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Union Budget 2026-27 Highlights: Impact on MSMEs

Union Budget 2026 offers significant support for MSMEs across sectors. The Government's key interventions focus on liquidity, equity, compliance, and sectoral competitiveness, from the ₹10,000 crore SME Growth Fund to the strengthened TReDS framework and structured compliance support. Several sector-specific initiatives have also been introduced, particularly in textiles, electronics, solar, agro-processing, and tourism. The Budget reflects a clear shift from a debt-based financing model to an equity and working-capital

oriented approach, enabling MSMEs to truly scale and contribute meaningfully to the GDP under the vision of Aatmanirbhar Bharat. Every strengthened MSME reflects the unseen contribution of a Chartered Accountant to India's economic backbone.

The Union Budget 2026-27 presents a balanced framework which is aimed at accelerating economic growth and development. The proposal for FY 26-27 is described as "Yuva Shakti-Driven Budget". As the name suggests, it focuses on unlocking entrepreneurial potential by focusing on improvement of liquidity access, expanding risk capital availability and strengthening institutional guidance and support for small business.

This data given below, in itself, is loud enough to establish that MSMEs have become the backbone of this nation's economy.

The Key MSME Initiatives under the Union Budget 2026

1. INR 10,000 crore SME Growth Fund - A strong push towards Scale & Competitiveness

The announcement of ₹10,000 crore SME Growth Fund in Union Budget 2026 represents a structural intervention in India's MSME financing architecture. Unlike traditional credit-linked schemes, this initiative recognises a fundamental issue within the sector i.e., the absence of adequate growth-stage capital.

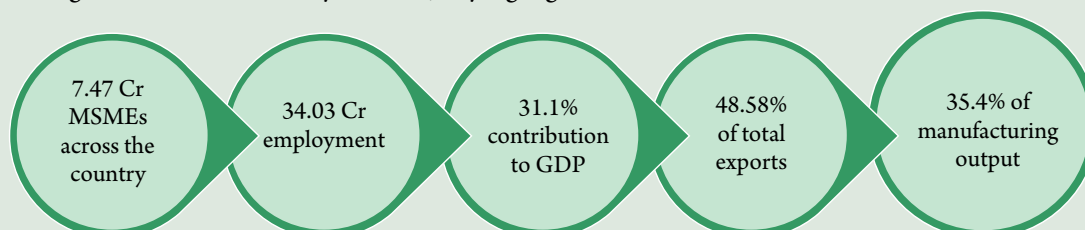
A significant number of MSMEs in India reach a "threshold stage" where demand exists, orders are coming in, and product-market fit is established; however, expansion is constrained due to limited access to capital.

The proposed Growth Fund is expected to provide equity and quasi-equity support to high-performing and scalable MSMEs. This shift from pure debt financing to blended capital structures can materially strengthen businesses. Equity-style support improves debt-equity ratios, enhances creditworthiness, and increases

The Budget is inspired by Three Kartavyas:



According to The Economic Survey 2025–26, Key highlights of the MSME Sector are:



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the enterprise’s ability to leverage additional funding at competitive rates.

From a policy standpoint, this move is particularly noteworthy because earlier fund-of-funds frameworks were largely concentrated on startups. By extending similar structured capital mechanisms to established MSMEs, the government acknowledges that scale-ready manufacturing and service enterprises also require institutional capital support to compete globally.

2. INR 2,000 crore top-up to Self-Reliant India Fund for Micro Enterprises

The Union Budget 2026 provides a ₹2,000 crore top-up to the Self-Reliant India (SRI) Fund, reinforcing the government’s commitment to MSME equity support. Originally established under the Atmanirbhar Bharat initiative, the SRI Fund is structured as a Category-II Alternative Investment Fund (AIF), with the aim of addressing the long-standing gap in growth capital for viable and high-potential MSMEs. It channels risk capital through a mother fund–daughter fund architecture, wherein the mother fund (managed by NSIC VC Fund Limited) invests into professionally managed daughter

funds, which in turn deploy equity and quasi-equity into MSMEs.

Under this model, the SRI Fund has a total corpus target of ₹50,000 crore, with ₹10,000 crore committed directly by the Government of India and the remaining ₹40,000 crore expected to be mobilised from private equity and venture capital investors. As of January 2026, the cumulative investment from the fund structure into investee entities stood at around ₹14,781 crore from the fund itself, while daughter fund investments into the MSME sector amounted to approximately ₹1,962 crore, leading to a total deployment (direct + daughter fund) in MSMEs of around ₹16,743 crore.

The Budget-2026 infusion of an additional ₹2,000 crore specifically for micro enterprises is particularly significant for the smallest players in the ecosystem. Micro units often operate on thin margins, lack access to substantial collateral, and find it difficult to attract risk capital through conventional channels. By enhancing the SRI Fund corpus, the government aims to ensure that these enterprises do not get left behind in the transition from debt-dependent growth to equity-enabled scale-up, helping them adopt modern technologies, expand capacity, and participate more actively in value chains.

3. Liquidity Support Through TReDS Reforms

Delayed payments remain one of the most persistent challenges faced by MSMEs. While often dismissed as a routine working capital issue, the problem runs much deeper. When payments are delayed, liquidity tightens. When liquidity tightens, confidence weakens. And when confidence weakens, expansion plans are postponed.

The Economic Survey 2025–26 highlights that MSMEs continue to face significant outstanding dues running into lakhs crores. Despite contributing approximately 30–31% to India’s GDP and generating employment for over 34 crore individuals, MSMEs frequently struggle with uneven cash flows. A large share of manufacturing units falls in the small category, yet their ability to scale into mid-sized or large enterprises remains limited.

To address this systemic issue, the Government introduced the Trade Receivables Discounting System (TReDS), a digital platform that allows MSMEs to discount their approved invoices and receive early payment from banks and NBFCs.

Since its launch, TReDS platforms (including RXIL, M1xchange, InvoiceMart, and Invoicemart/DTX) have cumulatively financed over ₹5 lakh crore worth of invoices, with volumes steadily increasing. Further, companies with turnover exceeding ₹250 crore have been mandated to

Figure 1: SRI Fund Allocation Graph Post Budget 2026



Source: Author’s Compilation

register on TReDS, strengthening participation and widening the receivables ecosystem.

However, Budget 2026 proposes to deepen this framework further through a structured four-pillar reform approach as under:

i. Mandatory TReDS Usage for CPSEs

The Budget mandates that all Central Public Sector Enterprises (CPSEs) must route MSME payments through TReDS.

CPSE receivables are considered high-quality and low-risk from a credit standpoint. Routing them through TReDS significantly increases the availability of reliable, government-backed invoices on the platform.

Once public sector entities demonstrate structured payment routing, large private corporates may also feel market pressure to align with similar transparency standards.

Expected outcome:

- Higher transaction volumes across TReDS platforms
- Faster settlement cycles for MSMEs
- Improved liquidity stability for small businesses

ii. Credit Guarantee Support via CGTMSE

To further strengthen lender participation, the Budget extends credit guarantee

coverage for invoice discounting under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).

As per available data, cumulative guarantees approved under CGTMSE have crossed ₹12 lakh crore, covering over one crore guarantees. This scale significantly reduces perceived risk for banks and NBFCs.

By extending guarantee backing to invoice discounting transactions, lenders gain additional comfort. This is likely to increase competition among financiers on TReDS platforms.

Expected outcome:

- Lower perceived credit risk for lenders & more participation by banks and NBFCs
- Competitive discounting rates

iii. Integration with Government e-Marketplace (GeM)

The proposed integration between GeM and TReDS aims to create seamless digital data flow. Currently, MSMEs supplying through GeM generate invoices that are verified within the procurement system. By linking GeM with TReDS, these verified receivables can be digitally transmitted to financiers without repetitive documentation and manual verification. This reduces due diligence friction and speeds up financing decisions. Moreover, payments from government departments would speed up to match the standards or MSMEs would be able to get the invoices discounted from TReDS increasing their liquidity.

Expected outcome:

- Improved data transparency & paperwork

“To further strengthen lender participation, the Budget extends credit guarantee coverage for invoice discounting under the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE).”

- Shorter cash-conversion cycles for MSMEs

iv. Developing a Secondary Market for Receivables

The fourth reform pillar introduces the development of a secondary market for MSME receivables through securitisation. Under this model, receivables discounted on TReDS can potentially be packaged into asset-backed securities, allowing broader participation from institutional investors.

Expected outcome:

- Expansion of the trade finance ecosystem
- Better pricing of buyer credit risk
- Increased liquidity across the MSME financing chain

If implemented effectively, TReDS reforms under Budget 2026 could become one of the most consequential liquidity interventions for MSMEs in recent years.

4. The ‘Corporate Mitras’ Initiative

This initiative directly addresses one of the less discussed yet deeply felt challenges of MSMEs i.e., the burden of regulatory compliance and procedural formalities. The government plans to introduce a cadre of “Corporate Mitras”, particularly in Tier-II and Tier-III cities.



“The Union Budget 2026 introduces the Self-Help Entrepreneur (SHE) Marts initiative to promote women-led entrepreneurship, particularly in rural and semi-urban regions. The concept goes beyond providing credit support; it focuses on creating community-owned retail spaces where women can operate and manage their own enterprises.”

In her Budget speech, the Finance Minister indicated that professional institutions such as ICAI, ICSI, and ICMAI will be encouraged to design short-term, modular training programmes to build this cadre. These trained Corporate Mitras are expected to assist MSMEs in managing compliance requirements, maintaining documentation standards, and navigating procedural obligations in a structured and affordable manner.

For many micro and small enterprises operating in smaller towns, access to professional advisory support remains limited. However, in the last few years, we have noticed that more and more professionals are leaving jobs and coming into practices in their hometowns which in turn is already removing this gap in the market.

The expected impact of the above proposal has many advantages like:

- Improved quality of documentation and statutory filings
- Allowing entrepreneurs to focus more on operations and

growth rather than procedural complexities

- Better trained accountants and compliance officers for professional offices

However, certain disadvantages/challenges may arise for existing professionals in such smaller towns wherein these professionals' recurring income comes from accounting and compliance services to these same MSMEs. This proposal may, on the contrary, lead to cost cutting and reduced quality in such compliances by creating an unhealthy competition between existing qualified professionals and trained Corporate Mitras, which in turn would increase litigation and have a negative impact on business readiness for expansion. Keeping this in mind, this proposal may turn out to be groundbreaking in Metro and Tier-I cities.

Additionally, the Budget proposes the formation of an Education-to-Employment and Enterprise Standing Committee, with particular attention to the services sector.

5. Self Help Entrepreneurs – SHE Marts

The Union Budget 2026 introduces the Self-Help Entrepreneur (SHE) Marts initiative to promote women-led entrepreneurship, particularly in rural and semi-urban regions. The concept goes beyond providing credit support; it focuses on creating community-owned retail spaces where women can operate and manage their own enterprises.

These marts are proposed to be developed at the cluster level through Cluster Level Federations (CLFs), supported by structured financing mechanisms.

Expected Outcome:

- Encourage growth of micro enterprises at the village level

- Improve income stability
- Promote community-based enterprise financing models

The Key Sector Specific MSME Initiatives under the Union Budget 2026

1. Textile Sector

i. Textile Expansion and Employment Scheme:

Support for the adoption of modern machinery and technology upgrades.

ii. National Fibre Scheme:

Focuses on achieving self-reliance in natural fabrics like silk, wool etc.

iii. Tex-Eco Initiative:

Supports MSMEs in meeting the rising global demand for environmentally sustainable and “green” textile products.

iv. Samarth 2.0:

Strengthens the skilling ecosystem by linking MSMEs with a pool of trained, industry-ready workers.

v. Mega Textile Parks:

Offers plug-and-play infrastructure to MSMEs, enabling faster project execution and lower setup costs.

2. Chemical Sector

The Budget proposes the development of Rare Earth Corridors in states such as Odisha, Kerala, Andhra Pradesh, and Tamil Nadu to support domestic processing capabilities.

3. Agro-Processing Sector

i. Extension of the PLI Scheme for Food Processing by an allocation of ₹ 1,200 crore.

ii. Targeted Crop Development will focus on high-value crops such as coconut, cashew, cocoa, and sandalwood.

iii. Hilly Region Rejuvenation:
Post-harvest processing for walnuts, almonds, pine nuts.

iv. Boost to Seafood Exports by the duty-free import limit for key processing inputs has been increased from 1% to 3% of FOB value.

4. Tourism and Hospitality Sector

i. Establishment of Regional Medical Tourism Hubs.

ii. Upgradation of selected archaeological sites.

iii. Promotion of environmentally sustainable eco-tourism initiatives.

These initiatives create opportunities for MSMEs in hospitality, transport, local handicrafts, and service sectors.

5. Education and Skilling

i. A pilot programme with IIMs will train 10,000 tourism guides across 20 key tourist destinations.

ii. Existing institutions will be upgraded to train 1 lakh Allied Health Professionals and 1.5 lakh caregivers.

6. Lower Input Costs, Stronger Ecosystems

Budget 2026 reduces customs duties on selected capital goods and key inputs used in lithium-ion battery manufacturing and solar-related production.

The proposal to develop rare earth corridors further supports domestic supply chains, reducing dependency on imports for EV motors and advanced manufacturing inputs.

Other Key MSME Initiatives through Tax and Compliance Relief under the Union Budget 2026

1. The Budget proposes rationalisation of certain TDS and TCS rates and procedures, reducing unnecessary tax

deductions and collections that often lead to blockage of funds.

2. The new Income Tax Act, expected to come into force from April 2026, aims to simplify provisions, reduce interpretational complexity, and enhance clarity.

3. The MAT rate has been reduced from 15% to 14%.

4. Relaxations in Provisional Refund <Rs. 1000 processing for exporters are aimed at improving cash flow efficiency.

5. No need to give justification for raising credit notes post sales to link with the original invoice & agreement with the buyer. This will help with GST compliance & lesser litigation out of such transactions.

Role of Chartered Accountants and ICAI

Budget 2026 directly acknowledges the role of professional institutions in building MSME compliance capacity. This creates a strong case for ICAI-led thought leadership in:

- Standardised compliance toolkits for MSMEs
- Advisory frameworks for receivables finance, governance, and scale readiness

For Chartered Accountants, the opportunity expands beyond compliance into MSME transformation: financial discipline, risk controls, working-capital optimisation, investment readiness, sustainable scaling and much more.

Conclusion

Union Budget 2026–27 strengthens MSMEs through a multi-pillar approach: growth capital (₹10,000 crore fund), liquidity reforms (TReDS mandate + GeM linkage + credit guarantee + securitisation), and affordable compliance support (Corporate Mitras).

Through structured execution and strong governance, these steps will create a more responsive payment ecosystem, improve credit flow, and strengthen the foundation for “Champion SMEs” across India.

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