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ANALYSIS**

TOPIC

**SCALING TRADE RECEIVABLES
DISCOUNTING SYSTEM (TREDS) FOR
FOSTERING MSME-LED GROWTH**

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SCALING TRADE RECEIVABLES DISCOUNTING SYSTEM (TReDS) FOR FOSTERING MSME-LED GROWTH

Context

- The **Union Budget 2026–27** proposed major reforms to expand the **Trade Receivables Discounting System (TReDS)**, including mandatory use by **CPSEs**, **credit guarantees through CGTMSE**, and **integration with GeM** to improve MSME liquidity.
- These measures align with the **World Bank's 2025 Financial Sector Assessment Program (FSAP) recommendations** to strengthen receivables financing and reduce delayed payments to MSMEs.

About MSMEs & Needs of TReDS

- Micro, Small and Medium Enterprises (MSMEs) are a critical pillar of the Indian economy, contributing significantly to **employment generation, exports, and industrial output**.
 - ◆ However, one of the persistent challenges faced by MSMEs is **delayed payments from large buyers**, which disrupts their working capital cycle and limits growth.
- The **Trade Receivables Discounting System (TReDS)** was introduced as a **digital institutional mechanism** that enables MSMEs to convert their receivables into immediate cash.
- Recent policy initiatives in **Union Budget 2026–27**, along with recommendations from the **World Bank's Financial Sector Assessment Program (FSAP) 2025**, indicate that the government is now treating **TReDS as a key structural reform for MSME financing** rather than merely a fintech platform.

Understanding TReDS

- The **Trade Receivables Discounting System (TReDS)** is an **RBI-regulated electronic platform** that facilitates the **financing of trade receivables of MSMEs through invoice discounting**.
- Through this platform:
 - ◆ MSMEs upload invoices raised on corporate buyers or public sector entities.
 - ◆ Banks and NBFCs bid to finance these invoices.
 - ◆ The receivable is discounted, enabling MSMEs to receive **early payment before the invoice due date**.
- It improves liquidity for MSMEs and reduces dependence on traditional bank credit.

Growth and Current Status of TReDS

- Since its introduction, TReDS has witnessed steady expansion:
 - ◆ Over **₹7.5 lakh crore** has been financed through TReDS since inception.
 - ◆ Annual transaction volumes have crossed **₹2 lakh crore**.
 - ◆ Monthly throughput has exceeded **₹30,000 crore** recently.
- **TReDS penetration remains limited** compared to the massive scale of MSME receivables in India, despite above progress.
- Delayed payments remain a major cause of **cash-flow disruptions and financial stress for MSMEs**.
 - ◆ Thus, policy reforms are aimed at expanding the scope and effectiveness of the platform.

Key Policy Reforms in Budget 2026–27

- **Mandatory Use of TReDS by CPSEs:** The Budget proposes that **Central Public Sector Enterprises (CPSEs)** must use TReDS for settling purchases from MSMEs. It improves predictability in receivables financing and strengthens MSME liquidity. It aims to:
 - ◆ Reduces **power asymmetry** between large buyers and MSME suppliers.
 - ◆ Ensures **timely invoice confirmation and payment transparency**.
 - ◆ Sets a benchmark for **private corporate adoption**.
- **Credit Guarantee Mechanism through CGTMSE:** The government proposes a **CGTMSE-backed credit guarantee for invoice discounting**. It expands access to finance for smaller enterprises, by sharing risk. Its **implications are:**

- ◆ Reduces perceived credit risk for lenders.
- ◆ Encourages greater participation of **banks and NBFCs** in receivables financing.
- ◆ Complements the RBI's decision to raise the **collateral-free lending limit for MSMEs from ₹10 lakh to ₹20 lakh**.
- **Integration with Government e-Marketplace (GeM):** The linking of **GeM** with TReDS allows financiers to access verified procurement data. It **reduces transaction costs and enhances market efficiency**, from an economic perspective. Its key **benefits** are:
 - ◆ Improves **information symmetry**.
 - ◆ Reduces **fraud risk and due diligence costs**.
 - ◆ Accelerates loan processing time.
- **Development of TReDS-based Asset-Backed Securities:** Another forward-looking reform is the proposal to **securitise TReDS receivables**. It contributes to **deepening India's financial markets** and improving financial resilience. Its key **advantages** are:
 - ◆ Enables financiers to **recycle capital** by selling pooled receivables.
 - ◆ Spreads risk across a wider investor base.
 - ◆ Integrates MSME receivables financing with the **debt capital market**.

Macroeconomic Significance of TReDS

- **Improving Working Capital Efficiency:** TReDS improves **working capital efficiency across supply chains**, by accelerating receivable payments. When payments to MSMEs are delayed:
 - ◆ Production cycles slow down.
 - ◆ Investment decisions are postponed.
 - ◆ Credit costs rise.
- **Enhancing Financial Stability:** Informal trade credit networks often remain **opaque and unregulated**, which can amplify financial stress during economic downturns.
 - ◆ TReDS brings these exposures under **RBI-regulated digital platforms**, improving transparency and risk management.
- **Supporting MSME Growth:** Timely receivables financing improves **MSME profitability, liquidity, and operational sustainability**. Thus, strengthening TReDS can contribute to **inclusive economic growth**.

Challenges and Limitations

- Despite its potential, several constraints limit the effectiveness of TReDS:
 - ◆ **Low awareness among MSMEs;**
 - ◆ Limited participation of **large private buyers;**
 - ◆ Operational issues in **invoice verification;**
 - ◆ Underdeveloped **factoring ecosystem in India;**
- Addressing these issues is essential to unlock the full potential of receivables financing.

Conclusion

- The Trade Receivables Discounting System (TReDS) represents an important **institutional innovation in India's financial architecture**. By addressing delayed payments and improving access to working capital, TReDS strengthens the financial health of MSMEs and enhances supply chain efficiency.
- The policy measures announced in **Budget 2026–27**, aligned with recommendations from the **World Bank's FSAP**, signal a shift toward a **more structured, transparent, and market-based receivables financing ecosystem**.

Source: BL

Daily Mains Practice Question

- [Q] Examine the role of the Trade Receivables Discounting System (TReDS) in improving working capital access for MSMEs. Discuss the challenges in its effective implementation.