from awareness to measurable enterprise impact. One possibility is a simple **MSME Financial Health Check,** focusing on a limited set of indicators such as product margins, receivable ageing, inventory, cash position, borrowing, debt servicing and capacity utilisation. It need not become another elaborate compliance certificate. The purpose should be diagnostic—to help the entrepreneur identify where financial weakness is developing before it becomes serious. The Board could similarly integrate TReDS awareness with pricing and working-capital management, because explaining how to access invoice discounting is only half the job; the entrepreneur also needs to understand whether the financing decision is commercially sensible.

ICMAI's **Corporate Mitra** initiative provides another existing route for such engagement. ICMAI continues to run the Corporate Mitra programme and has organised awareness initiatives around it. The opportunity is to connect these platforms more closely with enterprise-level financial management. The Board's performance need not be assessed only in terms of the number of seminars or webinars organised. A stronger test would be whether the enterprises that receive support begin to understand their costs better, shorten receivable cycles, become more creditworthy or make better expansion decisions. Such an approach would give the Board a developmental role rather than making it appear merely as a mechanism for professional promotion.

Start-ups, SME Listing and Sustainability

The start-up part of the Board's mandate also deserves some attention. Start-ups are usually discussed in the language of innovation, technology, valuation and funding, while cost often receives attention only when cash begins to run short. But every start-up eventually has to answer fairly basic questions: What does it cost to acquire a customer? What contribution does each transaction produce? How long will the available cash last? At what level of activity does the business break even? An enterprise can have a high valuation and still have poor unit economics. CMAs can bring a useful discipline to this area through cash-burn analysis, contribution, break-even assessment and cost behaviour without making an early-stage enterprise unnecessarily bureaucratic.

A similar transition occurs when an established MSME begins to scale or considers an SME IPO. An informal promoter-driven system may work comfortably when the business is small, but as turnover grows, responsibilities are delegated, lenders demand more information and outside investors may enter. Budgeting, internal control, profitability analysis and management reporting then become more important. CMAs can play a preparatory role in strengthening this internal financial architecture alongside merchant bankers, auditors, company secretaries, lawyers and other professionals involved in the listing process.

Sustainability is also gradually becoming an MSME issue, especially through larger supply chains. Smaller suppliers may increasingly be asked for data on energy, waste, emissions and sourcing practices. For an MSME, the easiest way to understand sustainability is often through cost. Lower electricity consumption reduces expenditure as well as environmental impact. Lower scrap improves material yield. Better inventory management releases working capital and can reduce waste. The CMA's ability to connect physical efficiency with financial outcomes can therefore make sustainability more practical for the smaller enterprise.

Will the 2026 Amendment Really Help MSMEs?

This is ultimately the question that matters. There are several reasons to expect a positive impact. TReDS can improve liquidity, more time-conscious dispute resolution can reduce the cost of waiting, stronger recovery mechanisms may improve the bargaining position of smaller suppliers and digitalisation can reduce some procedural friction. The Government has itself presented the reform as an effort to reduce payment constraints, improve dispute resolution and support MSME growth and formalisation. Yet legislation does not automatically produce outcomes.

TReDS will have limited effect if a buyer delays approval of the underlying invoice. A statutory dispute timeline may remain difficult to achieve if Facilitation Councils become overloaded. Strong recovery rights help only where the enterprise has maintained reliable records. Digital registration cannot correct an uneconomic selling price or a poorly managed cash cycle. In other words, the amendment can improve the external environment, but it cannot repair every weakness inside the business.

The real assessment of the reform should therefore go beyond counting registrations, cases filed or invoices routed through a platform. It would be more useful to examine whether average receivable days actually come down, whether small businesses are relying less on expensive emergency borrowing, whether payment disputes are resolved more quickly in practice and whether enterprises find it easier to move towards formal finance and growth.

Professional affordability is another issue that should not be ignored. The smallest enterprises may need financial advice the most but may be least able to engage consultants individually. Cluster-based models could provide an answer. ICMAI Chapters, industry associations and academic institutions could jointly offer periodic financial clinics or shared advisory support in industrial clusters. A hundred small enterprises may not need a hundred full-time finance specialists, but many of them could benefit considerably from periodic review of product cost, receivables, inventory and cash flow.

Conclusion

The **Micro, Small and Medium Enterprises Development (Amendment) Act, 2026** is best seen as an attempt to modernise the framework created in 2006. The earlier legislation had already provided important protections, especially in relation to delayed payments. The new amendment adds a stronger digital, financial and institutional layer through TReDS, simplified registration, more time-conscious dispute resolution, improved recovery and a different approach to compliance. It is an important shift, but the law can only create the surrounding environment. It cannot decide whether a particular invoice should be discounted, whether a customer remains profitable after the cost of delayed credit is considered or whether the next machine will generate an adequate return.

Those are still business decisions, and this is where the future role of CMAs becomes relevant. The profession has an opportunity to move closer to the economic problems actually faced by smaller entrepreneurs—costing, pricing, cash flow, receivables, financing, project appraisal and growth. For ICMAI, the MSME & Start-up Promotion Board, the Corporate Mitra initiative and the Chapter network provide a useful institutional base through which this knowledge can be taken closer to enterprises.

India certainly needs more formal MSMEs, but registration by itself cannot be the final objective. It needs enterprises that understand what they earn, know where their cash is blocked and are confident enough to grow when the economics justify growth. The success of MSME 2.0 will therefore be measured not merely by the quality of the amended legislation but by whether smaller businesses become financially stronger because of it.

For Cost and Management Accountants, the message is equally simple. Management accounting creates its greatest value not after a poor decision appears in the financial statements, **but before that decision is taken.** The 2026 MSME framework gives the profession an opportunity to demonstrate precisely that. MA

References and Further readings

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