Payment Facilitation Fund - Shortfalls in Payment Ecosystem

What is the issue?

- A critical factor impeding growth is the absence of liquidity where it is needed; delayed payments are hurting MSMEs.
- Addressing the payment ecosystem to infuse fresh funds to clear dues is essential to boost investors' sentiment and stimulate growth.

How is the liquidity scenario?

- Absence of liquidity where it is needed is a critical factor that is limiting growth in the recent period in India.
- This is combined with the uncertainty about realisable returns from new economic opportunities.
- Paradoxically, businesses with excess liquidity prefer to park capital in high-yielding deposits.
- They are wary of investing in long-gestation projects where the risks are much higher and the realisable returns are uncertain.
- This is compounded by the uncertainty of payment collections, which affects cash flows and debt repayment obligations.

What are the concerns with payments?

- India suffers from a poor payments culture and has the worst record in the Asia-Pacific.
- Government payments are generally delayed, and consequently downstream payments to sub-suppliers are affected too.
- In the private sector too, payment delays remain a biggest cause of worry for most entrepreneurs.
- The government has amended the laws where payments to MSMEs cannot be delayed beyond 45 days.
- A redress mechanism has also been set up.
- However, this suffers from the critical flaw where the balance of power is tilted in favour of the government or private buyer.
- MSMEs are hesitant to take the redress route as they fear denial of future orders once a complaint is made.
- This cycle of delayed payments results in higher purchase prices as the penal

interest costs are factored in.
- Due to their sheer size, MSMEs are the worst affected by delayed payments.
- They have a very small window and sometimes none to cover up the financial shortfall, considering the high cost of borrowing and less robust credit rating.
- Globally, India's reputation for poor adherence to payment terms is affecting the 'ease of doing business' ratings.

What is a possible measure?

- The government needs to usher in big bang reforms to change this culture of poor payments.
- The RBI today has enough reserves, and foreign funds are also available at very low rates.
- The government should thus create a payment facilitation fund.
- Equal shares have to be given to the Central government, State governments and public sector units.
- The government can then use the *TReDS* platform to clear all overdue payments of the Central/State governments and PSUs with limits for each.
- The release of this fund into the economy would bring about a big change in investor sentiment and stimulate growth.

What would the fund's benefits be?

- The global economy is flooded with liquidity.
- So, the borrowing cost for the government for the measure will be insignificant compared to the benefits.
- With the fund, many more companies will be interested to work with the government, resulting in lower prices.
- Such a large infusion into the economy will have an immediate and lasting impact on both consumption and investment.
- The move could transform sentiments, improve 'ease of doing business' and bring in a culture where the payment terms are respected.
- A significant cause for non-performing assets in the banking sector is timing mismatches in payments, which can be addressed with the fund.
- Companies that have become sick over the past few years because of delayed payments from their customers can still be revived if they receive their dues in time.

Source: Business Line

Quick Fact

TReDS

- Trade Receivables Discounting System (TReDS) is a scheme for setting up and operating the institutional mechanism for payments.
- It facilitates the financing of trade receivables of MSMEs from corporate and other buyers through multiple financiers.
- The buyers include Government Departments and Public Sector Undertakings (PSUs).

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