POLICY BRIEF #78

From Collateral to Cash Flow: Trade Finance for Indian MSMEs and the Outcomes of India's BRICS Presidency

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Authors:

TANU M. GOYAL
KETAKI GAIKWAD
ANKIT BANSAL

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Abstract

India's target of USD 2 trillion in exports by 2030-31 will depend critically on the ability of its micro, small and medium enterprises (MSMEs) to expand their participation in international trade. Yet, access to trade finance remains a significant constraint for small firms. Drawing on a primary survey of 700 export-oriented MSMEs, this paper examines the nature of this constraint and its implications for export growth. It finds that finance is among the first barriers encountered by firms seeking to enter or expand in export markets. Survey evidence suggests that a significant share of exporters receive payments only after 60 days or more, putting pressure on their working capital. High interest rates, lengthy approval processes and collateral requirements that frequently exceed loan values, further constrain access to formal credit. These challenges create a structural mismatch between the financing needs of MSME exporters and conventional credit assessment frameworks. Asset-light exporters may hold confirmed receivables but lack the collateral and established credit profiles typically required by lenders. As a result, the creditworthiness of the underlying receivable and buyer may not be adequately reflected in the financing terms available to suppliers. While the paper draws on evidence from India, the challenge is widespread among MSMEs globally, particularly across the Global South.

The paper argues that the outcomes of India's 2026 BRICS Presidency provide a timely opportunity to address this gap. The Jaipur Consensus to Study the Establishment of an Invoice Discounting Mechanism proposes exploring a cross-border digital platform for financing confirmed export invoices, drawing on India's Trade Receivables Discounting System (TReDS) experience. Complementing this, the BRICS Guiding Principles for Credit Assessment Frameworks for Export-Oriented MSMEs promote greater reliance on cashflow and transaction-level information. Implementing these initiatives will require complementary global and domestic reforms to digital trade-finance infrastructure, receivables verification, information sharing, risk assessment and regulatory frameworks.

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Authors' Email: *tgoyal@icrier.res.in; kgaikwad@icrier.res.in; ankit94bansal@gmail.com*

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From Collateral to Cash Flow:
Trade Finance for Indian MSMEs and the Outcomes of India's BRICS Presidency

Tanu M. Goyal, Ketaki Gaikwad and Ankit Bansal[1]

1. India's export ambition rests on its MSMEs

International trade has long been recognised as an engine of economic growth and development. By enabling countries to specialise according to their comparative advantages, trade fosters efficiency, expands markets, facilitates technology transfer, and creates employment opportunities. For emerging market economies like India, international trade plays a crucial role not only in gross domestic product (GDP) growth but also in structural transformation, productivity enhancement, poverty reduction, and integration into global value chains (GVCs).

India has set an ambitious export target. The country is targeting USD 2 trillion in total exports (goods and services combined), with USD 1 trillion each in merchandise exports and services exports by financial year (FY) 2030-31.[2] In the financial year 2025-26, India's overall exports stood at USD 860.1 billion. Within this, the merchandise exports were valued at USD 441.8 billion, while services exports were valued at USD 418.3 billion, an increase of about 4.2 per cent over FY 2024–25, when merchandise exports stood at USD 437.7 billion and services exports at USD 387.5 billion.[3]

Exports need to be accelerated to achieve the target within the stipulated timeframe. Over the last decade, India's exports have grown consistently, at an average growth rate of about 6 per cent.[4] At this rate, India will achieve USD 2 trillion worth of exports only by 2038-2040 (see Figure 1).[5] To realise the overall export target by 2030, an average annual growth rate (AAGR) of at least 25 per cent and a compound annual growth rate (CAGR) of around 18 per cent are necessary. Achieving the goods export target alone would require 3-4 times of accelerated pace of export growth. Much of India's recent trade expansion has been driven by services while the goods economy, and manufacturing in particular, is where the gap between ambition and performance is widest.

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1 Tanu M. Goyal is a Senior Fellow and Ketaki Gaikwad is a Research Associate at ICRIER. Ankit Bansal is Assistant Vice President, SBI Factors Limited. The views expressed are those of the authors and do not necessarily reflect the views of their respective institutions.
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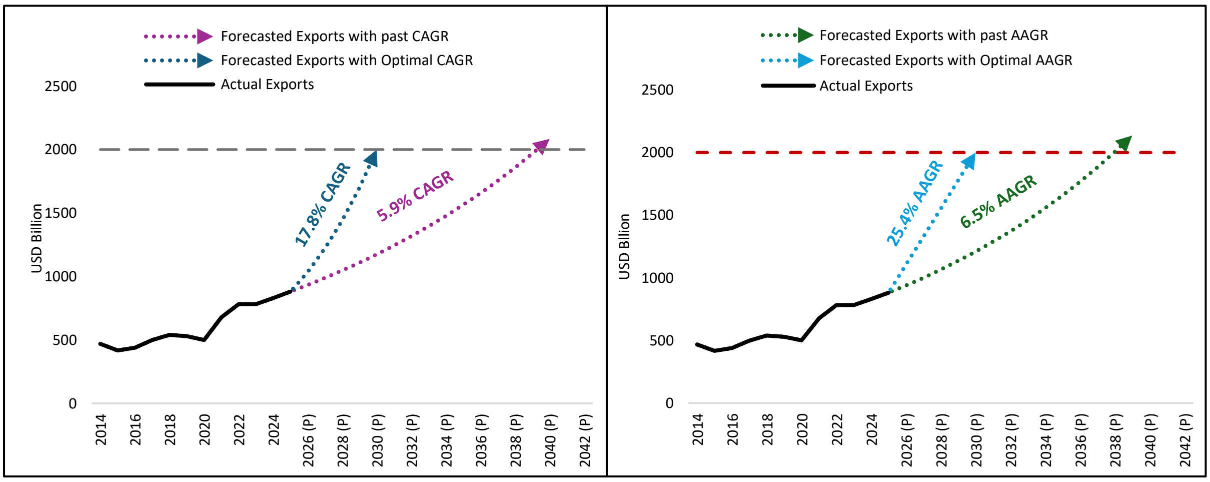
2 As reported by the Press Information Bureau (PIB) release 2256724, accessible at https://www.pib.gov.in/PressReleasePage.aspx?PRID=2256724&reg=3&lang=1 (accessed on 22 September, 2026).

3 As reported by the Press Information Bureau (PIB) release 2252272, accessible at https://www.pib.gov.in/PressReleasePage.aspx?PRID=2252272&lang=1&reg=3 (accessed on 22 September, 2026).

4 More specifically, the average annual growth rate (AAGR) since the calendar year 2014 has been around 6.5 per cent and the compound annual growth rate (CAGR) has been around 6 per cent.

5 Depending on whether we are considering CAGR or AAGR.

Figure 1: Projections for Overall Exports to Reach USD 2 Trillion Target using CAGR and AAGR



Source: Author's computation from World Bank Group (WBG) data

Indian enterprises hold considerable untapped potential. Despite being the world's fourth-largest manufacturer, India ranks only 15th in exports of manufactured goods.[6] This gap is largely due to structural challenges, particularly the dominance of MSMEs, which typically operate at low productivity levels.[7] In contrast, international trade in manufactured goods is largely driven by investments from multinational enterprises (MNEs), which have traditionally concentrated on South and Southeast Asia. For MSMEs to become part of the GVCs established by the MNE, significant scaling up is required. This structural shift can drive growth of goods export from India.

It is important to acknowledge that countries do not export; enterprises do and India's enterprise landscape is dominated by MSMEs. The country has over 93 million Udyam-registered enterprises (as of August 2026) and around 79.2 million unincorporated firms (in 2025) accounting for only 20-25 per cent of the overall exports.[8] The Udyam registered firms alone employ over 400 million people, while the unincorporated sector enterprises employed around 128 million workers.[9] This base is highly fragmented and dominated by micro firms or own-account enterprises, which tends to depress productivity and constrain the ability of firms to scale and integrate into GVCs. Yet, it is precisely these firms that must carry a

6 NITI Aayog (2024). Vikasit Bharat: Unshackling Job Creators, Empowering Growth Drivers. NITI Aayog Working Paper. June 2024; accessible at https://www.niti.gov.in/sites/default/files/2024-07/WP_Viksit_Bharat_2024-July-19.pdf (accessed on 22 September, 2026).

7 On average, for MSMEs labour productivity or the value added per worker, is half that of their larger peers. For details see OECD, accessible https://www.oecd.org/en/topics/sub-issues/sme-indicators-benchmarking-and-monitoring.html (accessed on 22 September, 2026).

8 Udyam data is accessible at https://www.udyamregistration.gov.in/Default.aspx and ASUSE data is available at https://www.mospi.gov.in/themes/product/66-annual-survey-of-unincorporated-sector-enterprises-asuse#dashboard; (both links were last accessed on 22 September, 2026.) For Udyam export share estimates, please see: https://udyamregistration.gov.in/docs/RSQ_2479_10082026.pdf (last accessed on 22 September, 2026).

9 Udyam data is accessible at https://www.udyamregistration.gov.in/Default.aspx and ASUSE data is available at https://www.mospi.gov.in/themes/product/66-annual-survey-of-unincorporated-sector-enterprises-asuse#dashboard; (both links were last accessed on 22 September, 2026.)

disproportionate share of the manufacturing-export push if the 2030 goal is to be met. Among the constraints that hold MSMEs back, access to trade finance is one of the most binding.

2. Trade finance is the binding constraint

Access to finance is a persistent barrier to MSME growth, and the problem is sharper still for trade finance. Globally, the MSME finance gap is estimated at about USD 5.7 trillion, rising to roughly USD 8 trillion once informal enterprises are included.[10] For India alone, the Sinha Committee (2019) placed the MSME finance gap at around USD 230–290 billion.[11] The challenge primarily stems from the fact that small businesses do not have a viable or bankable business plan, which results in more stringent lending conditions, relatively high interest rates on borrowing and increased collateral demands from financial institutions. This further hampers their capacity to scale, creating a vicious cycle where limited access to finance hinders growth, and the lack of growth, in turn, restricts financial access.

Most international trade is not paid for in advance and geographical distance between the buyer and seller creates a time-gap between dispatch and delivery of goods and thus, payment realisation. Trade finance, through credit, guarantees and insurance helps to bridge that gap, building trust between trading partners and freeing up the working capital that production and scaling require. Around 60 per cent of global trade moves on open-account terms, where the supplier effectively extends credit to the buyer on the strength of an established relationship.[12] This is exactly the kind of arrangement MSMEs can least afford and least easily secure, unlike large multinational firms with deep balance sheets and long trading histories. Expanding affordable, bank-intermediated trade finance is therefore one of the most direct levers available for lifting MSME participation in global trade.

Global experience reflects a positive relation between trade finance and firms' ability to export, particularly in context of small enterprises. For instance, in India, studies show that export-oriented firms exhibit a greater preference for short-term finance, trade credit, and external equity financing to expand exports.[13] Similarly in Ghana, it is seen that access to bank finance increased the probability of small and medium enterprises (SME) engaging in export activities.[14] Moreover, trade finance is not just demand driven; it can create avenues to expand exports. An increase in the supply (or cost) of trade finance is associated with an increase (or decrease) of global trade volumes.[15] In fact, if trade finance is disturbed, some geographies experience a decline in export activity. In South Korea, for instance, negative shock to both instruments – foreign trade loans extended by commercial banks and documentary bills – actually has an adverse effect on exports, particularly SME exports.[16] The same study found

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[10] IFC (2025).
[11] RBI (2019), Report of the Expert Committee on Micro, Small and Medium Enterprises (Sinha Committee).
[12] ERIA (2022).
[13] Baker et. al. (2020).
[14] Abor et. al. (2014).
[15] Auboin and Engemann (2014).
[16] Hwang and Im (2017).

that the impact of trade finance shock is disproportionately large on SMEs, explaining 10–14 per cent of the variation in SME exports. In fact, it also results in inefficiencies as financially constrained firms often rely on intermediaries for exports, which increases the cost and reduces competitiveness.[17]

The trade finance gap is particularly large for emerging market and developing economies (EMDEs), specifically in the Asia and Pacific region and for MSMEs. In 2022, global trade finance gap is estimated at around USD 2.5 trillion, amounting to about 10 per cent of the global merchandise trade in the same year.[18] Smaller firms in EMDEs face a disproportionate burden. Evidence from the Asian Development Bank (ADB) (2025) report suggests that SMEs saw about 40 per cent of their trade finance applications rejected, twice the rate for multinationals. Many firms that faced rejections previously, in fact, stopped reapplying, a self-rationing effect that masks the true scale of unmet demand. In developing countries, only 10–25 per cent of trade is supported by trade finance, well below levels in advanced economies. The ADB (2025) report also found that India illustrates the gap acutely as export credit covered only about 28.5 per cent of the roughly USD 284 billion required to support current shipment volumes. The Reserve Bank of India (RBI) data shows that export credit accounted for only 0.05 per cent of the total bank credit and 0.12 per cent of priority sector lending in India in 2025-26. Moreover, compared to last year there has been a nearly 10 per cent decline in export credit disbursed in 2025-26 in the country, pointing to a substantial financing shortfall for Indian exporters.[19]

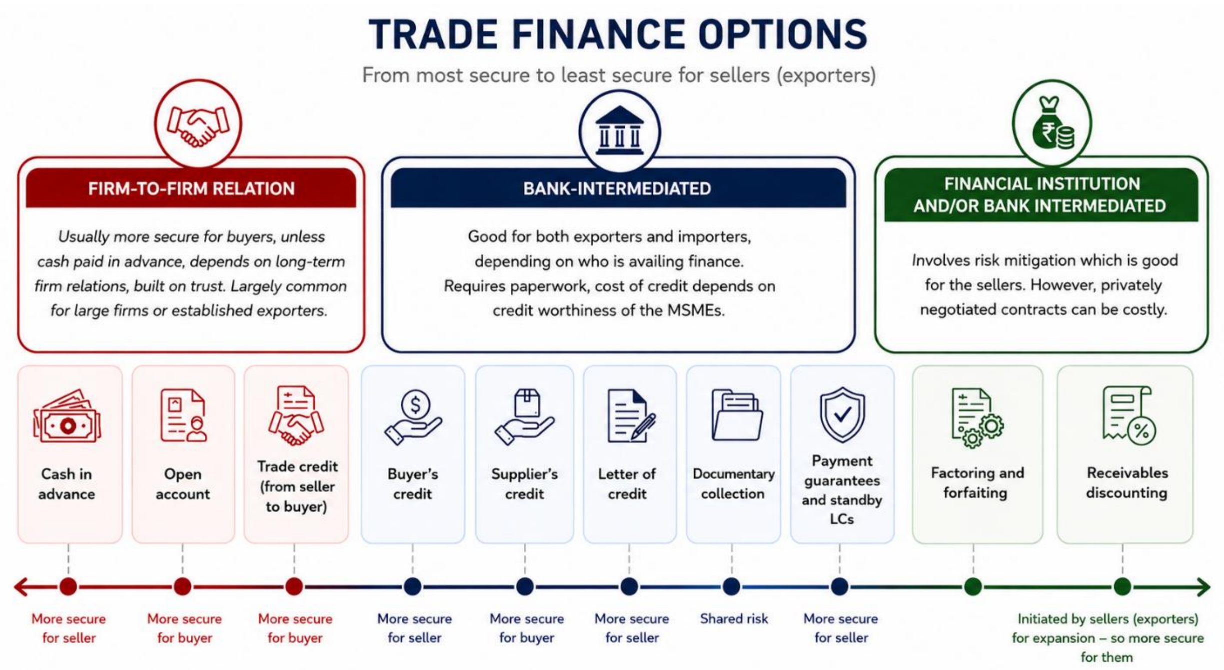
Firm relationships significantly influence the nature of trade transactions with a bulk of trade transactions running on pre-existing relationships. Nearly 60 per cent of global exports take place under open-account terms, where suppliers dispatch goods based on a commercial agreement and receive payment via bank transfer by a predetermined date.[20] Unlike documentary transactions, payment in this case is not secured through the exchange of shipping documents and these are managed directly between the exporter and importer. This effectively means the supplier is extending trade credit to the buyer, largely on the basis of goodwill and strong, pre-existing cross-border relationships. This is something that MSMEs often lack, unlike larger multinational companies.

The limited share of bank-intermediated trade transactions highlights significant untapped potential and opportunities for expanding and diversifying trade. Only 40 per cent of the global trade transactions are bank intermediated, with a significant gap between the shares of developed and developing countries. The share of merchandise trade supported by trade finance is relatively low in many developing countries - 40 per cent in Africa as a whole and only 25 per cent in West Africa, as opposed to 60-80 per cent across high-income economies.[21]

[17] Chan (2019).
[18] ADB (2025).
[19] Reserve Bank of India sector-wise loan disbursement data.
[20] ERIA (2022).
[21] IFC and WTO (2023).

This is primarily because it is relatively costly and less flexible than open account transactions.[22] Adequate provision of trade finance is essential as developing economies seek to benefit from the trade opportunities offered by shifting patterns of production. For MSMEs particularly, access to bank intermediated finance at affordable terms is crucial for trade expansion (see Figure 2).

Figure 2: Modes of Payment and Trade Finance Instruments



Source: Content compiled by authors. Image is AI generated.

Trade finance instruments vary in how far they protect buyers or sellers, and each carries cost and risk considerations (See figure 2). There are firm-to-firm arrangements such as cash-in-advance, open account, and buyer-to-seller trade credit, which depend heavily on trust and established relationships. These are often resorted to by large and well-established exporters that have long-term business relationships. Then there are bank-intermediated instruments where buyers and suppliers can take loan directly from a bank, or use letters of credit, documentary collections, and payment guarantee that offer exporters more protection. However, the cost of credit depends on credit worthiness of the entity taking loan and if the exporter is MSME, then the cost of credit may be high. Finally, there are other instruments, such as receivable discounting and factoring and forfaiting which are intermediated by financial institutions and include a risk mitigation function. Again, if negotiated as private contracts, these instruments can turn out to be costlier. Yet, they are one of the most secure instruments for sellers and are particularly useful for MSMEs, if initiated by sellers.

[22] ERIA (2022).

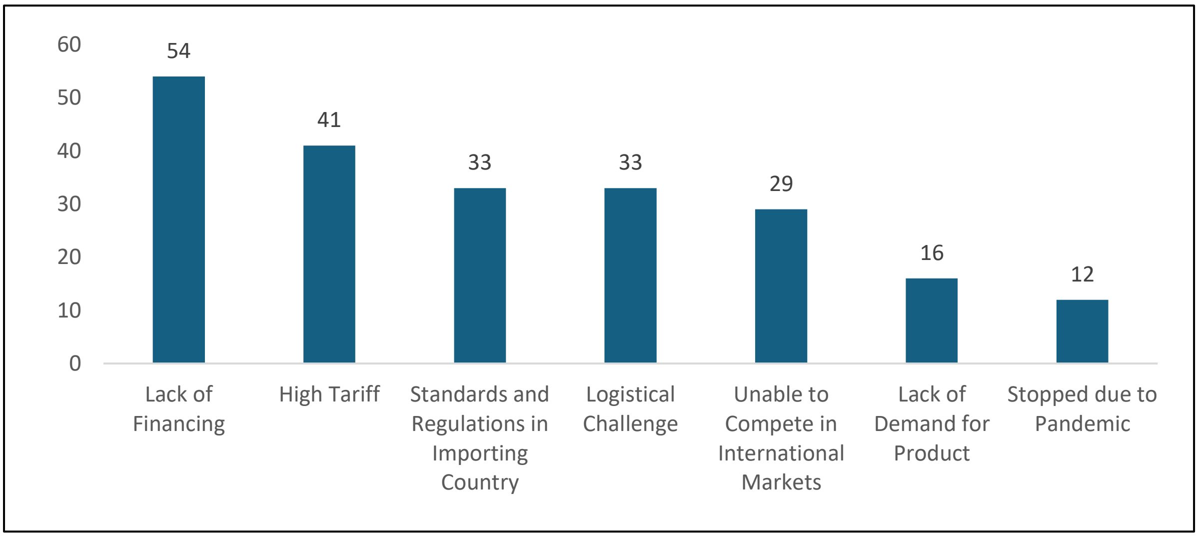
3. What the evidence shows: ICRIER survey of exporting MSMEs

To move beyond aggregate statistics and understand how these constraints play out at an enterprise level, ICRIER conducted a primary survey of 700 exporting MSMEs.[23] The firms were spread across 16 clusters in 10 states, and the survey was carried out between May and June 2025. Firms were asked about the difficulties faced in exporting, major sources of finance for their business, terms of finance for export, use of collateral and potential benefits of reduced cost of trade finance, among others. Firms that were not exporting were screened out of the main sample but were asked why they do not export; about 149 such firms were recorded, and their responses are themselves revealing.

3.1 Why firms do not export: financing tops the list

Among firms that had not entered export markets, lack of financing was the most common reason cited. Over half (53.7 per cent) of respondents reported this as the reason. High tariffs (41 per cent), standards and regulatory bottlenecks and logistical challenges (33 per cent each), and an inability to compete internationally (29 per cent) followed. That finance outranks even tariff and compliance barriers underscores its role as a first-order gatekeeper to export entry. A firm that cannot fund an order cannot fulfil it, regardless of how competitive its product may be. In fact, out of the 700 export oriented enterprises that were surveyed, about a quarter reported that lack of financial resources is a barrier to expanding export activity and a similar percentage abandoned or rejected export opportunity due to lack of funds.[24]

Figure 3: Distribution of Non-Exporting Firms by Primary Constraint Reported (%)



Source: ICRIER Survey of Export-oriented MSMEs, 2025. These numbers are based on the 149 respondents that were not exporting and were kept out of the broader survey.

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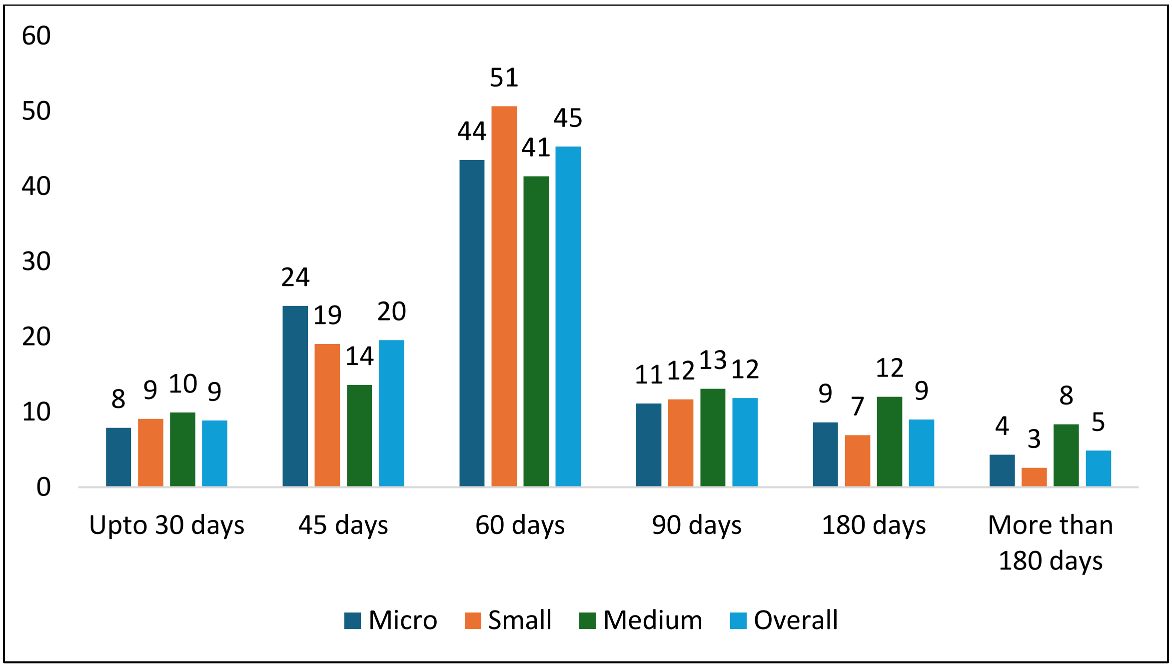
[23] This survey was supported by the Directorate General of Foreign Trade (DGFT), Ministry of Commerce and Industry, Government of India, to assess the outcome of an export promotion scheme. The data presented here is a subset of the larger survey. Because the primary objective was to evaluate the scheme's outcome, the sample was structured around a treatment and a control group. All respondents were nonetheless export-oriented MSMEs, making the sample representative for the purposes of this analysis. The sampling framework is detailed in Annexure 1.

[24] ICRIER Survey of Export-oriented MSMEs, 2025.

3.2 Delayed payment is a widespread issue: wait time is more than two months for most enterprises

The survey revealed long delays in payment across the exporting MSME base. None of the surveyed enterprises reported receiving payment on dispatch, indicating that advance arrangements are effectively absent and exporters are paid only after delivery. The most common collection period is 60 days, which, on an average, was reported by 45 per cent of firms and consistent across all size classes. Moreover, 70 per cent of surveyed firms are paid only after two months or more. At the tail, roughly 14 per cent wait six months or longer, which itself is alarming.

Figure 4: Distribution of Firms by Payment Realisation Period (%)



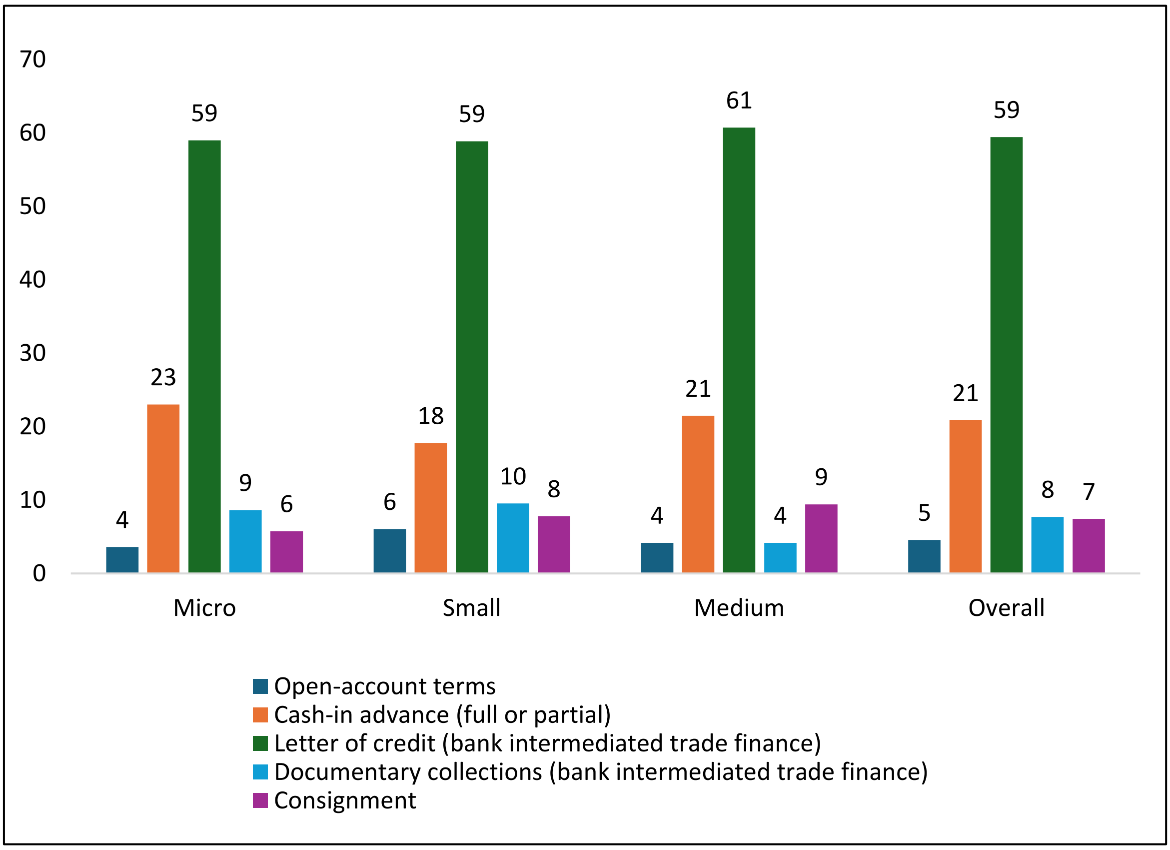
Source: ICRIER Survey of Export-oriented MSMEs, 2025.

Relatively larger firms face longer delays. These delays fall most heavily on medium enterprises, 20 per cent of which wait 180 days or more to be paid, against 13 per cent of micro and 10 per cent of small firms, likely reflecting the larger order sizes and longer buyer-credit periods that shift the financing burden onto suppliers. This affects the available working-capital for firms. Long payment delays lock up cash that would otherwise finance fresh orders, constraining firms' ability to scale and export. Without accessible receivables-based instruments such as factoring, forfaiting, or invoice discounting, these delays become a binding constraint, affecting the overall export potential of the firms, especially when these are relatively large-sized firms.

3.3 Most trade transactions are bank intermediated, and the cost of credit is high.

The survey found that most MSME exporters settle trade transactions through bank-intermediated instruments. The letter of credit is the dominant mode, used by 59 per cent of the surveyed firms and is the most common choice across all size classes (59–61%). Together with documentary collections (8%), bank-intermediated trade finance accounts for roughly two-thirds of all transactions, underscoring how heavily exporters depend on banking channels to secure payment. Cash-in-advance, in full or in part, is the next most common arrangement reported by nearly 21 per cent of all surveyed firms and is most prevalent among micro firms (23%). Open-account terms, which is the norm in modern global trade are used by only 5 per cent of firms.

Figure 5: Distribution of Firms by the Instruments used for Settling Trade Transactions (%)

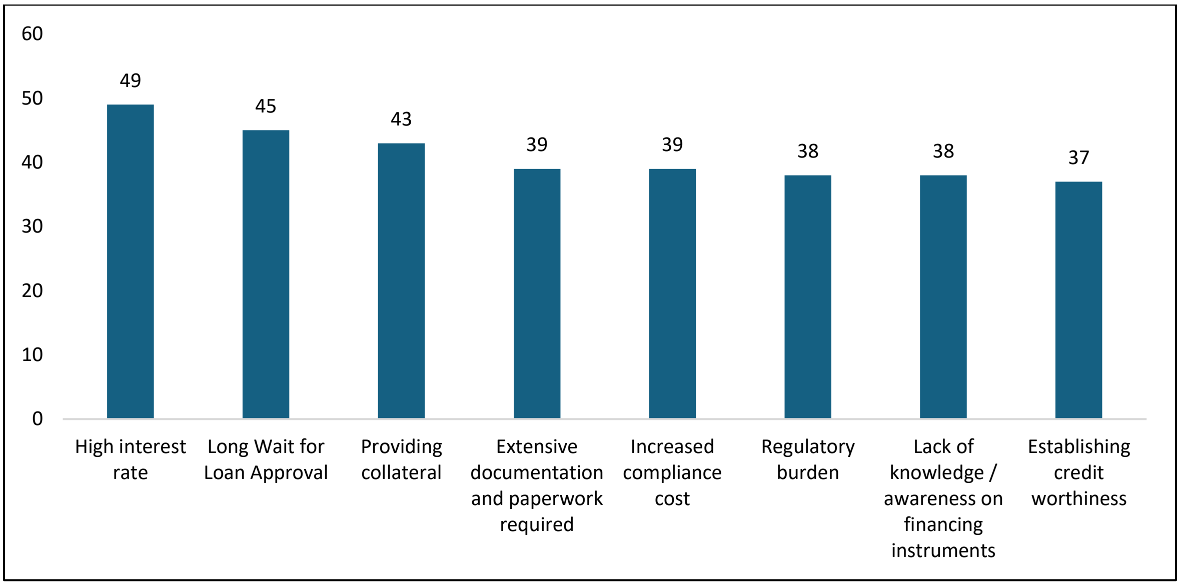


Source: ICRIER Survey of Export-oriented MSMEs, 2025.

This pattern carries two implications – heavy reliance on bank-intermediated finance and low use of open account transaction. The heavy reliance on letters of credit, which are documentation-intensive, collateral-dependent, and costly, places a disproportionate burden on smaller exporters with limited banking relationships. The near-absence of open-account trade suggests Indian MSMEs remain risk-averse and under-served by affordable receivables finance and risk-mitigation tools, which is a competitive disadvantage against exporters in markets where open-account settlement is standard.

3.4 High rates, loan waiting period and collateral requirements are some of the challenges while raising bank loan.

Figure 6: Distribution of Firms by the Key Barriers in Accessing Formal Credit (%)

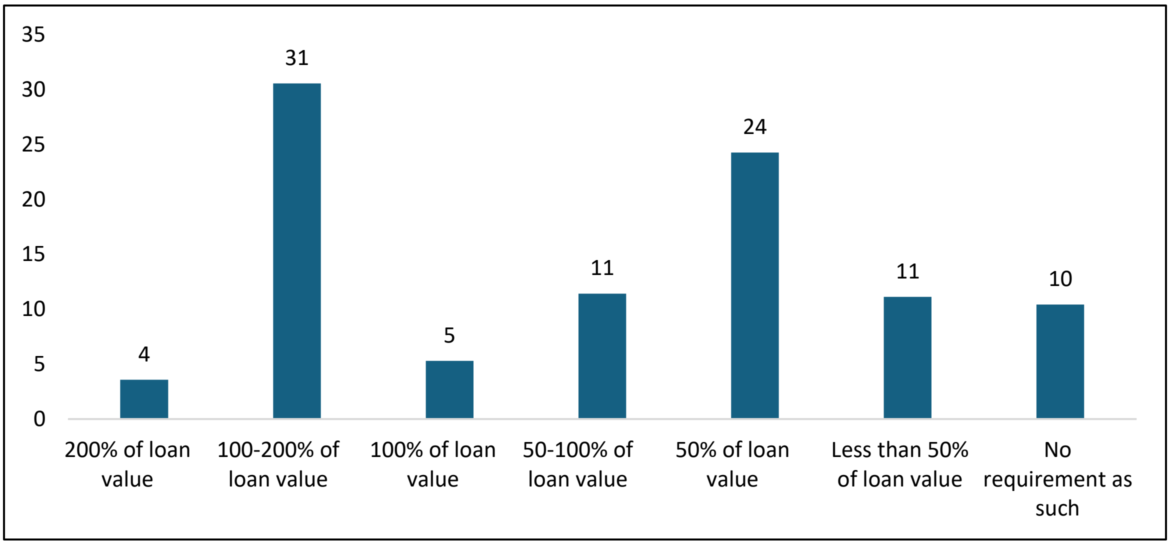


Source: ICRIER Survey of Export-oriented MSMEs, 2025.

High interest rates are the most frequently cited concern. Nearly 49 per cent of the surveyed enterprises, across all sizes reported high interests as a concern while applying for a loan. This was followed by long waits for loan approval (45%) and collateral demands (43%). A number of firms also reported process and knowledge-related barriers. Taken together, these point to the fact that cost of credit, along with the time taken to obtain it and paper work and compliance burdens, all of these are seen as a challenge, pointing to the need for a package of reforms for addressing the trade finance challenge, reported by firms. Firms with an ongoing loan were asked about the interest rates they pay. On average, these firms reported paying nearly 12.75 per cent on their bank loans, with rates ranging from a minimum of 9 per cent to a maximum of 20 per cent, and a modal value of 14 per cent.[25] More than 50 per cent of the respondents mentioned that their ability to raise external finance would have been greater if the rates were lower.

[25] Based on the 340 firms reporting an outstanding or ongoing loan at the time of the survey.

Figure 7: Distribution of Firms by Collateral Requirement (%)



Source: ICRIER Survey of Export-oriented MSMEs, 2025.

Moreover, a large percentage of surveyed firms reported that the collateral requirements exceeds the value of the loan itself. About 31 per cent of the surveyed firms reported collateral requirements of 100–200 per cent of loan value, and a further 4 per cent reported demands of 200 per cent, meaning roughly more than a third of firms are effectively over-collateralised. Only around 10 per cent of the firms across all sizes face no collateral requirement at all. For MSMEs, which are typically asset-light and lack the fixed collateral banks prefer, such requirements are a fundamental constraint. They reinforce the case for cash-flow and receivables-based lending models that reduce dependence on physical collateral.

Overall the survey indicated that the current financing requirements work against the MSMEs in general, and it affects their ability to scale up and grow. MSME exporters wait long periods to be paid, in most cases for 60 days or more, which locks up working capital and limits their ability to take on fresh orders. In principle, bank credit should bridge this gap. In practice, the barriers documented here, including high interest rates, long approval times, and above all collateral demands that frequently meet or exceed the loan value make formal credit difficult to access precisely when it is most needed. Asset-light exporters, whose main financial resource is often an unpaid invoice rather than fixed collateral, are least able to satisfy these requirements.

This results in a structural mismatch. Firms hold receivables they cannot easily borrow against, while lenders continue to price and secure credit as though those receivables did not exist. This is the gap that receivables-based trade finance is designed to close. Instruments such as factoring, forfaiting, and platform-based invoice discounting allow exporters to convert confirmed invoices into working capital ahead of payment, without pledging physical assets. Widening access to such instruments and developing instruments and principles that are designed to address MSME concerns would therefore address constraints identified in this survey. The next section details some such mechanisms.

4. Possibilities ahead: the transformative potential of India’s BRICS Presidency (2026) outcomes

India's domestic policy attention to MSME trade finance is mirrored, and reinforced, at the regional level. At the Sixteenth BRICS Trade Ministers' Meeting in Jaipur, held under India's Chairship, ministers adopted a Workplan on the Internationalisation of MSMEs that placed inadequate access to trade finance at its centre.[26] Recognising that MSME exports are disproportionately affected by financing gaps arising from higher perceived risk, lack of collateral and information asymmetries, members committed to a transition away from collateral-based lending towards more inclusive cash-flow-based credit. Two instruments give effect to this. The BRICS Guiding Principles for Credit Assessment Frameworks for Export-Oriented MSMEs assess creditworthiness from transaction-level and trade-related data rather than assets, so that firms with limited formal credit history are not excluded. The Jaipur Consensus to Study the Establishment of an Invoice Discounting Mechanism proposes a market based digital platform that would let MSME exporters convert confirmed trade receivables into immediate liquidity, drawing in banks, Non-Banking Financial Companies (NBFCs), development finance institutions, fintechs and insurers. The receivables-discounting approach runs closely parallel to India's own trade-finance infrastructure - TReDS, suggesting that domestic reform and external engagement point in the same direction.

4.1 Guiding principles for assessing MSME creditworthiness

MSME lending in India, as elsewhere, remains heavily collateral-based. This model excludes asset-light but creditworthy MSME exporters. A set of guiding principles could steer assessment away from fixed-asset collateral and towards criteria grounded in cash flows, verified trade transactions and supply-chain intelligence, drawing on alternative and increasingly digital data sources including digital receipts and payments trails, and digitised cross-border trade documents. Developed in consultation with trade and regulatory bodies, banks and industry associations, such principles would help shift MSME finance from exclusionary, collateral-based lending towards inclusive, growth-oriented credit, turning credit assessment itself into an instrument of enterprise development rather than a barrier to it.

4.2 A cross-border invoice discounting mechanism

The most direct response to the receivables squeeze documented above is a mechanism that turns confirmed export invoices into immediate cash. India already operates a proven

[26] The Chair Statement and Outcome Document for the 16th Meeting of the BRICS Trade Ministers is accessible at https://d2jiw2zrmmyqt8.cloudfront.net/wp-content/uploads/2026/08/18114422/Chairs-statement-and-Outcome-document-7-august-2026.pdf; (last accessed on 22 September, 2026.)

domestic model in the TReDS, a RBI-regulated electronic marketplace on which MSMEs, corporate buyers and financiers transact.[27] The defining feature of India's TReDs model is buyer acceptance. Once a buyer digitally confirms an invoice, it becomes a verified receivable, and financiers assess the credit risk of the buyer, who often represents a large enterprise, rather than the small supplier. Multiple financiers then bid competitively to discount the invoice, so pricing is set by auction rather than bilateral negotiation, usually yielding better spreads than traditional factoring and bank loans and the MSME receives near-immediate liquidity while the financier is repaid by the buyer at maturity.

The same logic can be extended across borders and was proposed under India's BRICS Presidency as one of the key outcomes of the Contact Group on Economic and Trade Issues (CGETI) track. Under a cross-border version, an MSME exporter would upload an export invoice onto a common digital platform; the overseas buyer would digitally confirm the liability; accredited banks, FinTechs and other financiers would competitively bid to discount it; and the exporter would receive immediate working capital. It is different from traditional factoring in the following manner:

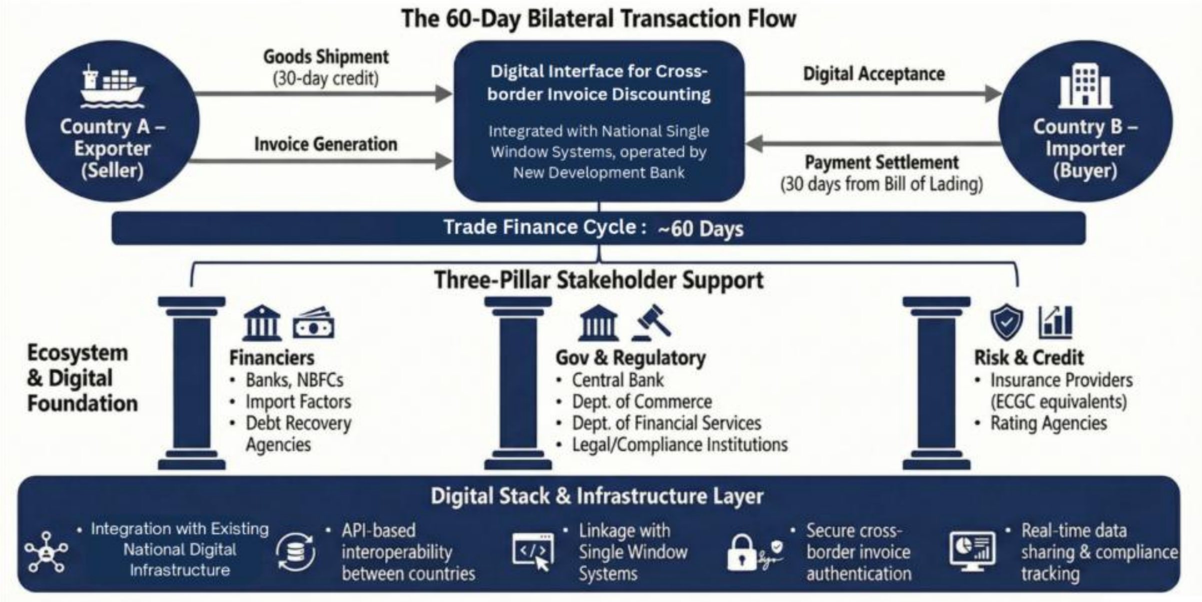
a) Traditional factoring is typically a bilateral contract between a business and a factor, which may be a bank or a specialised financial institution. The terms, including discount rates, recourse conditions and service charges, are negotiated privately. Pricing may depend on the seller's credit profile, transaction history and collateral arrangements. In contrast, TReDS operates as a multi financier electronic exchange. The presence of multiple bidders introduces price discovery through competition. Evidence from India suggests that the interest rate (or the discount rate) achieved on TReDS is significantly lower than what can be achieved through bilateral contracts. This often results in finer spreads, especially when the buyer is a highly rated corporate or public sector undertaking. The MSME benefits from the buyer's stronger credit standing rather than being penalised for its own limited balance sheet strength.

b) Another important distinction lies in transparency and standardisation. Factoring arrangements may involve customised contracts and manual documentation. TReDS transactions are governed by standardised agreements RBI oversight, with clear timelines and digital documentation. The legal enforceability of accepted receivables and the mandatory routing of payments through the platform reduce operational ambiguity.

However, making this work internationally requires additional layers that a domestic system does not, including digital trade documentation and interoperability with national banking systems, local-currency settlement arrangements, and embedded insurance that extends beyond trade-credit cover to political-risk cover. A well-functioning cross-border discounting architecture would involve multiple ecosystem players (see Figure 8).

[27] Reserve Bank of India, Trade Receivables Discounting System (TReDS) framework.

Figure 8: Framework for a Cross Border Invoice Discounting Mechanism



Source: Content drafted and compiled by the authors. Image is AI generated.

Given the risks, a phased rollout is prudent, starting with regional partners, like the BRICS countries, along with certain design safeguards such as clear dispute settlement mechanism, embedded insurance framework, interoperable access and privacy norms, and safeguards against double financing, among others.

4.3 A domestic and global ecosystem for supporting cross-border payments and discounting

On the ecosystem front, there is a need to work towards creating a sound digital architecture. India already holds most of the building blocks of a domestic digital ecosystem for trade finance. The priority is to complete and connect them. On the discounting side, the TReDS platforms should be made fully interoperable, as envisaged in the RBI's June 2026 Master Direction, so that an invoice uploaded on one exchange can draw bids from financiers on another, and progressively extended beyond domestic receivables to export bills, which currently fall outside its scope. Trade documents need to be standardised globally, and in India, the pathway has already been set through BharatTradeNet, which can serve as the federating layer, designed from the outset to interoperate with international platforms.

On the payments side, developing cross-border linkages for a fast-payment infrastructure would let exporters connect to emerging settlement rails on fair terms. Together, these measures would create the domestic foundation on which a cross-border invoice discounting mechanism could operate. Finally, an international exporter credit-rating framework – building on the India’s exporter-status classification and incorporating repayment history, delivery timeliness and buyer ratings, with turnover thresholds scaled to firm size – would let lenders direct funds towards high-potential exporters while keeping default risk low. All of this should be complemented by a sustained awareness and outreach through banks, export-promotion councils, industry federations and state trade departments, to reach micro enterprises and first-time exporters on documentation, digital literacy and use of platforms.

5. Conclusion

India's USD 2 trillion export ambition cannot be met without its MSMEs, and MSMEs cannot scale their exports without better access to trade finance. The evidence presented in this brief points to a consistent story that finance is the first constraint firms hit when they try to export, the credit they do obtain rarely covers their needs, and receivables sit illiquid precisely when working capital is scarcest. Closing this gap calls for a shift in both the instruments and architecture for trade finance and the overall assessment of MSME lending. On instruments, receivables-based finance including factoring, forfaiting and platform-based invoice discounting allows exporters to convert confirmed invoices into working capital without pledging physical assets. On assessment methods, creditworthiness must be assessed from cash flows and verified trade transactions rather than fixed collateral. The outcomes of India's 2026 BRICS Presidency give both a concrete, multilateral anchor and a starting point to develop outcomes that can be scaled to create global impact in the trade finance landscape.

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Annexure 1: Sample Characteristics

This Appendix presents a snapshot of the characteristics of the surveyed enterprises. Specifically, it provides a distribution of the surveyed enterprises by their size, nature of business, the industry they operate in and the state.

Mimicking India's enterprise landscape, a majority of the surveyed enterprises were micro in size, followed by small and medium firms (Table 1A). However, considering that all the firms were export oriented units, the size distribution was evener, as compared to the general MSME fallout.

Table 1A: Distribution of Enterprises by Size (in percentage)

Size	Overall
Micro	40
Small	33
Medium	27

A majority of the surveyed enterprises are manufacturers (80%) and a relatively smaller percentage are merchant exporters. Within the MSME categories, there is a relatively larger percentage of manufacturers amongst small-size enterprises (84%) compared to medium and micro-sized enterprises (Table 1B).

Table 1B: Distribution of Enterprises by their Type and Size (in percentage)

Type of Enterprise	Overall	Micro	Small	Medium
Manufacturer	80.4	76.3	84.0	82.2
Merchant Exporter	19.6	23.7	16.0	17.8

Out of the total sample, a majority of the firms are in engineering and metal products segment, followed by consumer electronics, chemical and pharmaceutical products and retail and wholesale trade, amongst others (see Table 1C).

Table 1C: Distribution of Enterprises by Industry (numbers and percentage)

Industry	Number	Percentage
Auto components	16	2.3
Ceramics and allied products	20	2.9
Chemicals and pharmaceutical	68	9.7
Coir, yarn and jute manufacturers	6	0.9
Consumer electronics	82	11.7
Cosmetics, toiletries, leather goods and footwear	30	4.3
Engineering and metal products	116	16.6
Fabrics of all types	23	3.3
Gems and jewellery	21	3.0
Handicrafts, handmade carpet and handloom	60	8.6

Industry	Number	Percentage
Machinery and equipment	27	3.9
Medical and scientific instruments	12	1.7
Plastic Products	20	2.9
Processed agriculture/food items	54	7.7
Readymade garments and textiles	48	6.9
Retail and Wholesale Trading	63	9.0
Toys, and sports goods	34	4.9
Total	700	100.0

While sole proprietorship remains the most common form of incorporation among MSMEs overall, a higher percentage of medium sized enterprises are incorporated as private limited companies (see Table 1D).

Table 1D: Distribution of Firms by their Incorporation (in percentage)

Incorporation	Overall	Micro	Small	Medium
Sole proprietorship	47	55	44	40
Partnership	15	18	16	10
Cooperative Societies	0	0	0	1
Private Limited Company	37	27	40	49

The survey covered about 10 states and 16 MSME clusters, across India. A majority of the enterprises were located in Gujarat (16%), followed by Karnataka (15.9%), Uttar Pradesh (12.3%) and Tamil Nadu (11%) (see Table 1E).

Table 1E: Distribution of Firms by States (in percentage)

States	Total
Delhi/NCR	7.6
Gujarat	16.0
Karnataka	15.9
Kerala	4.9
Maharashtra	8.7
Punjab	6.6
Rajasthan	10.3
Tamil Nadu	11.0
Uttar Pradesh	12.3
West Bengal	6.9

Indian Council for Research on International Economic Relations (ICRIER)

Our Offices:
4th Floor, Core 6A, India Habitat Centre, Lodhi Road, New Delhi-110003
The Isher Building, Plot No. 16-17, Pushp Vihar, Institutional Area, Sector 6, New Delhi-110017

O: +91 11 43112400, **F**: +91 11 24620180 | **W:** www.icrier.org | **E:** info@icrier.res.in