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Centre Mandates TReDS for All CPSE Payments to MSMEs

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CURATED & WRITTEN BY

Bharat Choudhary

UPSC Educator & Content Creator

linkedin.com/in/epicbharat

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WHY IN NEWS

In , the Centre mandated that **all Central Public Sector Enterprises (CPSEs)** *route their MSME invoice settlements through the* **Trade Receivables Discounting System (TReDS)***, closing the earlier gap created by a turnover-based threshold (https://ujiyari.com/vocab/threshold/). Officials also confirmed a planned* **interlinking of GeM (Government e-Marketplace) with TReDS***, so that an MSME seller can move from purchase order to invoice to financing on a single digital rail.*

THE CORE PROBLEM: DELAYED PAYMENTS

India's MSME sector contributes roughly **30 per cent of GDP** and about **45 per cent of exports**. Its single most persistent constraint is not lack of orders but lack of **working capital**, and the largest drain on that capital is the **delayed payment**. A small supplier delivers goods, raises an invoice, and then waits, sometimes for months, while wages, rent and raw-material purchases continue.

The law already recognises this. Under the **Micro, Small and Medium Enterprises Development (MSMED) Act, 2006**:

- **Section 15** requires the buyer to pay within **45 days** of acceptance of goods or services.
- **Section 16** mandates **compound interest at three times the RBI bank rate** on any delayed amount.

The **Samadhaan portal** allows an MSME to formally track and escalate a delayed-payment case. Yet enforcement remains slow, and a small supplier is rarely willing to sue the large buyer it depends on for repeat business. The result is a statutory (https://ujiyari.com/vocab/statutory/) right that is widely held but sparingly exercised.

WHAT TREDS ACTUALLY DOES

TReDS is an **RBI-authorised electronic platform** operating under the **Payment and Settlement Systems Act, 2007**. It converts a receivable into cash before its due date.

The Three Participants

PARTICIPANT	ROLE
MSME seller	Uploads the invoice after supplying goods or services
Corporate / PSU / government buyer	Accepts the invoice on the platform, confirming the debt
Financier (banks, NBFC-Factors)	Bids to discount the accepted invoice through a reverse auction

Once accepted, financiers compete in a **reverse auction** to buy the receivable. The MSME receives cash almost immediately at the winning discount rate. Crucially, the financing is **without recourse to the MSME seller**: if the buyer defaults on the due date, the loss sits with the financier, not with the small supplier. This is the feature that transforms the instrument, because the credit risk being priced is the **buyer's**, typically a large and well-rated entity, not the tiny seller's.

Operating platforms include **RXIL**, **M1xchange** and **Invoicemart**.

WHY THE NEW MANDATE MATTERS

Earlier requirements to onboard onto TReDS applied only to companies above a **turnover threshold**. That left a swathe of buyers, including several CPSEs, outside the net. Making the platform compulsory for **every CPSE**, regardless of turnover, removes the threshold escape and places the largest and most reliable class of public buyers squarely on the rail.

The **GeM-TReDS interlinking** is the second half of the design. GeM, launched in **2016** under the **Ministry of Commerce and Industry**, is where the government procures. Today an MSME wins an order on GeM and then must separately arrange financing elsewhere. Once linked, the purchase order, the invoice and the discounting all sit on one continuous chain, and the financier can verify the underlying transaction rather than take the invoice on trust.

THE BUDGET LINK

The mandate (https://ujiyari.com/vocab/mandate/) operationalises two announcements from **Union Budget 2026-27**:

1. **CGTMSE credit-guarantee cover extended to TReDS invoice discounting**, which lowers the financier's risk and should compress discount rates for weaker buyers.

2. **Treating TReDS receivables as asset-backed securities**, which allows financiers to pool and trade these instruments, deepening the secondary market and freeing balance-sheet capacity for fresh discounting.

THE DEEPER SHIFT: FROM COLLATERAL TO CASH FLOW

TReDS is one pillar of a wider architecture that seeks to lend against **cash flows** rather than **collateral**. A young MSME has no land or plant to pledge, but it does have invoices, GST returns and bank statements.

- **TReDS** finances the confirmed receivable.
- **OCEN (Open Credit Enablement Network)** standardises how lenders and loan service providers connect, embedding credit into the platforms MSMEs already use.
- **Account Aggregator** framework lets the MSME consent to share its own financial data with a lender.
- **Udyam** is the MSME registration portal, the identity layer on which all of this rests.

Together these turn an MSME's transaction trail into its creditworthiness.

CRITIQUES AND WAY FORWARD

The design is elegant; the execution is uneven.

- **Weak onboarding compliance.** Many mandated buyers registered on TReDS but never transacted, treating registration as a box-ticking exercise.
- **Discretionary acceptance of invoices.** The entire mechanism depends on the buyer clicking "accept." A buyer that simply delays acceptance reproduces the original problem inside a digital wrapper.
- **Thin financier participation** for lower-rated buyers, which is precisely where the CGTMSE guarantee is meant to help.

The way forward lies in making **acceptance time-bound and auditable**, publishing buyer-wise acceptance and payment data, and linking CPSE performance ratings to their TReDS behaviour. A payment platform only works if the payer cannot quietly opt out of using it.

UPSC RELEVANCE

GS Paper 3: Indian economy, MSMEs, banking and financial inclusion, government policies and interventions, mobilisation of resources.

Prelims pointers:

- **TReDS** = Trade Receivables Discounting System, an **RBI-authorised** platform under the **Payment and Settlement Systems Act, 2007.**

- Financing on TReDS is **without recourse** to the MSME seller.
- Platforms: **RXIL, M1xchange, Invoicemart**.
- **MSMED Act, 2006**: **Section 15** (payment within 45 days), **Section 16** (compound interest at three times the RBI bank rate).
- **Samadhaan portal** tracks delayed-payment cases; **Udyam** is the MSME registration portal.
- **GeM** was launched in **2016** under the **Ministry of Commerce and Industry**.
- MSMEs contribute roughly **30 per cent of GDP** and about **45 per cent of exports**.

Mains question: "Delayed payments are the single largest working-capital constraint on Indian MSMEs. Examine how TReDS, along with the wider shift from collateral-based to cash-flow-based lending, addresses this problem, and identify the design gaps that limit its effectiveness." (15 marks, 250 words)

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Mandate (July 2026): All CPSEs must settle MSME invoices through TReDS; earlier turnover-threshold gap closed.

GeM-TReDS interlink: Purchase order to invoice to financing on one rail.

TReDS: RBI-authorised electronic platform under the Payment and Settlement Systems Act, 2007; three participants (MSME seller, buyer, financier); reverse auction; without recourse to the seller.

Platforms: RXIL, M1xchange, Invoicemart.

MSMED Act, 2006: Section 15 (45-day payment), Section 16 (compound interest at 3x RBI bank rate).

Budget 2026-27: CGTMSE cover for TReDS invoice discounting; TReDS receivables treated as asset-backed securities.

Related rails: OCEN, Account Aggregator, Udyam, Samadhaan portal.

MSME weight: about 30 per cent of GDP, about 45 per cent of exports.

Sources: Ministry of Micro, Small and Medium Enterprises (https://msme.gov.in/), Reserve Bank of India (https://www.rbi.org.in/), Business Standard (https://www.business-standard.com/)

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