

Question:

Trade Receivables Discounting System must be promoted for its ecosystem benefits and has shown growth in the wake of the pandemic-induced crisis. Discuss.

Answer:

The Trade Receivables Discounting System (TReDs) was kicked off in 2017. It is a bills discounting platform for MSMEs vendors. TReDs has shown some growth in the wake of the pandemic induced crisis but is still an under-performer in relation to the unmet credit needs of MSMEs.

Working of TReDs: Under TReDs, invoices are placed on a 'platform' now provided by three recognised exchanges, with MSME sellers, large buyers and factoring agents (banks & NBFCs) as participants.

The factoring agents bid for the bill after it is validated by a TReDs-recognised buyer, allowing the seller to opt for the least discounted price.

Significance: The value of transactions on the TReDs platform doubled in FY22 over the previous year to over ₹34,000 crore; it was just ₹11,650 crore in FY20. Bills worth ₹69,000 crore have been discounted since the inception of TReDs in 2017.

Challenges:

- (i) Still the credit outstanding of MSME is about ₹17 lakh crore.
- (ii) Public sector enterprises are not getting on to the platform.
- (iii) Credit outreach to MSMEs does not reach the bottom of the pyramid, namely for the micro and small enterprises which form the major part of MSME.

Considering the importance of MSMEs in the economy and the benefits accrued by them through TReDs, it is high time the Government to step in and push for the PSUs of above ₹500 crore turn over to enter into TReDs, and apart from cash credit provided through factoring agents for receivables, cash credit should be given even for work in progress, raw materials and inventory needs for the MSMEs as informal sources of trade credit are drying up.