# Study on Trade Finance Ecosystem in India

Directorate General of Foreign Trade | Ministry of Commerce & Industry

# Contents

# Executive Summary

India's ambition to achieve USD1 Tn in merchandise exports and $1 Tn in services exports by 2030 underscores the need for strategic improvements in the country's trade ecosystem, including its physical, digital, and trade finance infrastructure. While India has a well-established network of financial institutions, such as the EXIM Bank, ECGC, and various commercial banks under the oversight of the RBI, there remain challenges in providing businesses especially MSMEs with accessible and affordable trade finance. Addressing these challenges is essential to propel India's export growth.

The trade finance sector, though robust, presents specific areas for enhancement, particularly in the availability and accessibility of instruments like factoring and supply chain finance. Limited access to such tools can hinder the growth potential of businesses aiming to scale internationally. For exporters, particularly MSMEs, constraints often arise from limited creditworthiness, high interest rates, inadequate credit history, and insufficient collateral. These obstacles can restrict their ability to secure the level of financing required for global trade.

On the other side, financial institutions face inherent risks in offering export credit, including buyer defaults, fraud, currency fluctuations, and political risks in importing countries. These factors can impact the profitability of banks and financial institutions providing such credit. However, with innovative solutions and risk-mitigation tools, these challenges are increasingly surmountable. Adopting trade credit insurance, utilizing cash flow-based lending models, digitalizing trade documentation, and promoting non-traditional instruments like factoring and forfaiting can greatly enhance the resilience and appeal of India's trade finance market.

A positive step forward is evident in the increasing issuance of export credit in India, with approximately 28% of exports in 2023 being supported through such credit. While most of this support (75%) is issued in INR and 25% in foreign currency. Export credit features in India's priority sector lending scheme, even though the current incremental target for such lending is limited to 2% of ANBC or CEOBE of banks, as compared to the previous year. The insurance landscape within the trade credit ecosystem is led by ECGC, which holds a 70% market share and provides critical protection against payment defaults, particularly in the form of ECIB. The predominance of ECGC policies is, in part, due to the lack of capital relief on policies issued by private insurers, which discourages banks and exporters from leveraging them.

In the factoring market, India has the potential to grow significantly, especially when compared to other major economies such as Netherlands and Japan. Presently, India has 11 companies providing factoring services, compared to 30 in Italy and 20 in Russia. In 2023, domestic factoring constituted 94% of India's total factoring volume, with cross-border factoring representing around 6%. India currently holds a modest 0.14% share of the global factoring market, indicating substantial growth potential.

Enhancing trade finance infrastructure in India through greater participation in export credit schemes, capital relief for private insurance providers, expansion of factoring services, and adoption of technology-driven solutions will be instrumental in supporting India's 2030 export aspirations. By fortifying these foundations, India is well-positioned to strengthen its role in the global economy, foster MSME growth, and achieve its ambitious trade targets.

On the above note, with an aim to develop deeper understanding of the current trade finance ecosystem in India and identify the challenges that remain despite making considerable efforts to eradicate them. This study aims to achieve (1) Assessing the current ecosystem of trade finance in India, (2) Understand the role of financial institutions such as commercial banks, private sector firms, factoring companies, and identify gaps and challenges in meeting the financing needs of businesses engaged in international trade (3) Analyze the impact of emerging technologies such as blockchain, artificial intelligence, and digital platforms on the trade finance ecosystem in India (4) Benchmark global best practices in trade finance and finally recommend possible solutions to over the challenges of trade finance activities in India.

The study provides a comprehensive understanding of India's trade finance ecosystem, identifying key challenges and proposing actionable solutions to address them. Implementing these recommendations will strengthen the trade finance framework, empower MSMEs, and support the achievement of India's ambitious export objectives. The findings serve as a valuable resource for policymakers, equipping them with the insights needed to make informed decisions that benefit all stakeholders in the country's trade finance landscape.

# Overview

- About Trade Finance Study
  Directorate General of Foreign Trade (DGFT) under Ministry of Commerce and Industry (MoCI) has conducted a study on Trade Finance Ecosystem in India. The study focuses on identifying the key challenges faced by exporters especially MSMEs and small e-commerce players towards accessing the affordable export credit in India.

- Scope/ components of Study
  The Study is comprised of following three milestones
  a) Milestone 1 - Physical and Financial Supply Chain Analysis, Data Analysis and Validation and Literature Review of Global Leading Practices
  b) Milestone 2 - Regulatory and Policy Support Analysis and a way forward, Trade Financing and Risk Management Analysis and Future of Trade Analysis
  c) Milestone 3 - Recommendations and design the implementation roadmap and organise capacity building programs

- Methodology of study
  The Study has following phases
  a) As-Is assessment
  b) Benchmarking global leading practices
  c) Stakeholder consultation and capacity building workshops
  d) Recommendations and way ahead - implementation roadmap

# Global Perspective

## Historical view: A visual timeline of international trade finance

Back at the dawn of recorded history, when merchants began making their first forays into far-off markets, they needed working capital to fund their trading activities. This gave rise to trade finance, a catch-all term describing financial strategies that aim to help international commerce thrive. As civilization advanced, global trade and its financing co-evolved, with progress in one fuelling developments in the other. [1]Below is the timeline recording the development of Trade Finance ecosystem over the years:

- **3000 BC** - LC and Promissory notes emerge in Mesopotamia
- **300 BC** - Romans developed a robust banking system

[1] A visual timeline of international trade finance, JP Morgan, https://www.jpmorgan.com/payments/payments-unbound/magazine/articles/visual-timeline-international-trade-finance

- **1694** - Establishment of Bank of England
- **1760s** - Industrial Revolution phase; global trade evolved
- **1821** - International gold based monetary system. UK tied British Pound to a specific quantity of gold. Treated as an international gold standard.
- **1919** - First formal Export Credit Agency was formed in UK (post WW1)
- **1944** - IMF and World Bank established. USD was tied to gold and other countries (44) tied to USD. New international monetary system set up. Bretton woods conference and agreement
- **1947** - General Agreement on Tariff and Trade signed by 22 countries. Objective was to reduce trade barriers and promote international trade (post WW2)
- **1980s-1990s** - Surge in open Account Trading. Traditional risk mitigation instruments such as LC began to decline in favour of trade on Open Account terms where goods were delivered before payment was made. Emergence of major trading hubs in Singapore and Hong Kong
- **2000s** - Supply Chain Finance emerged
- **2017** - UNCITRAL MLETR was established for digitalisation of trade documents. UK along with other countries passed their laws towards adoption of MLETR
- **2024** (present) - Machine learning era
- **2030s-2040s** (Future) - Smart contracts, programmable payments, digital record keeping and document verification.

[2]Global trade finance gap grew to a record $2.5 trillion in 2022 from $1.7 trillion two years earlier, as rising interest rates, flagging economic prospects, inflation, and geopolitical volatility reduced the capacity of banks to deliver trade financing, according to the 2023 Trade Finance Gaps, Growth and Jobs Survey released by ADB.

Companies identified access to financing as a major challenge for trade. Digitalization of global trade can reduce the gap, facilitate transparency, and underpin a greater ability to monitor environmental and social standards, but is held back by a lack of harmonized standards for electronic documents and related legislation recognizing electronic trade documents.

Of the banks surveyed, 80% view sustainable financing as an opportunity and anticipate a surge in demand for related products and advisory services. Progress on sustainability is impeded by a lack of harmonized standards and data collection, along with reporting mechanisms to demonstrate compliance.

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[2] Global Trade Finance Gap, ADB, https://www.adb.org/news/global-trade-finance-gap-expands-25-trillion-2022

More than 70% Exporters and 60% Banks/ financial Institutions considered following to be major challenges/ roadblocks towards rejection of trade finance applications 1) lack of knowledge about Trade Finance Instruments, market intelligence, 2) inability to fulfil documentation requirements, 3) Lack of capacity/ Skills to perform trade finance operations efficiently.

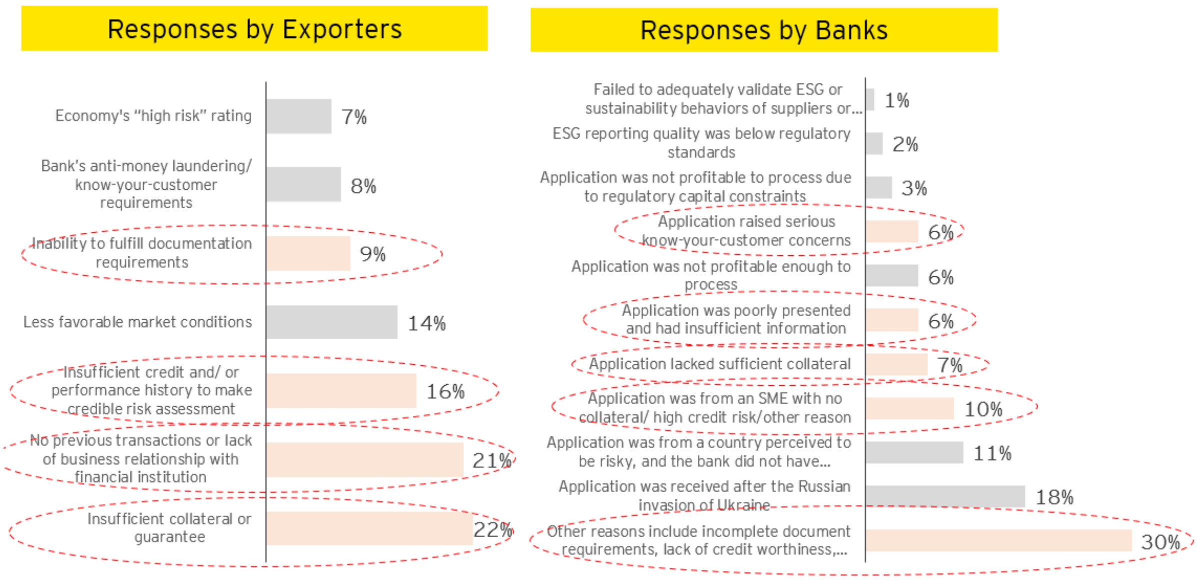


*Figure 1 Key Challenges/ Reasons for rejection of Trade Finance Applications*

For the first time, the 2023 trade gaps survey focuses on environmental, social, and governance (ESG) issues, along with digitalization, in a bid to assess their impact on relevant supply chains and the trade finance gap. Most of the banks and companies that took part in the survey believe that ESG alignment could potentially help reduce the trade financing gap.

As a part of recommendations, emphasis has been on a) Increase trade financing capacity through SME-targeted credit processes, deep-tier supply chain finance, and the attraction of pools of new capital, b) Integrate trade financing into crisis response programs, c) Advance the global agenda around digitalization of trade, focusing on standards harmonization, commercial adoption, legislation, and policy, and d) Harmonize sustainability standards and enhance related data collection and reporting mechanisms.

## Trade Finance Scenario across leading countries

**Benchmarking: Trade Finance Ecosystem - India vs Global**

| | India | China | UK | Japan | S. Korea | Malaysia |
|---|---|---|---|---|---|---|
| **Total Exports** | $762.1 Bn | $3,759.6 Bn | $1,000 Bn | $924.2 Bn | $ 754.9 Bn | $ 355.4 Bn |
| Merchandise | $437.1 Bn | $3,380 Bn | $520.6 Bn | $717.3 Bn | $ 632.2 Bn | $ 312.8 Bn |
| Services | $325 Bn | $379.6 Bn | $479.4 Bn | $206.9 Bn | $ 122.7 Bn | $ 42.6 Bn |
| **Export Credit** | $122 Bn<br>*27.9%* | **$1,183 Bn***<br>*35.0%* | **$280 Bn**<br>*53.8%* | **$179.3 Bn***<br>*25.0%* | **$188.72 Bn***<br>*29.9%* | **$40.66 Bn***<br>*13%* |
| **Trade Credit Insurance** | *$60 Bn<br>*13.7%* | **$780.7 Bn**<br>*23.1%* | **$225 Bn**<br>*43.2%* | **$54.5 Bn**<br>*7.6%* | **$ 165.6 Bn**<br>*26.2%* | **$3.1 Bn**<br>*1%* |
| **Cross-border Factoring Volume** | $1.1 Bn<br>*0.3%* | **$127.46 Bn**<br>*3.8%* | **$25 Bn**<br>*4.8%* | **$1.80 Bn**<br>*0.3%* | **$10.23 Bn**<br>*1.6%* | **$0.07 Bn**<br>*0.02%* |

*(Share as a % of Merchandise Exports)* *As on 14 Oct '24* *Source: RBI , ECGC , IRDAI , FCI , WTO , ECIC , K-Sure,*

*Figure 2 Benchmarking with Leading Countries*

- Vietnam's Merchandise Exports- $353.8 Bn
  Export Credit* - $74.3 Bn
  Export Credit Insurance* - $7.1 Bn

In 2022, Vietnamese banks supported only 21% of the country's total merchandise trade of $731 billion[3] resulting in total export-import credit of $153.51 billion. This suggests that a similar percentage is maintained or adjusted slightly for 2023, especially as there are no significant changes in government policies, economic conditions, or the banking sector's capacity to support exports. Basis this, we are estimating the export credit at 21% of merchandise exports for 2023.

The export insurance market in Vietnam is still in its nascent stages. This means that while there is growing recognition of its importance in mitigating risks associated with international trade, the range of available products and services is limited compared to more developed markets, though certain sectors such as tea and rubber have started implementing their own industry-specific programs via business associations.

[3] Enhancing local trade finance in Việt Nam could lead to a $55 billion annual boost in trade, Enhancing local trade finance in Việt Nam could lead to a $55 billion annual boost in trade

Bao Viet, a state-run insurance company that plays a dominant role in the market[4], provides export insurance services but still hasn't been able to expand its coverage for the export-import credit, loans, guarantees etc. resulting in the estimation of export credit insurance at 2% of merchandise exports.

- South Korea's Merchandise Exports- $632.2 Bn
  Export Credit*- $188.72 Bn
  Export Credit Insurance- $165.6 Bn

The Export credit is estimated to be at 25% of merchandise exports.
South Korea's two primary export credit agencies, the Export-Import Bank of Korea (KEXIM) and the Korea Trade Insurance Corporation (K-Sure), have played a significant role in supporting the country's export sector.

KEXIM has extended export credit of $57.5 billion[5] , which contributes significantly to the overall export credit coverage in South Korea.

K-Sure has provided export credit of $3.4 billion and export credit insurance of $165.6 billion , which helps to mitigate risks for Korean exporters and encourages them to expand their international operations.

- Japan's Merchandise Exports- $717.3 Bn
  Export Credit*- $179.33 Bn
  Export Credit Insurance- $54.46 Bn[6]

Japan is mostly inclined to its Overseas investment loan which is evident with the fact that Japan's JBIC (Japan Bank for International Cooperation), a policy-based financial institution of Japan that conducts lending, investment and guarantee operations while complementing the private sector financial institutions, has 80% of its portfolio with Overseas Investment loan, 10% as Import Loans and 2% as Export Loans[7]. The Export credit is estimated to be at 25% of Japan's merchandise exports.

Japan's emphasis on overseas investment loans over export loans can be attributed to several factors:

- Economic Maturity: As a developed economy with a strong domestic market, Japan may have less reliance on exports to drive growth.

[4] Export Insurance & Credit, Import & Export in Vietnam (2023): Trade Policies & Regulation - OOSGA
[5] Korea Exim Bank, Annual Report, https://tradefinanceglobal.com/wp-content/uploads/2024/04/KOREA-EXIM-BANK-2022-Annual-Report.pdf
[6] Nippon Export & Investment Insurance, nexi.go.jp/corporate/booklet/pdf/annual2023-e.pdf
[7] Japan Bank for International Cooperation

- Global Business Presence: Japanese companies have a strong global footprint, making them more focused on expanding their overseas operations and investments.
  - Risk Management: Overseas investment loans, while carrying higher risks, can also offer potentially higher returns. JBIC have developed strategies to manage these risks and ensure the profitability of its investment portfolio.

- **China's Merchandise Exports- $3,380 Bn**
  **Export Credit*- $1,183 Bn**
  **Export Credit Insurance- $780.7 Bn**[8]

The export credit for China is estimated at 35% considering China being an export powerhouse. This estimation is based on several other factors too like China's policy banks, including China Eximbank, Sinosure, China Development Bank, and China Agricultural Development Bank, have played a crucial role in providing export credit financing to Chinese exporters[9]. These banks have been instrumental in supporting China's export-oriented economic development by offering competitive financing terms, risk mitigation, and other incentives.

Also, export credit given by China EXIM amounted to $115.2 Bn[10] and that of Sinosure amounted to $214.3 Bn[11] resulting in total of $329.5 Bn indicating that Chinese banks are proactive in providing export financing.

Compared to other countries, China's policy banks have provided a significantly larger amount of export credit financing. This is due to several factors:

- Government Support: These banks are directly or indirectly owned by the Chinese government, which provides them with substantial financial resources and policy support
- Export-Oriented Focus: The policy banks have a strong mandate to support China's export sector, and they have actively pursued this goal through their lending activities

[8] China Export & Credit Insurance Corporation – Sinosure, sinosure.com.cn/en/images/information/report/2024/08/12/12162227ED8BC9F7777B57DD52EBC87B42CB8025.pdf
[9] Export finance activities by the Chinese government, Export finance activities by the Chinese government | ODI: Think change
[10] China's Exim bank, Annual Report, english.eximbank.gov.cn/News/AnnualR/2023/202404/P020240429559443555227.pdf
[11] China Export & Credit Insurance Corporation – Sinosure, https://www.sinosure.com.cn/en/images/information/report/2024/08/12/12162227ED8BC9F7777B57DD52EBC87B42CB8025.pdf

- Risk Appetite: These banks often have a higher risk appetite than commercial banks, allowing them to provide financing to exporters in higher-risk sectors or regions

- South Africa's Merchandise Exports- $110.8 Bn
  Export Credit*- $30.58 Bn
  Export Credit Insurance- $0.5 Bn

In 2019, 53% of Bank-intermediated trade finance (Funded asset) is as a share of total African trade and 46% of total funded assets are via pre and post shipment.[12]

Since, the bank-intermediated trade finance has been on a growing trend from past 10 years, estimating the bank- intermediated trade finance for 2023 to stand at 60% of total trade and export credit of 46% has been consistent over the years so, keeping it as 46% for the current year:

**$110.8 bn x 60% = $66.48 bn (Total funded asset)**

Total export credit provided (Pre + Post shipment finance) - $66.48 bn x 46% = $30.58 bn

South Africa has underperformed in terms of exports relative to its peers over the past two decades. South Africa's exports have expanded more slowly than the overall economy and remain highly concentrated in a few products and markets. While exports to African markets have grown, they are constrained by tariffs and logistics barriers. Exports have been dominated by a few large firms, with limited entry for new players. Increasing transport and logistical costs have negatively impacted its export competitiveness. Also, the current policy focus on promoting local industries hinders export performance.

[13]The low value of export credit in South Africa is partly attributed to the fact that approximately 50% of total exports is in minerals, fuels, stone, gems that do not require export credit. This suggests that these sectors have a relatively low need for external financing to support their exports.

Moreover, one of the primary challenges facing export credit in South Africa is the low uptake of short-term transactions. This is primarily due to the reluctance of banks to provide support to small and medium enterprises (SMEs), especially

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[12] AfDB, https://www.afdb.org/en/documents/trade-finance-africa-trends-over-past-decade-and-opportunities-ahead
[13] Unlocking South Africa's Potential, World Bank, World Bank Document

through bond products that are often required to execute contracts. This lack of support from banks has limited the availability of short-term export credit options.

Trade credit insurance is a crucial product that can drive short-term insurance business. However, the Export Credit Insurance Corporation (ECIC) has not offered this product until recently. The development and eventual introduction of trade credit insurance are expected to significantly increase ECIC's short-term exposure and provide much-needed support to South African exporters.

*Note: a) The estimations for the countries' export credit compared to merchandise exports was made after consulting with global stakeholders and leveraging the limited data available on the public platform and b) Export Credit consists of Pre-shipment and post-shipment data only, c) '*' Estimated Figures*

# India Perspective – Key Pillars of Trade Finance Study

## Historical view of Trade Finance existence

The origin of trade finance in India goes back to the Mauryan Empire days. Historically, India has been a trading nation and trade finance has acted as a lubricant for all these centuries, both in North and South India, spanning the GT Road, Silk Route, and sea trade to ASEAN and Africa. The system of trade finance in India evolved over centuries with trade finance instruments such as hundis, which are in many ways similar to the trade finance instruments in practice today.

For example, the Darshani hundi is similar in concept to an at-sight obligation. Darshan itself means "darshan hone par," which is literally at sight. Similarly, Jokham hundis were designed to factor in the risks associated with the transportation of goods, particularly in maritime trade, and are analogous to contemporary trade finance instruments that include risk assessments and insurance features. Muddati hundis were used for transactions requiring credit extended over a period, much like today's usance letters of credit, where payment is deferred to a predetermined future date.

Looking at the other countries, Chinese Fei-Qian (flying money) system that was similar to our aangadiya system, the suftaja and hawala of the Islamic world, the bills of exchange, and other banking systems of the Jews of Europe, among others, were such systems. However, the trust in this system was based on faith in close-knit communities and their members, such as Jews or the Marwaris. There was low trust in members from outside the network. This was the great limitation of how much this trade finance system could develop.

The first revolution in trade finance started happening when the rule of law began to prevail in society – starting with the Magna Carta, the Renaissance era, and industrialization. This led to the creation of wider networks because instruments backed by contracts were now enforceable in the courts, ultimately leading to the creation of formal banking systems and a high-trust ecosystem backed by institutions such as government and courts.

This led to formalization, which engulfed the traditional instruments such as Hundis, which were, in a way, formalized in the banking system by the British, who accepted Hundis and discounted them too. The Negotiable Instruments Act of 1881 is a key milestone in this regard. The apex of the first revolution in trade finance was through the Uniform Customs and Practices during the 1930s, which standardized the letter of credit system for international trade, following which this mode of trade finance proliferated.

This further got a fillip after the world of trade accelerated significantly through containerization starting from the decade of the '60s. Financial globalization followed the containerization wave, and financial innovations grew until the global financial crisis, which made people question the underlying assumptions for developing needless instruments for secondary markets based on the trust of enforcement. Fortunately, trade finance survived without much harm as underlying risks were factored in into the instrument most of the time.

This brings us to today's era, where we are now staring at the next big revolution in trade finance, which would be based on trust in a digital system – based on paperless transactions and digital smart contracts that cannot be hacked or manipulated easily and are backed by institutions and courts.14

[15]According to the Global Findex Database 2021, only 35 percent of adults had a bank account as recently as 2011, highlighting the long-standing barriers to financial access. The Reserve Bank of India's (RBI) Financial Inclusion Index (FI-Index) reflects gradual improvements, rising from 56.4 in 2021 to 64.2 in March 2024. This persistent gap underscores the urgent need for alternative credit scoring models that can democratise access to financial services for those currently excluded from formal banking systems.

MSME credit penetration is just 14% in India compared with 50% in the US and 37% in China. There is a credit gap of INR 25 trillion for the Indian MSME sector, reflecting

[14] Voice of Industry, Blog by Shri Tirumala KV, https://www.indianwesterlies.com/2024/05/Trade%20Finance%20for%20Inclusive%20Growth%20%20speech.html

[15] Global Findex Database, https://www.orfonline.org/expert-speak/beyond-credit-scores-redefining-creditworthiness-for-financial-empowerment

the large untapped credit market. [16]According to FIEO, there is a decline of 5% in export credit between March 2022 (INR 2,27,452 crore) and March 2024 (INR 2,17,406 crore).

# Export Credit

## Current Scenario

The average quarterly outstanding export credit for the period of April 2022 to March 2024 was $18.75 billion. Exchange rate used – Annual average exchange rate – 82.7897**).

Basis EY's Interactions with 5 leading private and PSU banks the average payment cycle for export packing credit is 75 days (The banks consulted are SBI, ICICI bank, Kotak Mahindra Bank, HDFC Bank, Axis bank, Bank of Baroda which covers 58.4% of Indian Banking industry).

Based on the average quarterly outstanding and a 4.88 payment cycles, the total packing credit or pre-shipment credit disbursed was $91.5 billion.

Basis EY's Interactions with 5 leading private and PSU banks the ratio of Pre-shipment credit to post shipment credit excluding the loans which are converted from pre-shipment to post-shipment is 75:25 (Banks consulted – SBI, ICICI bank, Kotak Mahindra Bank, HDFC Bank, Axis bank, Bank of Baroda which covers 58.4% of Indian Banking industry).

Considering the 75:25 ratio of pre-shipment to post-shipment credit, the total post-shipment credit disbursed (excluding converted loans) was $30.5 billion.
The combined total of pre-shipment and post-shipment credit was approximately [17]$122 billion.

- Total Pre-shipment Credit:
    - Average quarterly outstanding: $18.75 billion
    - Number of payment cycles: 4.88
    - Total pre-shipment credit: $18.75 billion * 4.88 = $91.5 billion

[16] Update from FIEO, coverage by The Hindu, https://www.thehindu.com/business/high-interest-rates-declining-export-finance-impacting-exporters-competitiveness-ciis-budhia/article69055142.ece
[17] Reserve Bank of India, Table No 2.6 Type of account and interest rate range-wise classification of outstanding loans and advances of scheduled commercial banks - Web Intelligence (rbi.org.in), https://data.rbi.org.in/BOE/OpenDocument/2409211840/OpenDocument/appService.do?service=error

- Total Post-shipment Credit:
  - Ratio of pre-shipment to post-shipment: 75:25
  - Post-shipment credit: $91.5 billion / 0.75 - $91.5 billion = $30.5 billion
- Total Export Credit:
  - Pre-shipment credit: $91.5 billion
  - Post-shipment credit: $30.5 billion
  - Total export credit: $91.5 billion + $30.5 billion = $122 billion

## Export Credit under Priority Sector Lending

Export credit is also categorised as priority sector under the PSL scheme. However, due to several challenges, export credit extended under the PSL has been limited. In 2023-24, only USD 1.4 Bn in export credit was provided under the PSL, compared to USD 2.6 Bn in 2022-23, marking a 86% decrease.

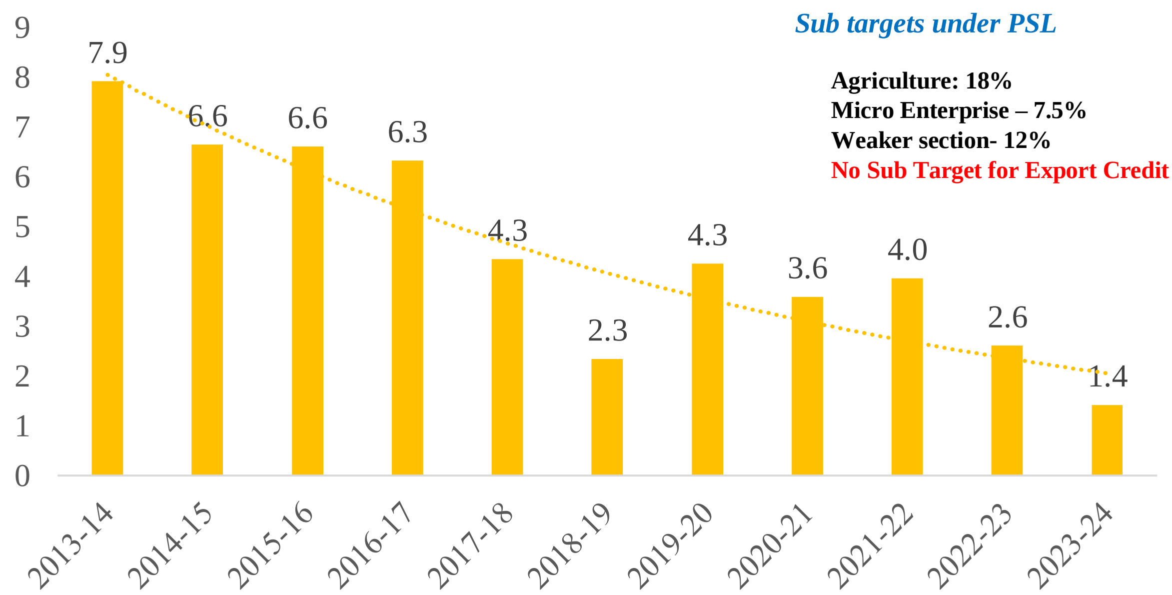


*Figure 3 Export credit extended in India under PSL (USD Bn) **

### Challenges of export credit in India under PSL

1. There is no sub-target available for export credit under PSL.
2. Guidelines suggest only incremental export credit to be considered for PSL target.

3. There is upper cap of 2% of banks' ANBC or CEOBE whichever is higher in case of allocating export credit.[18]

4. MSMEs are required to pledge collaterals for availing export credit under PSL.

### Recommendation to boost export credit under PSL

1. Assign sub target for export credit under PSL.

2. Remove existing upper cap for export credit under PSL.

3. Allow absolute values of Export Credit (instead of incremental) for accounting under PSL.

4. Allow special benefits/ advantage to top 100 districts identified under Districts & Export Hubs Scheme: assigning sub-targets to support exporters in these districts.

5. Financing be made accessible once customs formalities are completed, specifically upon the issuance of the Let Export Order (LEO). This is particularly because financing based on bill of lading takes more than 30 days.

### Key Challenges in Export Credit

1. Low creditworthiness of Indian exporters leading to rejection in applications. 40% of export credit applications by MSME exporters were rejected due their inability to their poor credit worthiness.[19]

2. High collateral requirement (100-150%) due to high presumed risk with small exporters

3. ICRIER survey finds that out of a total 1525 enterprises 20% have availed collateral free loan in 2023.

4. Risk associated with MSME exporter/ first timer applicants is 50%-80% higher vis-à-vis large exporter.

5. 30-45 days waiting period in issuance of Bill of Lading leading to delay in post shipment credit.[20]

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[18] *Adjusted Net Bank Credit (ANBC) is the net banking credit after taking into account bill discounting, non-SLR securities and other exemption via long-term bonds. Credit Equivalent of Off-Balance Sheet Exposure (CEOBE) is a calculation used by banks to determine the amount of credit extended to borrowers for eligible priority sector activities. See RBI guidelines on PSL available at: https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11959 Accessed on 12 September 2024*

[19] *Data shared by EXIM Bank at the stakeholder meeting held at the Vanijya Bhavan New Delhi on 14th October*

[20] *Information shared by SBI global factoring at the at the stakeholder meeting at the Vanijya Bhavan New Delhi on 14th October 2024*

6. High interest rate 9-12% charged by Banks/ NBFCs (6.5% repo + 3-6%); 2-3% relief under Interest Equalisation Scheme (IES).

7. MSMEs are often perceived as higher risk due to their inability to pledge adequate collateral, limited financial history, fluctuating revenues, and vulnerability to market changes, hence banks are averse to extending credit to the MSME sector. Credit offtake is low among corporates

## Global Leading Practices- Key Takeaways

1. Hong Kong Export Credit Insurance Corporation (HKECIC) and FundPark, utilizes real-time operational data from prominent e-commerce platforms to evaluate the risk of non-payment.[21]
2. This centralized database allows financial institutions to access detailed credit histories, enabling them to more accurately assess the risk of lending to individuals and businesses. By providing insights into borrowers' repayment behaviours and creditworthiness, CIC helps reduce default rates, supports responsible lending practices, and enhances overall financial stability.[22]
3. **Union Bank of Philippines p**artnered with Aboitiz Data Innovation (fintech) uses AI for alternative credit scoring, expanding access to loans for Filipinos, especially the unbanked and underbanked. It benefits a broader range of individuals and small businesses to qualify for a loan from an expanded pool of the lending community, all while improving customer experience by reducing friction.[23]
4. United Nations Development Programme (UNDP) and the Monetary Authority of Singapore (MAS) are working to develop a global standard for MSME creditworthiness assessment, using data-driven methods to create an individual data profile called Universal Trusted Credential (UTC).

## Recommendations

1. Launch a Pre-shipment loans without collateral scheme for MSME and e-commerce exporters.[24] In line with Credit Guarantee Fund Trust for Micro and

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*[21] Thomson, F (October 22, 2024) HSBC to expand e-commerce financing in Hong Kong. Global Trade review. Available at: https://www.gtreview.com/news/asia/hsbc-to-expand-e-commerce-financing-in-hong-kong/ Accessed on 10 November 2024.*

*[22] VCCI (2006). Business Issues Bulletin, No2, Vol.12, Vietnam Chambers of Commerce and Industry, Available at: https://documents1.worldbank.org/curated/pt/917141468339061330/pdf/368390VN0Priva10BIB1151VN101PUBLIC1.pdf*

*[23] UNX (June 10, 2023). UBX beefs up lending platform Seek Cap with AI technology. Available at: https://ubx.ph/press/ubx-beefs-up-lending-platform-seekcap-with-ai-technology/ Accessed on 5th November 2024*

*[24] Need for collateral free loan scheme can be understood from the findings of the survey conducted by ICRIER where (1525 enterprises) 97% of the surveyed enterprises, the loan meets less than 75% of the total requirement and for 80% of the MSMEs meets less than 50% of the loan requirement*

Small Enterprises (CGTMSE), there can be a collateral free export credit loan scheme where government may bear risk of the financial institutions extending the export credit under this scheme. This will help small exporters with limited capacity to pledge collaterals in securing export credit.

2. Launch a dedicated Interest subvention scheme for providing relief to MSME exporters.[25] Although India already has an interest subvention scheme in place but due to its larger scope and strict documentation requirement many small exporters face difficulty in availing the benefit of the scheme.

3. Financial institutions may be encouraged to adopt the practice of Open Banking & Account Aggregator Framework and facilitate cash flow-based lending. Financial institutions may extend credit based on the cash flow of the firms and also use alternative information such as their number of customers, order book to assess their credit worthiness.[26]

4. Building a creditworthiness index (similar to CIBIL) in collaboration with industry stakeholders. Alternative data like value of inventories, no of customers and their profile, no of employees can be used to assess the creditworthiness of the exporters.

5. Revamp of status holder certificate 2.0, offering improved recognition and benefits for exporters. The status holder certificate recognizes large Indian exporters who have excelled in international trade and made significant contributions to the country's foreign exchange earnings. This scheme may be modified considering the requirements of the small exporters.

6. Leveraging Central Bank Digital Currencies (CBDC) in Trade Finance via Smart Contracts to enable seamless trade transactions by automatically converting the buyer's currency to the sellers at the prevailing exchange rate.

# Trade Credit Insurance

## Current Scenario

Trade Credit Insurance (TCI) serves as protection against the risk of non-payment, making it a vital risk management tool for businesses with accounts receivable. It is often required by banks, lenders, or investors in supply chain financing (SCF) transactions. Trade credit Insurance is carried out by Export Credit Agencies (ECAs).

[25] *As per the ICRIER survey, more than 60% of the surveyed enterprises are paying more than 10% interest rate on their ongoing loan and about 35% are paying more than 15% interest.*

[26] *An account aggregator (AA) is a non-bank financial company (NBFC) that collects and provides access to a customer's financial information. AAs act as a conduit between financial information providers (FIPs) and financial information users (FIUs), allowing customers to securely share their financial information with other financial institutions*

In India, the key ECA is ECGC Limited, a wholly government-owned entity. Both in India and globally, ECAs have become essential facilitators of exports, which are increasingly recognized as a critical driver of economic growth.

TCI falls under two broad categories of credit insurance, differentiated by the duration of the credit granted.

**Short-Term (ST) Export Credit Insurance** is the most common form of export credit insurance, providing coverage for less than a year, typically under 365 days. While most ST export credit insurance policies are offered by private insurers, in some countries, such as India, they are also provided by public sector organizations.

**Medium- and Long-Term (MLT) Export Credit Insurance** offers coverage for up to 15 years and applies to exports of engineering goods, turnkey projects, and civil construction contracts. MLT exports include both project exports and the export of goods.

In 2022-23, gross direct premium (GDP) earned collectively by all the trade credit insurance companies was USD 198 Mn where public sector companies contributed USD 154 Mn. ECGC alone has a share of 70% in the GDP or USD 139 Mn.

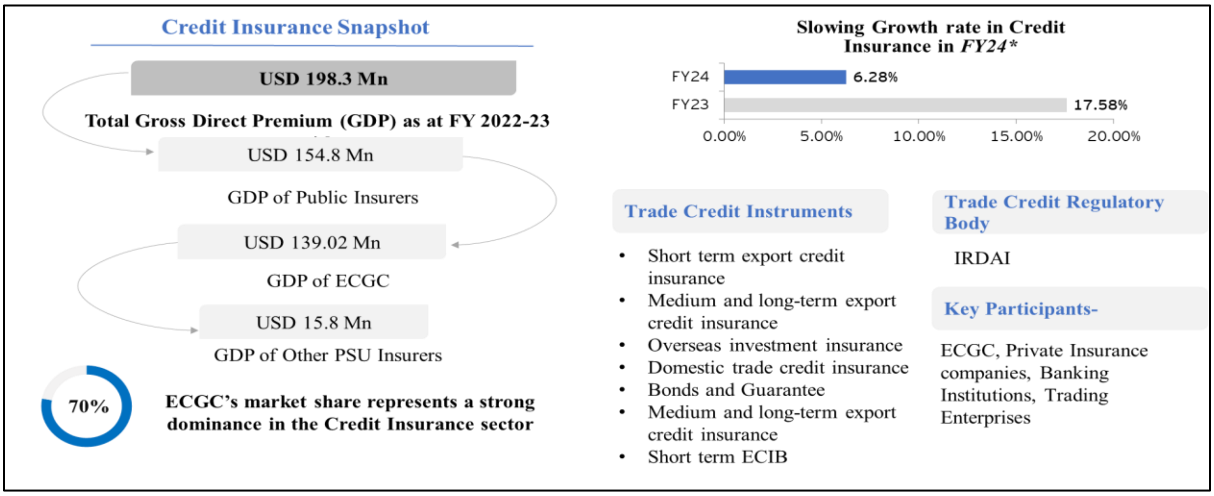


*Figure 4: Current overview of TCI in India*[27]

In 2022-23, ECGC supported around 18% of Indian export of which 10% was through its short- term export insurance for banks and around 8% was through short term policies issued directly to the exporters.[28] It is important to mention that nearly 40% of merchandise exports do not require export credit insurance support which includes business transactions such as export Against Advance Payment, Exports to Associates, Exports to Sovereign / Govt. Buyer, Exports against Confirmed L/C,

[27] IRDAI: Segment wise Gross Direct Premium up to December 2023 (Provisional & Unaudited)
[28] *ECGC (2023) Annual Report 2022-23, ECGC India*

Exports supported By Bank Guarantees.[29] It is evident that ECGC enjoys monopoly or dominant position in India's TCI sector.

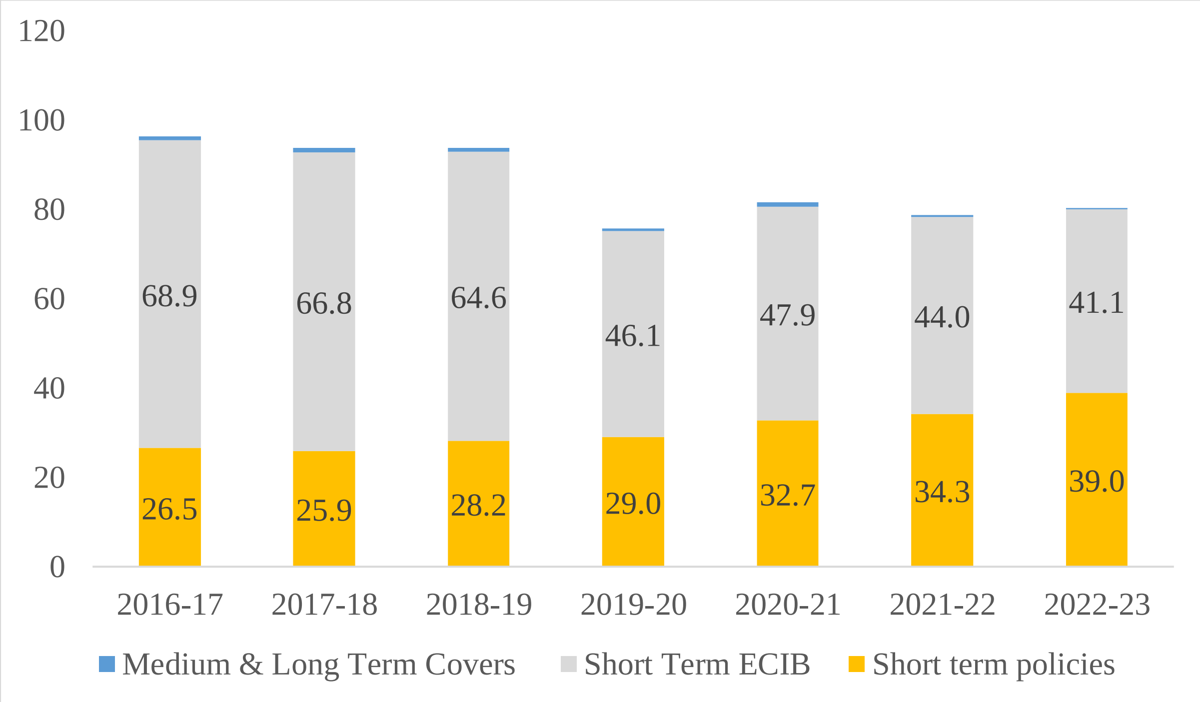


*Figure 5: Declining coverage of TCI by ECGC (USD Bn)*[30]

## Key Challenges

1. Capital relief/ RWA benefits extended to Banks under ECGC Policy only; not extended to NBFCs/ factors/ pvt. insurers; TCI by pvt. insurers not treated as a potential risk mitigant
2. Three out Five stakeholders reported a) lower coverage of risks portfolio under ECGC policy, b) lack of flexible/ customisable clauses and c) slower claim settlement processes
3. Exporters are left with limited options (other than ECGC policy) for export credit insurance - ECGC offer low premium rates; backed by govt. support worth INR 4,400 Cr during 2021-26

## Global Leading Practices- Key Takeaways

The identified ECAs[31], Chinese Sinosure is the largest entity. It is a state-funded, policy-driven insurance company established to promote China's foreign trade, economic development, and international cooperation. As of 2023, Sinosure had

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[29] *Information shared by EXIM bank during the presentation at commerce secretary meeting held on 3rd September 2024 at the Vanijya Bhawan, New Delhi.*
[30] *ECGC (2023) Annual Report 2022-23, ECGC India*
[31] Annual reports of respective agencies and ITC Trade-Map

supported over USD 7.98 Tn in trade and investment, served more than 310,000 enterprises, paid out USD 21.69 Bn in claims, and facilitated USD 600.96 billion in financing through 300 banks. Notably, Sinosure plays a key role in supporting China's Belt and Road projects, which significantly drive demand for its insurance services.

| Country | ECA | Total Business Amount (USD Bn) | Premium Earned (USD Bn) | Export Value (USD Bn) | Share of insurance in total merchandise export (%) |
|---|---|---|---|---|---|
| China | SinoSure | 746.92 | 2.4 | 3593.6 | 20.8 |
| Korea | K-Sure | 188.3 | 2.36 | 632.2 | 29.8 |
| Japan | Nippon Export and Investment Insurance | 44.4 | 0.25 | 752.1 | 5.9 |
| *India* | *ECGC* | *41.06* | *0.132* | *431.4* | *9.8* |
| Germany | Euler Hermes | 21.71 | 2.34 | 1702.4 | 1.3 |
| UK | UK Export Finance | 11.67 | 0.39 | 519.0 | 2.2 |

*Figure 6 Performance of Export Credit Agencies (ECAs) globally*

## Recommendations

1. Along with ECGC, extend 'Capital Relief' to banks, NBFCs and other private insurance companies and encourage them to issue TCI. Allow insurance companies to issue more flexible and customisable TCI policy for exporters. India can take reference from global TCI providers like Sinosure K-sure in issuing customised policy.

2. Encourage inclusion of private insurance players on TREDs platform. Private insurance players can increase the availability of risk mitigation tools for businesses using the TREDs platform. By offering trade credit insurance or factoring insurance, they will provide added security to lenders and investors who might be wary of default risks, thereby enabling more transactions to take place. increase competitiveness and opportunities for MSMEs through a bespoke policy.

3. Encourage insurance companies to facilitate MSMEs through a bespoke policy. Private insurers can help bridge this gap by offering customized insurance products that cater to the specific needs of SMEs, enabling them to secure more favourable terms and broaden their access to credit.

4. Collaboration among ECGC, private insurers and factoring companies may be arranged to create tailored financial solutions for businesses. This collaboration can help businesses, particularly MSMEs to manage risk and improve access to working capital. They can design specialized trade credit policies, factoring insurance, or invoice protection plans that cater to the unique needs of businesses across different sectors.

# Cross Border Factoring

## Current Scenario

Global supply chain forum defines factoring as a form of Receivables Purchase, in which sellers of goods and services sell their receivables (represented by outstanding invoices) at a discount to a finance provider (commonly known as the 'factor'). A key differentiator of factoring is that typically the finance provider becomes responsible for managing the debtor portfolio and collecting the payment of the underlying receivables.[32] Factoring is facilitated by the finance provider taking on the responsibility of managing the debtor portfolio and collecting payments for the underlying receivables.

Factoring activities in India is regulated by Factoring Act 2011. It aims to regulate and facilitate the factoring business in the country. The Factoring Act provides a legal framework for the operation of factoring companies in India. It defines the roles and responsibilities of factors, sellers and debtors. The Act recognizes the assignment of receivables by businesses to factors, ensuring legal enforceability of such transactions. It protects the interest of all parties involved in factoring transactions, including guidelines for disclosure and confidentiality of information.

In accordance with the provisions of the Factoring Act, a factor, client or a customer may be located outside the territory of India and such a transaction shall be governed by the provisions of the Factoring Act and Foreign Exchange Management Act (FEMA). The Factoring Act provides that 'banks', as defined in the Banking Regulation Act, 1949 are not required to be registered as factors for the purposes of carrying out the factoring business. However, Non-Banking Financial Companies (NBFCs) engaged in the factoring business are required to be registered in accordance with the provisions of the Factoring Act. The factor commencing the factoring business shall obtain a certificate of registration from RBI.

The global factoring market is characterized by significant regional leaders that contribute substantial volumes to worldwide factoring activity. In the Asia-Pacific region, China stands out as the dominant player, accounting for approximately

[32] *ICC (2016). Standard Definitions for Techniques of Supply Chain Finance. ICC Geneva*

14.6% of global factoring volume. This reflects China's large volume of exports are supported by factoring services that provide businesses with liquidity and risk management solutions.

In Europe the UK is the leading contributor, representing 0.5% of global factoring volume. The UK's well-established financial sector, its role as a global trade hub, and its deep-rooted history in banking and finance have all contributed to its dominance in the European factoring market.

In North American region the United States maintains its position as the dominant player, contributing 2.8% to the global factoring market. Despite being a smaller proportion of the overall global market compared to China or the UK, the US factoring industry plays a crucial role in the financing landscape, especially for SMEs that rely on factoring to improve cash flow and manage business growth.

Finally, in the Middle East the United Arab Emirates (UAE) dominates the factoring market, contributing 0.2% of global factoring volume. The UAE's strategic position as a business and trade hub in the region, along with its strong financial sector and pro-business environment, has made it a key player in factoring within the Middle East.

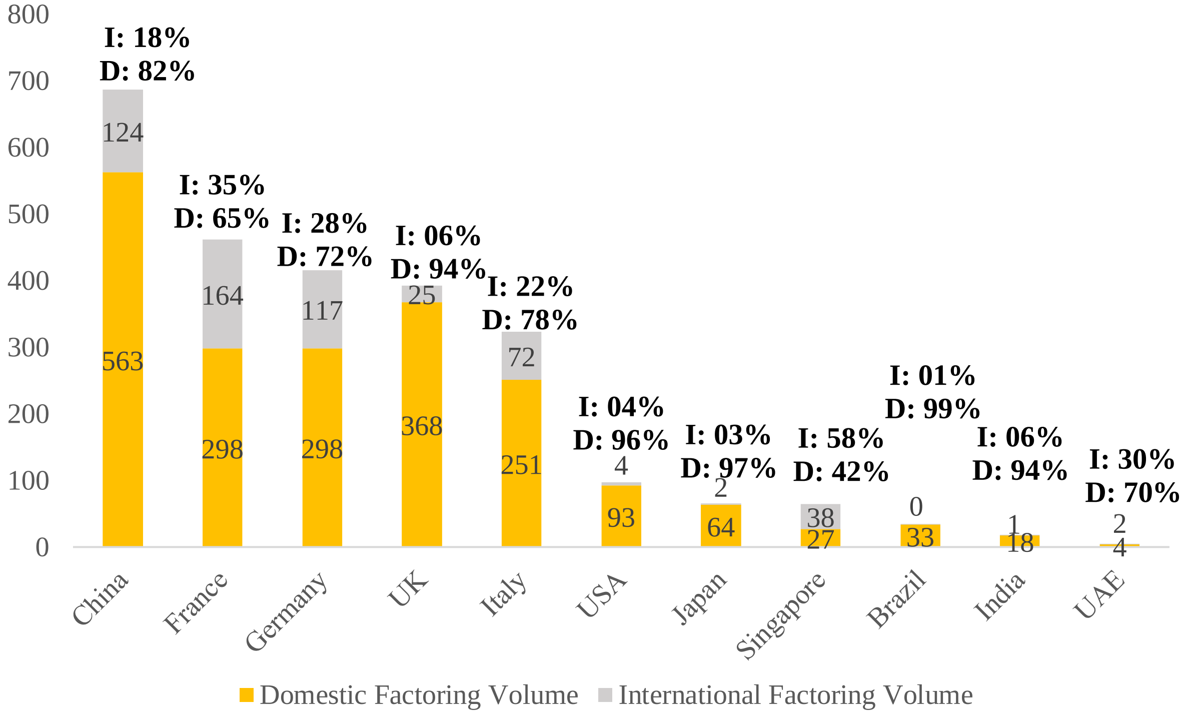



*Figure 7: Factoring volume in major markets in 2023 (USD Bn)[33]*

### Interesting facts about Factoring in India

1. Factoring has witnessed a cumulative growth of 68% between 2016 and 2023

[33] Data from Factoring Chain International

2. Between 2016 and 2023, domestic factoring has increased by 27% and international factoring has reduced by 14%
3. Of the total factoring volume in India, 94% of India's total factoring are domestic and 6% are cross border in nature
4. India has a share of less than 1% in global factoring market
5. FCI data reveals, India has 11 factoring companies in 2023 as compared to 2000 companies in China, 600 in Brazil and 250 in Germany

## Key Challenges

1. Factoring companies are considered as a financial creditor in case of non-recourse factoring. In non-recourse factoring, factoring companies are considered financial creditors because they assume the risk of non-payment from the business's customers in the event of default. This increases risk of the factoring companies and discourages them to extend non-recourse factoring.
2. IRDAI guidelines does not allow TCI to cover factoring, reverse factoring, bill discounting or any other similar arrangement which inherently increases the cost of factoring. This discourages factoring companies from serving exporters with relatively higher risk.
3. Reverse factoring is not considered a core product in India. As per RBI guidelines 50% of the business should be done in core products hence limiting adoption by factors.[34] Due to this regulation, financial institutions with capacity and desire to provide reverse factoring fails to do so.
4. There are fewer factoring companies in India (11) in comparison to other countries including China (2000), Germany (180), US (250), UK (46) in 2023. The small number of factoring companies limits the accessibility of factoring services, preventing a larger number of exporters from benefiting from these facilities.
5. No interest subvention extended to factoring companies. In case of export credit, exporters can avail interest subvention of 2-3% against their loan. This significantly reduces their cost of credit. However, similar benefit is not available in factoring which makes factoring comparatively expensive than export credit.

[34] *RBI Master Direction NBFC-Scale based Regulation. Available at:* https://fidcindia.org.in/wp-content/uploads/2023/10/RBI-MASTER-DIRECTION-NBFC-19-10-2023.pdf

## Global Leading Practices- Key Takeaways

1. France aligned its factoring regulations with the EU directives and UNCITRAL Model Law. This has streamlined the legal framework for factoring, reducing risks and uncertainties. This harmonisation has also facilitated cross-border operations and strengthened creditor protection, boosting confidence in the factoring process.
2. US, Germany, China, and Italy adopted 2-Factor model35 to boost cross-border factoring transactions which has streamlined cross-border factoring by providing a standardised legal framework, enhancing creditor protection, improving risk assessment, and facilitating international cooperation. This has reduced legal and operational risks for factors and their clients.
3. The Chilean Commodity Exchange offers a public auction platform for the trading of receivables owed by large buyers, which allows small businesses to obtain advances on their receivables.
4. The International Institute for the Unification of Private Law (UNIDROIT) Model Law on Factoring (MLF) was adopted by the UNIDROIT Governing Council in May 2023 which provides a complete, self-standing legal regime that facilitates factoring transactions and comprises of a set of black-letter law rules that is primarily aimed at States that have not yet fully implemented a modern, comprehensive secured transactions legal framework.

## Recommendations

1. RBI to consider reverse factoring as a core business product. It will enable factoring firms to expand their operation and seize the opportunities in reverse factoring. This will finally help the small exporters to accrue the benefit of factoring even without a very strong credit worthiness.
2. A dedicated scheme to support and subsidize the factoring and bill discounting charges for MSMEs and e-commerce exporters would be highly beneficial. This scheme would specifically address the needs of small exporters who have limited export volumes and poor creditworthiness, which makes it difficult for them to access traditional financing options.
3. In India, most factoring firms currently operate under the 1-factor model, where a single factor handles both the financing and collection of receivables. However, the 2-factor model involves two separate entities: one for providing the financing (the factor) and another for credit risk protection. Encouraging the adoption of the 2-factor model can significantly enhance risk mitigation by diversifying the

[35] *In one factor model, only factor is involved from the exporting country, while in Two factors model two factors are involved – one from the exporter country and other from the importer country*

risk across two parties—one focusing on liquidity and the other on credit risk assessment.

4. To expand the factoring market in India, efforts should be made to attract global factoring companies to set up operations in the IFSC at Gift City. By offering a business-friendly regulatory environment, tax incentives, and access to international markets, IFSC can serve as a hub for global players to provide factoring services. This can help grow the factoring industry, enhance liquidity options, and foster financial inclusion in the Indian market.

# Trade Digitisation

## Current Scenario

India's trade finance sector is undergoing significant changes, marked by innovations in supply chain finance that are critical for supporting economic growth and enhancing global trade connectivity. With a diverse economic base that includes both large corporations and small to medium-sized enterprises (SMEs), the trade finance ecosystem plays a vital role in facilitating commerce.

Advancements in technology and evolving regulatory frameworks are reshaping the financial landscape, enabling businesses to optimize cash flows and manage risks more effectively. By adopting tools such as AI-driven automation and blockchain networks, trade finance operations are becoming more efficient, secure, and accessible, aligning with the broader objective of strengthening India's position in global trade.

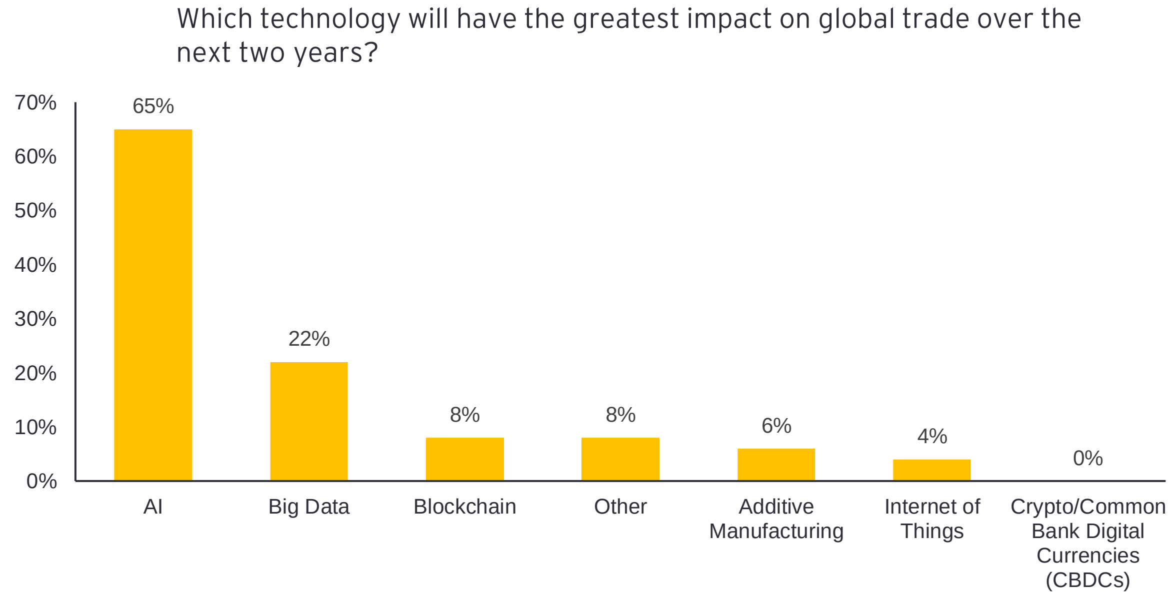



*Figure 8 Technology and its impact on global trade*

Indian banks and financial institutions are beginning to explore technologies like Blockchain, Artificial Intelligence (AI), Cloud and Quantum Computing, 5G Networks and Data Analytics to transform trade finance processes. Access to credit remains a significant challenge for small enterprises worldwide. In India, the credit gap for micro, small, and medium enterprises (MSMEs) is estimated at INR 20–25 trillion, as reported by the Open Credit Enablement Network (OCEN).

Despite contributing over 30% to India's GDP and providing employment to more than 100 million people, only 11% of MSMEs have access to formal credit channels, leaving approximately 60% of their credit needs unmet. This substantial shortfall highlights the critical role of supply chain finance, which is projected to expand at a robust CAGR of 11% through 2027.

## Key Challenges

Digitizing trade finance in India promises greater efficiency, reduced costs, and improved transparency. However, specific challenges must be addressed to ensure a seamless digital transition:

1. **Lack of Uniformity in the Format of eBLs digital submission**; 30-45 days waiting period for eBL issuance
2. **Complex & time-consuming application processes** with 5000+ data fields interactions
3. **Cybersecurity Risks:** Digital platforms in trade finance face threats like hacking, data breaches, and identity theft, potentially compromising transaction integrity and trust.
4. **Regulatory Compliance:** Implementing digital systems must align with RBI and other regulatory standards, posing challenges for institutions in maintaining compliance.
5. **Data Privacy:** The exposure of sensitive customer data in digital processes necessitates robust protection measures to prevent breaches and reputational harm.

Additionally, adoption challenges such as integrating digital documentation and building interoperability between systems across institutions complicate the transition to digital trade finance. Addressing these specific risks and obstacles will be essential for fostering a secure, resilient, and fully digital trade finance ecosystem in India.

## Adoption of MLETR in India

The most recent UNCITRAL Model Law on Electronic Transferable Records ("MLETR") represent important milestones in the digitalization of trade finance-relevant documents and other digital assets.

The Model Law on Electronic Transferable Records (MLETR) bridges the gap between traditional paper-based trade documents and digital alternatives, ensuring electronic records like bills of lading, promissory notes, and warehouse receipts hold the same legal validity. MLETR is a legal framework developed to enable the use of electronic transferable records in a legally recognized way, both domestically and internationally.

Adopted by G20 countries and others, including the UK, Singapore, and Bahrain, MLETR lays the foundation for tokenizing trade assets, creating new opportunities for investors and financial institutions. India has made substantial progress in various aspects over the last decade, financing small businesses remains challenging. Despite successful initiatives like TReDS, there is still significant ground to cover. The recent initiative by IFSCA, introducing ITFS Platform guidelines and licensing for operation from GIFT City, marks an important step.

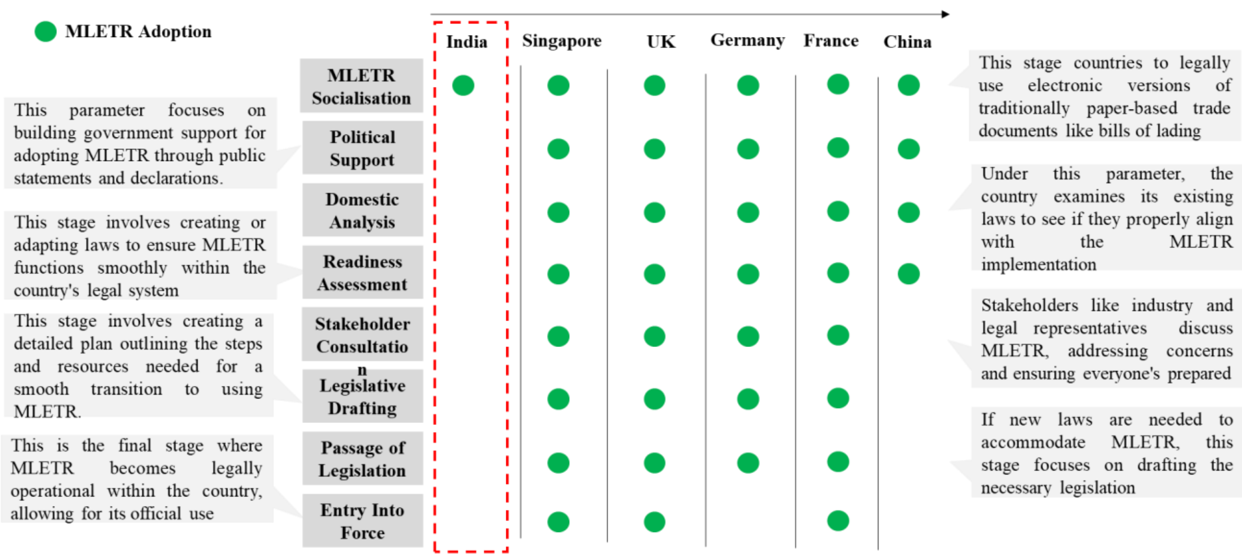



*Figure 9: Stages of MLETR Adoption across competing economies*

India is currently at Stage 1 of MLETR adoption, as per the ICC MLETR Tracker. Implementing MLETR and a legal framework for Digital Negotiable Instruments (DNIs) would establish global uniformity in laws governing these instruments, making cross-border trade finance more seamless, secure, and cost-efficient. Indian to make certain changes in the regulatory framework for the adoption of Digital Ecosystem of Trade as follows:

1. New Digitalisation of Trade Documents Act (as per MLETR); cues from UK Law (only 3 pages Act) or Amendment in the Bill of Lading Act 1856 to digitalise the Bill of Lading document
2. Digitalisation of Forward Cargo Receipts (FCR); Exporters face delays in post-shipment credit due to the 30-45 days waiting period for BL issuance
3. Adoption of AI/ Blockchain to streamline/ automate and support secured trade finance operations
4. Collaborate with leading Fintech players towards development of digitalisation of trade documents

While physical supply chains have progressed, the documentation and financing processes remain entangled in outdated paper-based methods, leading to inefficiencies and increased financial risks. The adoption of MLETR has the potential to bridge this gap. It could enable same-day payment of 100% invoice value, reduce transaction costs by 80%, and provide seamless, end-to-end digital financing for millions of MSMEs involved in both domestic and cross-border trade.

## Global Leading Practices - Key Takeaways

The two legal jurisdictions, the United Kingdom and Singapore have incorporated provisions of the MLETR into their domestic law

1. **United Kingdom's Electronic Trade Documents Act, 2023**

United Kingdom, the Electronic Trade Documents Act, 2023 has introduced provisions for recognition of electronic trade documents. The legislation provides for-

a) Separate definitions for both paper and electronic trade document.
b) Enlistment of the various types of trade documents, including bills of lading.
c) Prescribes conditionalities under which a 'reliable system' can be identified for the purposes of creating electronic trade documents.
d) Gives electronic trade documents the same legal effect as equivalent paper trade documents, so that they can be "possessed"; Functional Equivalence
e) Requires that electronic trade documents be held on a "reliable system";
f) Allows electronic trade documents to be subject to a pledge or lien as a form of security; and
g) Allows for the conversion of a paper trade document into an electronic trade document and vice versa.

The Electronic Trade Documents Act also carried out changes to the UK's Carriage of Goods by Sea Act, 1992 to repeal provisions which had provided a limited definition to bills of lading.

2. **Singapore and the incorporation of Electronic Transferable Record into shipping (ETR)**

Singapore, a major nodal point of the global shipping industry has moved towards both legislative changes as well as trials of shipping using EBLs. In 2023, a trial shipment from Singapore to Thailand was conducted using an EBL generated by the vessel owner using Bunkerchain, which is a TradeTrust-enabled (explained below) digital platform.

The trade was conducted using Singapore's TradeTrust framework, which was pioneered by IMDA. TradeTrust comprises globally accepted standards that connect governments and businesses to a public blockchain to enable the interoperability of electronic trade documents across digital platforms. VLK (the ship owner) was supported by the Protection and Indemnity Club, on the basis that liabilities arising from the use of the eBL are equivalent to the liabilities under the use of a paper-based Bill of Lading. At a legislative level, Singapore has incorporated relevant provisions of the MLETR into its Electronic Transactions Act via a 2021 amendment. The highlights of the amendment include –

a) New definitions are introduced, including "electronic transferable record," "electronic transferable records management system," and "provider" of such a system. This clarifies the scope and application of the law to electronic records, including electronic bills of lading.

b) Sections of the Bills of Lading Act are amended to align with the electronic format.

c) An electronic transferable record is not denied legal effect solely because it is in electronic form. This ensures that electronic bills of lading have the same legal standing as their paper counterparts.

d) Principle of functional equivalence applied to provide equal status for ETR vis-à-vis

    i. Texts which are legally mandated to be in writing
    ii. Equivalence of electronic signatures with physical forms of authentication.
    iii. Similar, to the UK law, a description is given in the amended Section 16 to identify reliable methods relating to the creation of electronic transferable records.

e) Grants the relevant Minister, the power to make regulations for the registration, licensing, and accreditation of providers of electronic transferable records management systems.

3. **United Arab Emirates: The Abu Dhabi Global Market (ADGM)**

Abu Dhabi Global Market (ADGM) provides a valuable model for jurisdictions implementing legislation facilitating the digitization of trading documents. ADGM's efforts are exemplified by a pilot project using the Trade-Trust platform on the Ethereum blockchain. This platform demonstrates the UAE's commitment to exploring and adopting newer technologies and platforms for digital trade. Gas fees and the inability to modify processed documents remain as challenges to scale the use of the platform.

## Recommendations

As per multi-stakeholder exercise involving the relevant line ministries along with industry consultations following steps could be part of Digitalization of Trade or adoption of MLETR -

1. As United Kingdom, 2023 Electronic Trade Document Act's introduction was preceded by a **consultation paper** seeking inputs on creating equivalence between paper and electronic transferable records.

2. Ministry of Shipping, CBIC/Customs, Ministry of Law and Justice along with the Department of Commerce can be expected to play a key role in the process of drafting of the legislation.

3. The provisions of the MLETR should be incorporated into domestic laws. This maybe done in at least suggestive three different ways-

   a) The Information Technology Act, 2000 maybe amended to include references to electronic transferrable records, including to electronic bills of lading. Similar to Singapore, the Indian legislation already accounts for 'electronic records' and their authentication.

   b) The amendment maybe made to the Carriage of Goods by Sea Act

      itself. Concurrently, (via the same amendment), the Bill of Lading Act, 1856 maybe repealed. This will ensure a consolidated statute on international trade conducted via the maritime mode.

   c) Incorporating MLETR provisions into a separate legislation dedicated to electronic trade documentation like the British scenario.

4. Suitable amendments to the Indian Bills of Lading Act, 1856 and Indian Carriage of Goods by Sea Act, 1925 be carried out to ensure legislative consistency in references to electronic transferrable records. The possibility of placing the provisions of the IBLA, 1856 into a consolidated logistics legislation or as a separate chapter of the Carriage of Goods by Sea Act, should also be looked at, considering the need to avoid the continuation of a separate legislation on bills of lading.[36]

5. Unified Lending Interface (ULI) by RBI - integrating fin & non-fin data sources into unified system, Open Banking & Account Aggregator Framework. Refer to Global benchmarking of Unified Lending Interfaces in the Annexure 1.

[36] https://kcba.org.in/documents/circulars/1/3/9/1/61b082722feb4.pdf

# Stakeholder Consultation/ Survey

## Chintan Shivir – National Trade Finance Brainstorming Session with Industry Leaders

The Trade Finance review meeting was organised by Department of Commerce (DoC) and Directorate General of Foreign Trade (DGFT) under the chairmanship of Shri Sunil Barthwal, Secretary, Ministry of Commerce & Industry (MoCI). Meeting was co-chaired by Shri Siddharth Mahajan, Joint Secretary, DoC, MoCI and Shri Santosh Kumar Sarangi, DGFT, MoCI.


This was followed by a presentation on five key themes of Trade Finance namely Export Credit, Export Credit Insurance, Cross Border Factoring, Digitization of Trade Documents (Adoption of MLETR) and setting up of National Trade Finance Committee (Secretariat structure) along with focused Working Groups on above themes. Based on the secondary research and extensive stakeholder consultation.

A root cause analysis along with key challenges and suggestive actions across the above themes was presented based on secondary research. key learnings from the global leading practices were also discussed.

Key challenges and action Items from commerce secretary review meetings are as follows:-

- Trade credit - challenges pertaining to accessibility and affordability of export finance to MSMEs/ E-commerce exporters were highlighted by the stakeholders

- Banks highlighted that small e-commerce exporters, who typically have a small ticket size but a high volume of shipments, encounter difficulties in receiving export credit at a short notice. Govt. requested an evaluation of this issue and asked for recommendations on setting an upper cap on the amount below which regularization requirements could be waived off.

- One of the Industry associations pointed out that banks reject the loan application of MSMEs as they do not have sufficient collateral and credit history. They further suggested an improved information landscape along with innovative credit assessment models for MSME based on their financial as well as non-financial data such as land records and telecom bills. It was suggested to shift from collateral-based fixed term lending to roll-based short-term lending.

- It was further highlighted that banks require collateral from exporters at rates ranging from 100% to 150%. In cases of default, the liquidation rate from the collateral is only 10%. Moreover, post-shipment credit and discounting are made available to exporters only after the Bill of Lading (BL) is issued. It is recommended that this financing be made accessible once customs formalities are completed, specifically upon the issuance of the Let Export Order (LEO)

- Exporter associations highlighted the declining export credit disbursement under PSL from $6.3 Bn in 2016-17 to $1.4 Bn in 2023-24 was highlighted. They emphasized on need for assigning a sub-target for export finance was highlighted. Other issues such as upper cap of 2% of banks' ANBC/ COEBE was also highlighted

- Other suggestions included 1) attracting global factoring companies in IFSCA to expand this underdeveloped market in India 2) Allowing access to foreign insurers could reduce costs and increase competitiveness for credit insurance and 3) partnerships with Fintech companies to encourage the use of digital currencies can improve credit access for SMEs

- Trade credit insurance - challenges pertaining to availability of affordable and competitive insurance policies as per the needs of the exporters

  - Representatives from private insurance players highlighted that Capital relief/ RWA benefits are only extended to Banks under ECGC Policy and not extended to NBFCs/ factors or pvt. insurers. Moreover, Trade Credit Insurance by pvt. insurance companies is treated as a potential risk mitigant by RBI. RBI gave an in-principal agreement to permit capital relief for private insurance providers, contingent upon the fulfilment of certain conditions. The current withholding of this relief is attributed to a lack of supporting data. The RBI requested the insurance company to submit a proposal regarding this matter.

  - Representatives from the ECGC reported that approximately 60% of total exports are insurable. However, exports under specific conditions, including advance payments, transactions with associated companies, exports to sovereign or government buyers, exports supported by confirmed letters of credit, and exports backed by bank guarantees, are classified as non-insurable

  - While analysing the insurance cost under factoring, Government inquired about the premium rates of ECGC. It was informed that for cover offered to banks under Export Credit Insurance offered to Banks (ECIB- WT) the average premium rate is 0.70% per annum, which is equated and paid on monthly basis on the average daily product. For Policy covers issued to Exporters, the base premium rate starts from 0.30% and is dependent on the terms of payment and country of destination. The annual average premium under Policy covers is approximately 0.17% on portfolio basis.

  - Banks raised concerns regarding the claim settlement ratio for ECGC, indicating that less than 50% of claims are settled and that the settlement process typically takes 3-4 months. In response, ECGC refuted this assertion, stating that the claim settlement ratio has improved to 60%, and the average claim settlement time has been reduced from 90 days to 60 days


- Cross Border Factoring - challenges pertaining to making exporters aware of benefits of factoring, key procedures and compliances

    - Representatives from factoring association shared their concerns and suggestive actions to improve the state of factoring business in India (esp. cross border factoring). Special emphasis was given to making the exporters and buyers aware of the rules of factoring and promote factoring as an important alternate financing option.

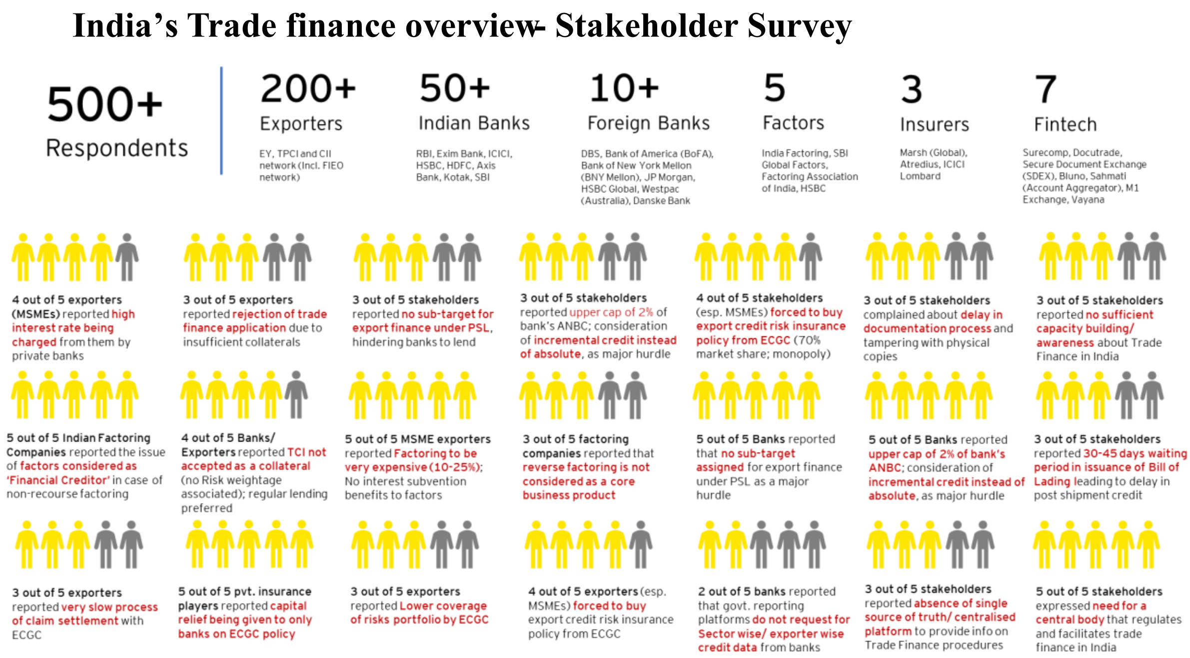
    - Government officials along with industry leaders formed a consensus around developing a Digital Public Infrastructure (DPI) to enable the use of alternative data for export credit financing, facilitating collateral-free financing options. Moreover, the Data from the Export Data Processing and Monitoring System (EDPMS) and Import Data Processing and Monitoring System (IDPMS) will be made accessible on the DPI, based on customer consent. This access will allow factoring companies to better understand transaction histories, thereby enhancing their ability to provide factoring services to customers

- Digitization of trade incl. digitalization of Trade Documents and adoption of MLETR - challenges pertaining to adoption and implementation of UNCITRAL MLETER framework for India

    - Government officials suggested that the adoption of the Model Law on Electronic Transferable Records (MLETR) should be advanced, and an analysis must be conducted to determine the necessary amendments to the current Information Technology Act or formulation of a new Electronic Trade Document Act. Leading practices such as Electronic Trade Documents Act 2023 was discussed

    - Government officials noted the progress on adoption of MLETR in other countries such as Bahrain, Belize, Kiribati, Papua New Guinea, Paraguay, Singapore, Abu Dhabi, UK, France has 100% adoption while adoption in countries such as Germany (90%) and China (50%) is under-progress

DGFT trade finance research team conducted industry consultations, brainstorming sessions, focused group discussions and survey with 500+ stakeholders.




Part 1: Know Your Exporters

Out of these, 95% were MSME, small e-Commerce and first-time exporters.

- > 85% Merchandise exporters
- > 80% from J&K, Haryana, UP, Gujarat, Maharashtra and Delhi
- ~ 70% from Agriculture, Manufacturing, Textiles & Apparel, Food Processing and Capital Goods sectors
- ~65% accessed export finance through L/C, BG, EPC/ PCFC
- ~25% accessed export finance through Non-Recourse Factoring and Avalisation (co-acceptance from buyer's banks)

Root cause analysis basis stakeholder interactions (exporter's perspective) below:

Part 2: Root Cause & Industry Concerns

- ~96% exporters concerns related to a) low creditworthiness, b) high collateral requirement (100-150%) and c) high rejection rate of Trade Finance (TF) applications (>80% in case of MSMEs and small e-commerce players). Financial Institutions (FIs)/ NBFCs on the other hand advocated against this issue stating insufficient credit and/ or performance history of above exporters (especially new exporters) to make credible risk assessment and inadequate capital relief to cover risks against NPAs make TF applications financially non-viable for them to offer affordable & collateral free loans.

- >85% exporters reported concerns related to a) complex documentation/ application procedures, burden of compliances (incl. AML/ KYC requirements), and b) absence of a central information dissemination & facilitation portal to ease TF operations/ services that can act as a single source of truth. FIs/ NBFCs re-emphasized on lack of awareness about TF instruments, procedures, incentives, cross border factoring/ Avalisation, very few capacity building programmes (esp. curated for MSME exporters), and misleading info across multiple third-party websites as the root cause making TF processes complicated for MSME exporters.

- ~67% exporters reported concerns related to a) high interest rates on export credit loans (avg. 10-14%, upto 20-25% in some cases), delay in claim settlement process by insurance companies (avg. 90-100 days, >1 year in few cases) and c) lack of adoption of AI/ML and Blockchain technologies to digitize & secure TF transactions, hence reducing fraud/ money laundering issues, and time consuming processes.

- Geographical Assessment where >80% respondents from J&K, Haryana, Uttar Pradesh, Gujarat, Maharashtra and Delhi. Major observations were a) lack of awareness, b) inadequate digital infra, c) over dependency on CHAs, d) absence of state/ district level trade finance desks or committees supporting B2B buyer seller connect, facilitating int'l market access and capacity building

- Sectoral Assessment where ~70% respondents were from Agriculture, Manufacturing, Textiles & Apparel, Food Processing and Capital Goods sectors.

  Agriculture Sector
  a) L/C and PCFC major financing sources, b) max hurdles witnessed during post-shipment and factoring stages, c) major reasons being high collateral requirement, delay in claim settlement, lack of digitization and absence of central information dissemination platform

  Manufacturing, Auto-components, Retail, and Engineering Sectors
  a) L/C and non-recourse factoring major financing sources, b) max hurdles witnessed during pre-shipment and legal approvals/ compliances stages, c) major

reasons being low creditworthiness (incl. insufficient credit/ performance history), high rate of interest 12-16% in most cases, and lack of awareness, capacity building

Textiles & Apparels, Capital Goods, and Dairy & Animal Husbandry
a) L/C and Avalisation major financing sources, b) max hurdles witnessed during pre-shipment, factoring stages, c) major reasons being low creditworthiness, high rate of interest >16% in most cases, lack of awareness & capacity building, complex processes/ compliance burden (incl. KYC), and high rate of rejection of applications (>80% in case of MSMEs)

- **Recent Developments**
  - [37]Union Budget 2025-26 – Key announcements from the budget related towards promoting Ease of Trade Finance in India.

  - Launch of National Export Mission: Focus will be on the 5.7 Cr MSMEs, which include over one crore registered businesses employing 7.5 crore people and contributing 36% to India's manufacturing. MSMEs play a crucial role in positioning India as a global manufacturing hub, accounting for 45% of the nation's exports. Key highlights given below:

Working Group 1 – Trade Credit to ensure Easy and affordable access to export credit

- Customized credit card: INR 5 lakh limit per micro-enterprise registered on Udyam Portal; 10 L cards will be distributed in the first year
- Term loan limit increased from INR 5 Cr to INR 10 Cr, facilitating additional 1.5 L Cr benefits to micro enterprises for the next 5 years
- Term loan limit increased upto INR 20 Cr for well run MSME exporters
- Term loan limit increased from INR 10 Cr to 20 Cr with the guarantee fee being moderated to 1% for loans for startups in 27 focus sectors under Atmanirbhar Bharat

Working Group 2 – Cross border factoring

- Easing regulatory compliances
- Promoting adoption of cross border factoring as an attractive source of export finance

Working Group 3 – Digital Trade

[37] Union Budget 2025, https://www.indiabudget.gov.in/

- BharatTradeNet (BTN) - setting up of a Digital Public Infrastructure (DPI) for international trade, a unified platform for trade documentation and financing solutions, integrated with Global Supply Chains

Working Group 4 – Trade Credit Insurance

- Revision of policies of ECGC announced before the budget itself

**Budget Summary: Significant boost to ease of trade finance in India**
The Government has accorded high priority to strengthening the MSME sector, which comprises 5.7 Cr enterprises, contributing 36% to the country's manufacturing output and 45% to total exports. In line with this commitment, investment and turnover limits for MSME classification have been enhanced by 2.5 times and 2 times, respectively, to facilitate business expansion.

| ₹ in Crore | Investment | | Turnover | |
|---|---|---|---|---|
| | Current | Revised | Current | Revised |
| Micro Enterprises | 1 | 2.5 | 5 | 10 |
| Small Enterprises | 10 | 25 | 50 | 100 |
| Medium Enterprises | 50 | 125 | 250 | 500 |

*Figure 10 Revised Investment and Turnover classification for MSMEs*

The revision of term loan limits raised to INR 10 crore from existing INR 5 cr for micro enterprises to facilitate additional 1.5 L Cr benefits next 5 years and INR 20 crore from existing INR 10 Cr for startups and well-performing exporter MSMEs will enhance access to credit, fostering innovation, competitiveness, and sectoral growth.

Further, the introduction of a customised credit card scheme with a limit of INR 5 lakh per registered MSME on the Udyam Portal aims to strengthen financial inclusion, with 10 lakh enterprises expected to benefit in the first year. These initiatives are expected to catalyse MSME-led industrial growth, enhance integration into global value chains, generate large-scale employment opportunities, and accelerate India's emergence as a global manufacturing hub.

The Government, in collaboration with the Ministry of Commerce, Ministry of MSMEs, and Ministry of Finance, is undertaking a strategic push to enhance the ease of trade financing in India, with a special focus on MSME exporters. The Export Promotion Mission, driven by sectoral and ministerial targets, is designed to expand access to export credit, enable cross-border factoring, and address non-tariff barriers related concerns of the exporters, ensuring a seamless and cost-effective financing ecosystem for exporters.

A major step in this direction is the creation of BharatTradeNet (BTN) – a digital public infrastructure for trade finance and documentation to simplify financial processes, increase transparency, and facilitate MSME integration into global supply chains.

To further reinforce India's export landscape, the National Framework for Global Capability Centres (GCCs) will provide guidance to states for developing tier-2 cities as global trade hubs, thereby fostering regional growth and attracting investments.

Additionally, the introduction of the 'Grameen Credit Score' framework aims to enhance credit accessibility for Self-Help Group (SHG) members and rural entrepreneurs, promoting inclusive trade finance solutions. The revamped Central KYC registry, set to launch in 2025, will streamline compliance requirements, making trade finance more efficient, affordable, and accessible. Collectively, these initiatives will strengthen MSME exporters, boost employment generation, and position India as a globally competitive trade powerhouse.

Annexure to Budget'25

- MSMEs: Focus will be on the 5.7 Cr MSMEs, which include over one crore registered businesses employing 7.5 crore people and contributing 36% to India's manufacturing. MSMEs play a crucial role in positioning India as a global manufacturing hub, accounting for 45% of the nation's exports. Credit Guarantee Support as follows
    - Revised MSMEs classification – investment and turnover limits to be enhanced by 2.5x and 2x respectively
    - Micro – term loan limit increased from INR 5 Cr to INR 10 Cr, facilitating additional 1.5 L Cr benefits next 5 years
    - Startups – term loan limit increased from INR 10 Cr to 20 Cr with the guarantee fee being moderated to 1% for loans in 27 focus sectors under Atmanirbhar Bharat
    - For well-run exporter MSMEs – term loan limit increased upto INR 20 Cr

    - Micro – Customised credit card with INR 5 lakh limit per enterprise registered on Udyam Portal; 10 L cards will be distributed in the first year
- Export
    - Export promotion mission with sectoral and ministerial targets driven by Ministry of Commerce, MSMEs and Finance to facilitate easy access to export credit, cross-border factoring, and support to MSMEs to tackle non-tariff measures
    - BharatTradeNet: A digital public infrastructure, 'BharatTradeNet' (BTN) for international trade will be set-up as a unified platform for trade documentation and financing solutions. Support for integration with Global Supply Chains.
    - National Framework for GCC: As guidance to states for promoting Global Capability Centres in emerging tier 2 cities
    - 'Grameen Credit Score' framework to serve the credit needs of SHG members and people in rural areas.
    - Revamped Central KYC registry to be rolled out in 2025

▪ Updates from Commerce Minister

- [38]High interest rates big deterrent for MSME exporters. Department is working with Ministry of finance to ensure collateral free or a subsidized collateral arrangement for MSMEs. DGFT quoted many studies that suggested that very high collateral demand by financial institutions is a big deterrent for MSMEs to access institutional finance and that deters them from getting into the export market

- [39]Commerce Ministry and Finance Ministry together underlined the need to lower interest rates to spur growth, bringing into focus a matter that, in the past, and discussed the concerned matters with RBI.

- [40]Hon'ble Commerce & Industry Minister addressed a session with exporter community in September'24. As per FIEO, there is a decline in export credit between Mar'22 and Mar'24 despite the need for more credit for longer duration due to hike in prices of commodities, sharp spurt in

[38] DGFT, https://economictimes.indiatimes.com/small-biz/trade/exports/insights/high-interest-rates-big-deterrent-for-msme-exporters-working-with-finmin-on-this-dgft/articleshow/116430408.cms?from=mdr
[39] Updates from Commerce & Finance Ministries, https://www.indiatoday.in/india-today-insight/story/why-nirmala-sitharaman-piyush-goyal-would-like-rbi-to-slash-interest-rates-2636498-2024-11-20
[40] CIM addresses exporter community on trade finance related concerns, https://www.business-standard.com/india-news/declining-bank-credit-to-hurt-export-traders-will-flag-issue-to-goyal-124090800342_1.html

freight (both sea and air) and the Red Sea crisis, leading to longer voyage time and delayed payment.

Given a consistent decline in credit to exporters during recent times, the RBI should consider prescribing a sub-target for export credit within the existing 40% target for priority sector lending (PSL).

There is a need to increase the rate of subvention to at least 4-5%. The subvention rates were reduced from 5% to 3% and from 3% to 2% in Mar'22 due to drop-in interest rates. It is worthwhile to note that the Repo Rate in Mar'22 was 4.4%, which currently is 6.5%.

It was also flagged that even after generating a BRC (bank realisation certificate) from the DGFT (Directorate General of Foreign Trade) Module, exporters struggle to settle the outstanding entries in the EDPMS (Export Data Processing and Monitoring System).

- [41]The Commerce, MSME and Finance Ministries will work together to identify various sectors—which will require maximum capital support for technology upgradation, marketing, brand building, and accessing newer markets—to boost exports under the Export Promotion Mission of Govt. of India with a total budget outlay of INR 2250 Cr.

▪ Updates from Finance Minister

- [42]As per Finance Ministry, a separately constituted self-financing guarantee fund will provide, to each applicant, guarantee cover up to Rs 100 crore, while the loan amount may be larger. The borrower will have to provide an upfront guarantee fee and an annual guarantee fee on the reducing loan balance.

- [43]Hon'ble Finance Minister Smt. Nirmala Sitharaman launches National MSME Cluster Outreach Programme. The programme aims to ensure access to Financial Services and promote the growth of Micro, Small and Medium Enterprises (MSMEs) across the country. She further set the target for all Scheduled Commercial Banks and NBFCs for providing

[41] Interview with Commerce & Industry Minister, https://yourstory.com/2025/02/comm-msme-finance-ministries-export-promotion-mission-piyush-goyal
[42] Financial Express, https://www.financialexpress.com/business/sme-larger-credit-cover-for-msmes-likely-under-new-scheme-3715111/
[43] Ministry of Finance, https://economictimes.indiatimes.com/news/india/nirmala-sitharaman-launches-national-msme-cluster-outreach-programme-inaugurates-new-sidbi-branches-in-bengaluru/articleshow/115136464.cms?from=mdr

additional MSME credit of INR 1.54 lakh crore in the current financial year. Thus, the banks and NBFCs should aim at total credit growth of Rs 5.75 lakh crore, INR 6.21 lakh crore and INR 7 lakh crore to MSMEs in Financial Year 2024-25, 2025-26 and 2026-27 respectively.

- [44]Amid directions from the finance ministry, PSBs are ready to launch the credit risk assessment model for MSMEs, with a loan amount between INR 25 lakh and INR 5 crore to be assessed by the model for different banks, according to an internal government document reviewed by Business Standard.

- [45]Ministry of Finance stated that supporting the MSMEs through innovation in Credit Assessment is a very important step. Small ticket loans enable entrepreneurship and employment generation and therefore they must get due attention. Minister also pointed out that the banking sector has relied heavily on collateral-based lending models. This approach, while effective in certain cases, does not always align with the unique needs and financial structures of MSMEs and suggested transition towards alternative credit risk assessment models, such as cash flow-based lending. Cash flow-based lending has the transformative potential to address the working capital requirements of MSME units.

- [46]Indian Finance Minister Nirmala Sitharaman raised concerns about insurance mis-selling, emphasizing its contribution to higher borrowing costs for customers. She urged banks to focus on affordable lending rates to support industrial growth and advocated for digital financial inclusion. Sitharaman highlighted India's economic resilience and the need for transparency in banking practices. She further announced ambitious lending targets for banks, urging them to disburse INR 6.12 lakh crore to MSMEs by FY26 and INR 7 lakh crore by FY27. She also highlighted her recent directive to Scheduled Commercial Banks and NBFCs to go beyond the usual lending estimate of INR 4.21 lakh crore for FY25, aiming for an additional INR 1.54 lakh crore in this financial year.

▪ Updates from other Government departments, agencies, and organisations

[44] Credit Risk Assessment Model, https://www.business-standard.com/amp/finance/news/rbi-likely-to-draw-up-road-map-for-ecl-adoption-at-monday-s-meeting-124111501484_1.html?isa=yes
[45] Ministry of Finance Twitter Handle, https://x.com/nsitharamanoffc/status/1858474033932910973?t=1G63eQunxEHLocryxHru4A&s=08
[46] Ministry of Finance, https://economictimes.indiatimes.com/news/economy/policy/fm-nirmala-sitharaman-flags-mis-selling-of-insurance-calls-for-collateral-free-loans-to-msmes/articleshow/115425046.cms?from=mdr

- [47]As per Shri Santosh Sarangi, DGFT, Government of India is framing schemes for MSME exporters to provide credit at easy terms, promote alternate financing instrument through strengthening factoring services for them, and offer assistance to deal with non-tariff measures imposed by other countries. The allocation for the mission for this year has been kept at INR 2250 crore of which INR 200 crore is for Market Access Initiative (MAI) and Rs 50 crore is for lab grown diamonds. Rest of the amount INR 2000 Cr is for designing schemes around export credit, cross border factoring and support to MSMEs to tackle non-tariff barriers (NTBs)

- [48]According to Union Cabinet Minister for MSME, Shri Jitan Ram Manjhi, enhancing credit access through collateral-free loans and initiatives like PMEGP (Prime Minister's Employment Generation Programme) and Expanding markets through e-commerce platforms and international collaborations will positively transform the current trade finance ecosystem and support MSMEs in India.

- [49]Federation of Indian Micro and Small & Medium Enterprises (FISME) has urged the government for a comprehensive policy response to the existing Special Mention Account (SMA) framework to help revive MSME accounts with incipient stress. The issue with the SMA framework is that it lacks a mechanism to consider the qualitative reasons for the delay in loan repayment by the MSME. MSME account becomes a pariah and banks restrict, even withdraw, banking facilities, bringing banking operations of the unit to a grinding halt.

  Another issue raised by FISME was related to BLR (bank loan ratings). BLR in India is a measure of the creditworthiness of an individual or organization regarding their ability to repay a bank loan. This rating is issued by credit rating agencies, such as CRISIL, ICRA, CARE Ratings, and others, based on a detailed evaluation of financial performance, credit history, and other risk factors. The ratings are also applicable to MSMEs and unlisted entities. Borrowers with higher BLR are considered less risky and can secure loans at more favourable interest rates. However, for MSMEs, BLR is challenging because unlike large enterprises, small

[47] Press Brief by Shri Santosh Sarangi, DGFT, https://www.business-standard.com/budget/news/govt-framing-schemes-under-export-promotion-mission-for-exporters-dgft-125020400736_1.html
[48] Interaction with Union Cabinet Minister for MSME, Shri Jitan Ram Manjhi, https://smestreet.in/interviews/jitan-ram-manjhi-highlights-modi-governments-commitmment-for-msmes-8549366
[49] Federation of Indian Micro and Small & Medium Enterprises (FISME), https://www.financialexpress.com/budget/budget-2025-fisme-urges-nirmala-sitharaman-to-rework-on-framework-for-revival-of-stressed-msmes-3704260/

businesses often lack robust financial records, face high costs for ratings, and are perceived as high-risk due to their small scale and sectoral volatility. Moreover, BLR often favours larger, well-established entities with stable financials, leaving MSMEs at a disadvantage.

Key recommendations by FISME include:

a) Encouraging banks to consider need-based financing as an independent mode of financing MSMEs using a combination of need-based assessment with cash flow analysis
b) Nudging banks to significantly reduce collateral for enhancing limits of asset-heavy or high turnover type MSMEs if the companies show good conduct over a sufficiently long period
c) Mandating EXIM Bank to provide packing credit at least against LC (letter of credit) backed orders, irrespective of the percentage of exports of total sales

- [50]Revised IFSCA Guidelines: Permitted financiers include factors registered under the Factoring Registration Act, 2011, and finance companies/units registered in IFSCA Official permitted by the Authority to undertake lending or factoring activities. Earlier, permitted financiers included either banking units in IFSC or finance companies/units licensed, regulated, or registered by IFSCA Official or other financial sector regulators, either in India or abroad.

- [51]ECGC Limited extended WT-ECIB Scheme to export credit working capital limits up to INR 80 Cr to enable banks to extend cost-effective export credit. This is expected to benefit ~1,000 new small exporters + 8,000 existing exporters, by facilitating the availability of adequate and affordable export finance from banks.

  Additionally, ECGC Limited introduced 100% cover to exporters who take policy directly from the Company without involving any alternate channels/brokers. This may be considered as collateral by the banks for export credit lending, particularly to MSMEs, thereby reducing collateral requirements.

[50] IFSCA Guidelines, https://www.ifsca.gov.in/Document/Legal/press_release_24_12-2024_clean_copy_post_cp_approval_final25122024052303.pdf
[51] ECGC Limited, Business Standard, https://www.business-standard.com/industry/news/wt-ecib-scheme-likely-to-benefit-1-000-new-small-exporters-says-govt-124122600722_1.html

- [52]RBI had issued an advisory encouraging banks to cease entering new contracts using LIBOR as a reference rate and instead adopt any Alternative Reference Rate (ARR). The global transition from Libor became necessary after it was discovered in 2007-08 that banks were manipulating the rate, sparking an investigation by Britain's Financial Services Authority (FSA).

  Axis Bank GIFT city IBU branch became the first Indian private sector bank to arrange a term Secured Overnight Financing Rate (SOFR) linked trade financing deal, joining a select group of banks and financial institutions globally who have executed similar transactions.

- [53]MSMEs face challenges related to limited access to finance and working capital. This hinders their daily operations and prevents them from expanding globally. Resolving this issue requires providing timely financial assistance to MSMEs, regardless of their loan size, collateral availability, or credit score. Recognizing the importance of addressing this widespread problem, the Reserve Bank of India (RBI) introduced the Trade Receivables Discounting System (TReDS). RBI issues following new guidelines for TReDS in the view of promoting ease of trade finance in India. This new development will encourage financiers to allocate credit limits to buyers with lower credit ratings.
    - Inclusion of Insurance Companies: The TReDS platform will now allow insurance companies to become 'fourth participants' alongside MSME sellers, buyers, and financiers. This move aims to enhance the ecosystem and broaden the range of participants
    - Expansion of Financiers: The proposal entails the participation of all entities and institutions covered under the Factoring Regulation Act as financiers for conducting factoring operations on the TReDS platform. This inclusion aims to increase the number of financiers and provide more options for MSMEs
    - Introduction of Secondary Market Operations: TReDS will now facilitate secondary market operations, enabling financiers to transfer their invoice portfolios to other financiers on the platform. This feature enhances flexibility and liquidity within the system

[52] Reserve Bank of India, Advisory on LIBOR vs SOFER rates, https://www.livemint.com/companies/news/axis-bank-is-the-first-indian-private-bank-to-do-a-term-sofr-trade-finance-deal-11633431996239.html
[53] RBI issues new guidelines for TReDS, https://www.rxil.in/how-new-treds-proposals-by-rbi-will-incentivize-msmes-strengthen-bill-discounting/

- [54]According to Dr Rajneesh, Additional Secretary and Development Commissioner (MSME), Ministry of MSME, government is targeting Rs 5 lakh crore guarantees in the next two years under CGTMSE to boost affordable credit access to MSEs

- [55]India Exim Finserve IFSC Pvt Ltd, a subsidiary of the Export-Import Bank of India (India Exim Bank), has teamed up with VoloFin to deliver comprehensive receivables finance solutions to Indian exporters, particularly targeting underserved SMEs. This collaboration addresses critical trade finance gaps and facilitates open account trade between India and its global partners. New India Assurance, supported by global reinsurer Atradius, has introduced the first-of-its-kind trade finance insurance policy from GIFT City as part of the initiative.

- [56]RBI's ULI platform is expected to revolutionise India's lending sector, much like the Unified Payments Interface (UPI) did for payments. Currently, credit appraisal is hindered by data being scattered across different entities like government bodies, banks, and identity authorities. ULI is designed to streamline this process, reducing the time needed for credit approval, especially for small and rural borrowers.

  ULI will enable lenders to access customers' financial and non-financial data, including land records, digitally and with consent, from various sources. This will facilitate easier credit extension, particularly to farmers and micro, small, and medium enterprises (MSMEs)

▪ Updates from Industry Associations and Leaders

- [57]Interest rate for MSMEs is 8.5% on average. For non-MSMEs, it is around 7.9%. The standard deviation is around 1.5% for both, so if 2 standard deviations is taken to cover over 97.5% of the applicants, the rate for MSMEs tops out at 11.5% and 10.9% for non-MSMEs before subvention. However, in terms of the total credit outgo, around 35% of the loans went to MSMEs and 65% went to non-MSMEs. This contrasts with the

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[54] Dr Rajneesh, Additional Secy, Ministry of MSME, https://www.financialexpress.com/business/sme-cgtmse-govts-collateral-free-msme-loan-scheme-hits-1-crore-guarantees-3694418/
[55] Exim Bank, https://www.dqindia.com/news/volofin-and-india-exim-bank-partner-to-bridge-sme-trade-finance-gaps-7289756
[56] Reserve Bank of India, Unified Lending Platform, https://www.fortuneindia.com/amp/story/macro%2Fafter-upi-success-rbi-unveils-uli-to-transform-lending-space%2F118150
[57] Voice of Industry, Blog by Shri Tirumala KV, Deputy DGFT, https://www.indianwesterlies.com/2024/05/Trade%20Finance%20for%20Inclusive%20Growth%20%20speech.html

beneficiaries count, where we saw that over 70% of the beneficiaries are MSMEs

- When it comes to policymaking, policymakers rely upon data to make intelligent policies. When it comes to trade finance, especially export credit, we don't have good data. The export credit outstanding that is reported for certain days of the year, as reported by RBI, is not a very helpful data point for policy analysis. Rather, the flow of credit data, and export credit disbursed details, which lie with individual banks must be collated in an intelligent way to arrive at good insights and policy interventions

- The size of the market for factoring in the world is around $3.8 Tn today. Out of this, if we look at the amount of factoring that happens in India, it is hardly $21 Bn in FY 2024 – based on RBI's TReDS data. This is a yawning gap, especially when compared with China, which is touching around $600 Bn in factoring. More worrisome is the low number of firms that are involved in factoring as of now. Even with the factoring reforms that have taken place, the new entrants are still under 50. China has over 2000 firms in this space

- One of the key pain points in the area of e-commerce exports is that the knock-off in the EDPMS system of RBI is a painful area due to the cost of compliance. Any e-commerce exporter with low-value but higher volume transactions cannot pay the kind of charges levied by the banks. A typical transaction that gains a profit of 500 to 1000 rupees cannot be burdened with the same amount to knock off the outstanding on the EDPMS. The banks levy, on average, 500 rupees to generate the BRC and knock off the EDPMS outstanding.

- [58]Mr. Sunil Kanoria, a Kolkata-based Indian businessman with over 35 years of experience in the infrastructure sector including infrastructure leasing & finance, served as former President Assocham and Member of the Infrastructure Sector in the 10th Five Year Plan of the Planning Commission of the Govt. of India highlighted the need for establishing development finance institutions towards bridging the trade finance gap for MSMEs in India. Some of the suggestions include a) Reinvigorate DFIs: Establish new DFIs focused on medium enterprises, with innovative financial products such as mezzanine financing, structured debt, and

[58] Voice of Industry, Times of India, https://timesofindia.indiatimes.com/blogs/enterpreneur-voice/india-needs-development-finance-institutions-bridging-gap-for-msmes/

credit guarantees, b) Encourage Private Participation: Collaborations with private players can bring agility and expertise to the table and c) Leverage Technology: Digital platforms like TReDS (Trade Receivables Discounting System) can streamline financing for MSMEs, enhancing liquidity and efficiency

- [59]Addressing the ongoing challenges of credit access for MSMEs, Mr Sanjay Nayar, cited, that despite the policy encouraging collateral-free loans, banks often require personal property collateral and charge higher interest rates, hindering credit access. He proposed that banks to disclose the number and amount of collateral-free loans granted periodically. Furthermore, he suggested that the upcoming Budget should allocate additional resources to enhance credit flow to the MSMEs.

- [60]According to Sanjay Budhia, Chairman of the CII National Committee on EXIM – High interest rates, declining export finance impacting exporters' competitiveness. MSME exporters, who form the backbone of India's export ecosystem, would benefit greatly from increasing the interest subsidy for pre- and post-shipment credit from 3% to 5%, particularly in key sectors such as leather, engineering, apparel, and gems and jewellery.

- [61]Revolutionizing MSME Finance: 121 Finance and GeM Sahay 2.0. 121 Finance partners with GeM, Perfios, and Tata Consultancy Services to launch GeM Sahay 2.0, enhancing financial accessibility for MSMEs. This initiative, backed by the OCEN framework, allows 121 Finance to provide specialized loan products and digital-first financial solutions to solve B2B trade credit challenges. The new version, GeM Sahay 2.0, aims to boost financial inclusion while overcoming MSMEs' credit access challenges. Initiatives like this, alongside the OCEN framework, exemplify how digital platforms can transform the lending landscape in India.

- [62]121 Finance and AMI together will complement India's Trade Credit Ecosystem, much like key government initiatives such as OCEN, Indian Banks Digital Infrastructure Company, GSTN, PSL Association of India,

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[59] Voice of Industry, Mr. Sanjay Nayar, President, Assocham, https://www.businessworld.in/article/assocham-seeks-further-ease-of-doing-biz-credit-flow-for-msmes-543384
[60] Update from FIEO & CII, coverage by The Hindu, https://www.thehindu.com/business/high-interest-rates-declining-export-finance-impacting-exporters-competitiveness-ciis-budhia/article69055142.ece
[61] Voice of Industry - Sagar Parikh from OCEN, Revolutionizing MSME Finance, https://www.devdiscourse.com/article/headlines/3240718-revolutionizing-msme-finance-121-finance-and-gem-sahay-20
[62] 121 Finance – India's largest independently owned NBFC Factor, https://www.ptinews.com/press-release/121-finance-acquires-acceptmyinvoice-com-to-remove-friction-in-trade-credit-for-msmes/1871062

and Supply Chain Enabling FinTechs, all of whom aim to make access to trade credit easier and more efficient for SMBs across the country. 121 Finance Pvt. Ltd., India's largest independently owned NBFC-Factor, has announced a strategic acquisition of AcceptMyInvoice.com.

- [63]According to ASSOCHAM, some of the areas of intervention to facilitate affordable export finance to MSME exporters is a) development of specialised loan products with simplified documentation requirements and reduced collateral demands and b) establish a dedicated MSME coordination council to streamline scheme implementation and resolve inter-state challenges

- [64]According to Shri Ashwani Bhatia, Whole-Time Member, SEBI, Meeting the credit needs of MSMEs requires diverse financing sources. He further emphasized that the number of people approaching banks for credit is much higher vis-à-vis the number of entrepreneurs who are able to secure credit, primarily due to the lack of collateral. He further highlighted the importance of credit guarantee schemes like CGTMSE, which are crucial to providing essential support to MSMEs, especially those without collateral.

- Bank of Baroda (BoB) has introduced two loan schemes targeting MSMEs to ease access to financing for the MSME sector.

    - Scheme 1: Baroda Mahila Swavalamban, focuses on women entrepreneurs. Offering competitive interest rates starting at 9.15%, the scheme is linked to the bank's Repo Linked Lending Rate (BRLLR). Loan amounts range from Rs 20 lakh to Rs 7.5 crore, with relaxed margin requirements for capital expenditure. For loans up to Rs 5 crore, collateral is not required if supported by a guarantee from the Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE)
    - Scheme 2: Baroda Smart OD, is a digital overdraft facility for GST-registered MSMEs. Using technology-driven credit assessments based on GST returns, banking activity, and online transactions, the facility offers overdraft limits between Rs 50,000 and Rs 25 lakh.

[63] ASSOCHAM, https://knnindia.co.in/news/newsdetails/msme/assocham-study-recommends-simplified-loan-process-sans-collateral-for-msmes
[64] Press Information Bureau, according to SEBI, https://pib.gov.in/PressReleasePage.aspx?PRID=2051311

- [65]HSBC and IFC will jointly provide funding to trade transactions valued at up to $1 billion, in a move to help fill a gap in financing for emerging market trade. The new facility is set up under IFC's Global Trade Liquidity Program, which has supported more than $80 billion in global trade volume through nearly 30,000 transactions over the past 20 years.

- [66]SIDBI signed a Memorandum of Understanding (MoU) with the Peenya Industries Association strengthening the collaboration to support MSMEs through capacity building, credit facilities, and knowledge-sharing.

- [67]Accumn, a subsidiary of Yubi Group, will assist India Factoring in enhancing its credit assessment process through data inputs and help it onboard new clients in India who need cross-border financing. With Accumn's platform, India Factoring will have access to a centralised source of publicly available information and the ability to track customer profiles in real time after disbursement. This tracking includes updates on changes in borrower status, company leadership, financial condition, and legal matters for better credit decisions.

- [68]HSBC collaborates with Dowsure to boost ecommerce finance and to improve trade financing solutions for businesses engaged in ecommerce in mainland China and Hong Kong. The partnership simplifies the credit assessment process for Amazon merchants applying for trade finance from HSBC. By utilising transaction data, such as inventory, sales, and refund records, HSBC can better manage credit risks through real-time commercial data provided by Dowsure. To further support ecommerce merchants, HSBC is also collaborating with the Hong Kong Export Credit Insurance Corporation (HKECIC). This partnership aims to improve the data-driven trade finance offerings for ecommerce businesses in Hong Kong, with HKECIC providing insurance coverage for the loan portfolio within its merchant financing program.

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[65] Initiatives by industry, HSBC & IFC, https://www.moneycontrol.com/news/world/hsbc-world-bank-s-ifc-launch-1-billion-trade-finance-programme-for-emerging-market-12888048.html
[66] SIDBI & Ministry of Finance, https://economictimes.indiatimes.com/news/india/nirmala-sitharaman-launches-national-msme-cluster-outreach-programme-inaugurates-new-sidbi-branches-in-bengaluru/articleshow/115136464.cms?from=mdr
[67] India Factors, YourStory, https://yourstory.com/2024/11/yubi-tech-nbfc-factor-india-factorings-trade-finance-operations
[68] Voice of Industry, HSBC, https://thepaypers.com/online-mobile-banking/hsbc-teams-up-with-dowsure-to-boost-ecommerce-finance--1270672#

- [69]Beyond credit scores: Redefining creditworthiness for financial empowerment. Alternative credit scoring leverages non-traditional data sources—such as utility payments, mobile transactions, and even social media activity—to assess an individual's creditworthiness, stepping away from conventional credit reports. By analysing digital footprints, fintech firms open up financial opportunities for those excluded from formal banking systems. In India, the need for alternative scoring is pressing, as many remain "credit invisible" due to informal work and lack of documentation.

  According to the Global Findex Database 2021, only 35 percent of adults had a bank account as recently as 2011, highlighting the long-standing barriers to financial access. The Reserve Bank of India's (RBI)Financial Inclusion Index (FI-Index) reflects gradual improvements, rising from 56.4 in 2021 to 64.2 in March 2024. This persistent gap underscores the urgent need for alternative credit scoring models that can democratise access to financial services for those currently excluded from formal banking systems.

  [70]Alternative credit scoring in India, though still in its nascent stages, is gaining traction. Lenders, instead of relying solely on conventional credit scores, can now access a wealth of consent-driven, unstructured data. This data is fed into platforms like CreditVidya, where AI and machine learning algorithms process it to assess credit risk, even when applicants lack traditional credit histories. Juvo is another organisation that leverages data from mobile user behaviour to create proprietary credit scores. These scores unlock new financial opportunities for individuals who lack formal credit histories, offering them access to resources that were previously out of reach.

  While alternative credit scoring offers a promising path toward financial inclusion, it raises important questions around privacy, data integrity, and regulation. The extraction of personal data—ranging from mobile transactions to social media activity—demands stringent safeguards to prevent breaches or misuse, particularly in a country like India, where data security is a growing concern. Moreover, the quality and reliability of this data vary, and when inaccurate, it risks creating lending decisions as erratic as the financial behaviour it seeks to capture.

[69] Beyond credit scores, New Initiatives, https://www.orfonline.org/expert-speak/beyond-credit-scores-redefining-creditworthiness-for-financial-empowerment
[70] Role of Alternative Data and AI Tools to Deepen Distribution of Credit Products, https://www.news18.com/business/banking-finance/role-of-alternative-data-and-ai-tools-to-deepen-distribution-of-credit-products-9087856.html

- [71]Newgen's trade finance platform is the world's first low-code, end-to-end automated system. Built on the NewgenONE digital transformation platform, the software provides a fast and sustainable way to streamline trade finance, embedding content within applications to facilitate real-time access to disparate information from across an organisation.

  Newgen's advanced system allows banks to automate every aspect of trade finance, such as digitising documents, automating data extraction and classification, performing intelligent routing and delegation, enabling smart approvals and decisions, managing communications, and executing straight-through trade transactions, including the most complex charge calculations.

- [72]M1xchange, a digital invoice discounting platform for MSMEs, has set up an international platform –M1NXT ITFS– in GIFT City to enable Indian MSMEs avail global factoring services. Indian MSMEs didn't have access to global banks or international factoring service providers to obtain financing or factoring (discounting of trade receivables). With this platform, foreign banks registered under M1NXT ITFS can seamlessly provide trade financing facilities to Indian MSMEs, and that too at a comparatively lower cost.

- [73]HSBC, the world's largest trade-finance bank by revenue, launched its Global Trade Solutions platform last month, a rebrand of its long-standing Global Trade and Receivables Finance (GTRF) business.

- [74]Key takeaways from the survey by ICRIER
  - Through tools like India Stack and the account aggregator (AA) network, the country is aiming to close the credit gap, as per the June edition of the Indian Council for Research on International Economic Relations- Asian Development Bank Institute's (ICRIER-ADBI) policy brief.
  - As per the report, there exists a lack of information infrastructure for MSMEs, which increases the information gap between lenders and borrowers. MSMEs often have minimal connections to capital markets

[71] New initiatives, Newgen Trade Finance Platform, https://www.zawya.com/en/press-release/companies-news/newgen-software-launches-worlds-first-low-code-end-to-end-trade-finance-platform-in-middle-east-u190tx47
[72] M1xchange Invoice Discounting Platform, https://www.thehindubusinessline.com/companies/msme/m1xchange-launches-international-trade-financing-platform-for-indian-msmes-at-gift-city/article68545449.ece
[73] HSBC – Trade Finance Solution, https://www.euromoney.com/article/2dib2tpj5mbqhu8ol1zpc/treasury/hsbcs-big-bet-on-trade-finance
[74] ICRIER Report, https://businessworld.in/article/msmes-lenders-struggle-to-bridge-credit-gap-amid-info-gaps-collateral-shortage-526502

and, financial institutions find it costly to monitor small loans continuously.

    - The report identifies key problems regarding the credit gap. These include the inadequacy of collateral, difficulties in verifying the creditworthiness of MSMEs and high transaction costs associated with small loans
    - The report also highlights innovation and a comprehensive set of digital tools such as Aadhaar and Account aggregator network. Aadhaar works as a foundation for electronic know-your-customer (eKYC) processes and for Aadhaar-enabled payment systems.

- [75]Stenn Technologies Expands Trade Finance Solutions to Gujarat SMEs. Through Stenn, SMEs can access financing and trade credit protection ranging from small to large invoices within 48 hours of goods being shipped. Traditional banks often prioritize lending to top-tier companies, leaving many SMEs unable to meet stringent criteria for bank products. Stenn is a global leader in digital trade finance, supports small and large businesses by providing liquidity to global supply chains, enhancing cash flow, and increasing supplier flexibility.

- Global developments and new initiatives in Trade Finance

    - [76]As per UK Budget 2024, special importance was given to trade and supply chain finance industries. Key components of the budget included a) Export finance support for critical minerals - provide export finance to companies supplying critical minerals to key domestic manufacturing sectors, b) Prompt Payments - companies will have to pay suppliers within an average of 45 days to be eligible to apply for large government contracts, and c) Revamped Freeports boost sea trade – to incorporate improved sea and air infrastructure with conditions beneficial to businesses to promote investment in areas that have historically been less economically developed

    - [77]In the era of Trade 1.0, the physical constraint of moving goods piecemeal posed a significant challenge. The advent of containers marked the birth of Trade 2.0. Goods could now be seamlessly transferred in 20-

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[75] Stenn Technologies, https://smestreet.in/infocus/stenn-technologies-expands-trade-finance-solutions-to-gujarat-smes-4772435

[76] Trade Finance Global, https://www.tradefinanceglobal.com/posts/2024-budget-mixed-blessing-trade-finance-sector/

[77] Trade Finance Global, https://www.tradefinanceglobal.com/posts/moving-goods-is-easy-moving-data-is-hard-trade-3-0/

foot-long metal boxes between ships, trucks, and trains. The Trade 3.0 era demands complex supply chains and fast-paced coordination of market participants across the world while maintaining resilience to disruptions without incurring excessive costs. Traditional optimisation strategies in the physical realm – such as using larger ships, automated terminals, or network redesigns – are no longer sufficient.

- [78]The African Development Bank Group and the Eastern and Southern African Trade and Development Bank (TDB Group) have signed an agreement for a $150 million Trade Finance Unfunded Risk Participation Agreement (RPA) facility. TDB Group offers bespoke trade finance solutions such as import and export financing, structured commodity finance, pre- and post-shipment finance, issuance of LCs, guarantees and bonds, and supplier-focused working capital solutions. Beneficiaries of this facility are local and regional Issuing Banks in TDB Group's member states, and African SMEs who rely on these Issuing Banks to fulfil their trade finance commitments.

    - aims at bolstering intra-Africa trade, promoting regional integration, and contributing to the reduction of the trade finance gap in Africa
    - provide guarantee cover of 50% and up to 75% for transactions in Low-Income Countries (LICs) and transition states
    - expected to support about $1.8 billion of trade over the next three years

- [79]German factoring market, which has seen years of constant growth and reached almost €400 billion in size, is forecasted to stop growing in 2024 for the first time ever. This might be a sign of a mature market, although Germany's 9% factoring ratio sits well below its neighbours' (21% in Belgium, 16% in France). Germany's lacklustre GDP growth, the lowest in the EU at a forecasted 0.1% in 2024, could be another reason for the decline.

- [80]Amsterdam-headquartered fintech MODIFI, a global player in cross-border B2B trade finance and payments solutions to finance about 500

[78] African Development Bank, https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-and-tdb-group-strengthen-trade-finance-partnership-through-trade-finance-unfunded-risk-participation-agreement-79339
[79] Trade Finance Global, German Factoring Market, https://www.tradefinanceglobal.com/posts/podcast-factoring-and-receivables-whats-in-store-for-2025/
[80] MODIFI Platform, https://www.business-standard.com/companies/news/fintech-firm-modifi-targets-to-finance-5-000-smes-in-next-2-3-years-124120300760_1.html

small and medium enterprises (SMEs) across India in the next two to three years in collaborations with leading trade bodies. [81]MODIFI's proprietary platform provides SMEs with collateral-free financing. The platform is fully compliant with Reserve Bank of India regulations

- [82]The Bank of Korea (BoK) reduced its benchmark interest rate by 25 basis points to 3%, a move anticipated by only a minority of economists. Central banks in New Zealand, Canada, and Sweden have similarly implemented significant rate reductions in recent months.

- [83]The International Islamic Trade Finance Corporation (ITFC) and ESCAP have embarked on the implementation of a strategic partnership for a project under the Trade Connect Central Asia+ (TCCA+) Program in the region: "Boosting Exports through Foreign Direct Investments (FDI). The project complements ITFC's flagship Trade Connect Central Asia+ (TCCA+) Program which aims to achieve inclusive economic growth, regional economic cooperation and promote trade, trade finance among the OIC member countries in Central Asia. It also directly aligns with ESCAP's mission to enhance sustainable development in the region and to foster cross-border investment that supports export growth.

- [84]Indonesia Trade Finance Study

  Since Indonesia has limited access to formal credit, access to trade financing remains one of the most significant challenges for Indonesian MSMEs. The financing gap is driven in part by a lack of creditworthiness, where banks hesitate to lend due to insufficient credit histories. But it is compounded by information asymmetry, where inconsistent or unavailable data makes it difficult to assess risk accurately. Additionally, many MSMEs lack the assets required for traditional loans, and collateral requirements are cumbersome.

  Only 27.4% of MSMEs have access to bank loans or credit lines, while 66% rely on internal resources for financing. MSMEs are particularly underserved, receiving just 30% and 24% of total MSME loans, respectively, compared to 46% for medium-sized enterprises. State-

[81] MODIFI – Trade Platform, https://www.modifi.com/products/trade-platform
[82] Trade Finance Global, https://www.tradefinanceglobal.com/posts/south-korea-cuts-rates-amidst-us-uncertainty/
[83] UNESCAP – Export Finance & FDI, https://www.unescap.org/news/international-islamic-trade-finance-corporation-and-escap-join-forces-effort-grow-export
[84] Trade Finance Talks, Indonesia Trade Finance Case Study, https://www.linkedin.com/pulse/indonesias-trade-finance-unlocking-growth-inclusion-ibukf/

owned enterprise (SOE) banks, despite their mandate, allocate only 26% of their lending portfolios to MSMEs, which is insufficient to drive significant MSME growth.

- [85]Uzbekistan Trade Finance Case

  MSMEs currently account for 54% of Uzbekistan's GDP and employ 78% of the workforce. However, these businesses frequently encounter challenges in securing affordable credit. As of 2019, the MSME financing gap stood at $11.8 billion in 2019, equivalent to 17.7% of the country's GDP.

  The OPEC Fund for International Development has extended a $30 million loan to Ipak Yuli Bank, marking its first direct financing to a privately owned bank in Uzbekistan; aims to expand financing access for MSMEs, with a particular focus on supporting women-owned businesses in the central Asian country.

- [86]A key innovative proposal is the potential creation of trade finance gap bonds, similar to existing green and social bond frameworks. The Washington Declaration explicitly links the trade finance gap to the UN Sustainable Development Goals, arguing that addressing this shortfall could significantly accelerate progress on poverty reduction, employment, and economic growth.

- [87]Sierra Leone – AfDB has approved a $4 million trade finance transaction guarantee for Access Bank Sierra Leone Limited (ABSL) to support small and medium-sized enterprises (SMEs) and local firms in Sierra Leone. This AAA-rated guarantee will provide 100 percent cover to international confirming banks for the non-payment risk taken on ABSL's trade finance transactions conducted on behalf of SMEs, local corporates, and women-led businesses in Sierra Leone, a transition state. It will enable ABSL to support the importation of strategic consumer goods such as rice, cereals, cooking oil, and related soft commodities within key value chains. The facility is expected to support about $36 million of trade over the next

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[85] Trade Finance Global, https://www.tradefinanceglobal.com/posts/opec-fund-provides-30m-to-uzbek-bank-to-support-local-msmes/

[86] International Trade and Forfaiting Association (ITFA), Trade Finance Gap Bonds, https://www.tradefinanceglobal.com/posts/trade-finance-leaders-seek-un-support-to-close-global-economic-divide/

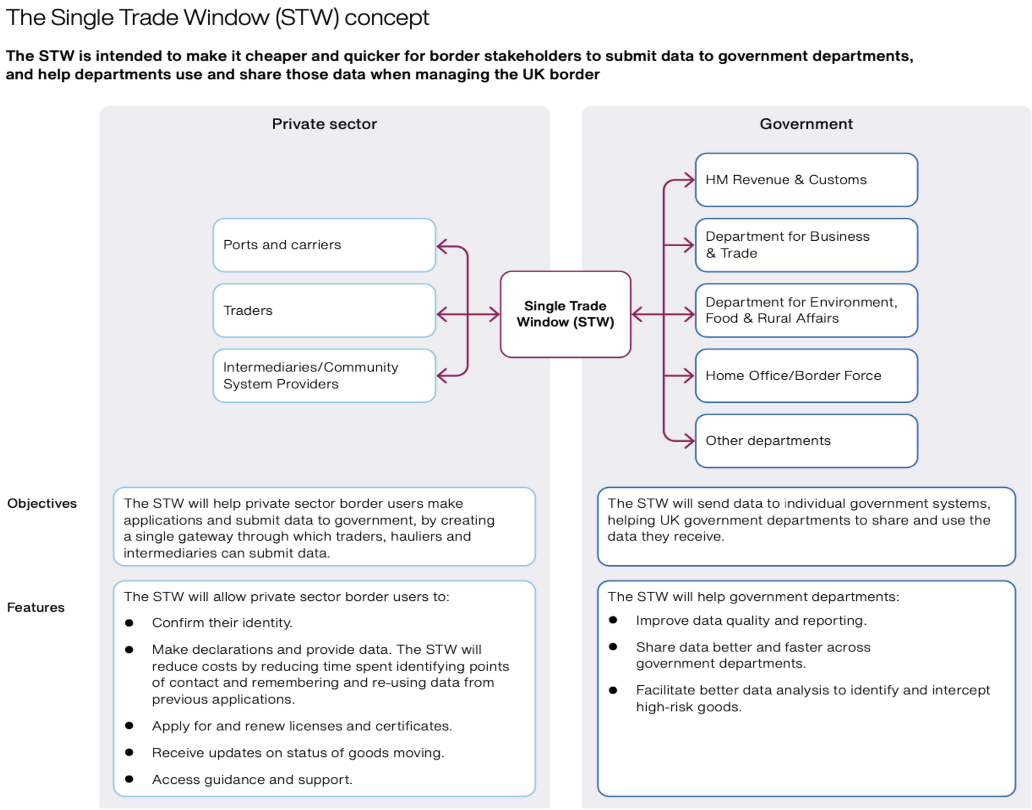
[87] African Development Bank (AfDB), https://www.afdb.org/en/news-and-events/press-releases/african-development-bank-approves-4-mln-trade-finance-guarantee-boost-sme-growth-sierra-leone-78734

three years and promote intra-Africa trade in line with the aspirations of the Africa Continental Free Trade Area (AfCFTA).

- [88]The Central Bank of Brazil (BCB) has teamed up with a host of industry players to develop a trade finance solution for phase two of its central bank digital currency (CBDC) pilot Drex. This infrastructure will largely be based on Chainlink's cross-chain interoperability protocol (CCIP), which will facilitate connectivity between BCB and an unnamed foreign central bank through the on-chain tokenisation of an Electronic Bill of Lading (eBoL).

- [89]United Kingdom – UK government has announced its plans to halt the development of the Single Trade Window (STW), a digital service that would have streamlined data exchange for cross-border trade. The STW would have provided importers and exporters with a single portal to submit all the documents necessary to move goods across borders. The proposed system would have unified all requirements on one digital portal managed by HMRC, making it easier for the government to collect and process the data. Under the current system, traders have to submit information and documents to a wide range of government agencies, which can be time-consuming and inefficient.

[88] Central Bank of Brazil, https://www.fintechfutures.com/2024/11/central-bank-of-brazil-to-pilot-cbdc-trade-finance-solution-with-chainlink-microsoft-7comm-and-banco-inter/
[89] Single Trade Window, Trade Finance Global, https://www.tradefinanceglobal.com/posts/government-announces-rollback-of-single-trade-window-sparking-doubts-about-future-of-post-brexit-trade/




- [90]Adoption of Paper-less trade – pros and cons: By recognising electronic trade documents as legally equivalent to their paper counterparts, the ETDA has laid the foundation for faster, more efficient, and more sustainable trade processes. Early adopters have already begun to realise the significant benefits, from reduced transaction times to cost savings, while the broader industry is beginning to shift towards wider acceptance of digital trade solutions.

  The transition to digital trade documents also requires investment – both in technology and in training personnel to use the new systems. While larger corporations may have the resources to make this shift, many smaller businesses feel they lack the capacity to undertake such a transformation.

  Small- and medium-sized enterprises (SMEs), in particular, have expressed concerns that digitalisation may require a wholesale overhaul of their processes, which they are not ready for.

[90] Voice of Industry, Mr. Surath Senupta, MD, Trade & Working Capital, Lloyds Banking Group, https://www.tradefinanceglobal.com/posts/podcast-unpacking-the-impact-of-the-etda/

- [91]Risk distribution is another vital strategy in closing the trade finance gap and the originate-to-distribute (OTD) model has gained traction in recent years, offering a solution that enables banks to shift risk from their balance sheets to a wider network of institutional investors.

  This model, in which banks originate loans and distribute the associated risks to a diverse range of investors (such as pension funds, insurance companies, and non-bank financial institutions), is particularly well-suited for trade finance, where high levels of risk concentration often hinder banks from extending their full lending capabilities to smaller businesses. This collaborative approach enables banks to offload risk and allows institutional investors to participate in trade finance, an asset class that many are just beginning to explore.

  OTD model is not just a tool for reducing risk exposure but a mechanism for expanding access to capital across the trade finance ecosystem. As more institutions become comfortable with trade finance as an asset class, the network of investors willing to support SME lending continues to grow.

- [92]United Kingdom – Standard Chartered, a leading international cross-border bank, and British International Investment (BII), the UK's development finance institution (DFI) and impact investor, announce the signing of a USD350 million risk participation agreement. This facility aims to bolster the trade finance needs of SMEs and corporates across Africa and South Asia and to boost economic growth in these regions.

  The renewed facility will cover an expanded number of dynamic markets and seek to provide much needed support in trade and economic growth in Africa and South Asia by further enabling trade finance access and liquidity across Standard Chartered's extensive global network. It will support many sectors such as food, agriculture, healthcare, industrials, metals infrastructure, electrical, electronics, technology, telecom and mobility to name a few.

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[91] Risk Distribution Strategy towards bridging trade finance gap, https://www.tradefinanceglobal.com/editions/are-we-doing-enough-to-bridge-the-trade-finance-gap/

[92] British International Investment, https://www.bii.co.uk/en/news-insight/news/standard-chartered-and-british-international-investment-renew-commitment-to-support-trade-finance-in-frontier-and-emerging-markets-in-africa-and-south-asia/

- [93]IFC helping African banks to make relationships with international lenders. IFC is also taking risks off banks' books, covering a significant chunk of trade finance transaction.

- [94]Increasing supply chain finance empowers small businesses to boost trade – Despite the growth of trade finance, small businesses in developing countries have not fully benefited from this expansion due to challenges such as weak legal frameworks, inadequate technological infrastructure, and high costs. In Viet Nam and Cambodia, for instance, "only 0.5% of their trade is supported by supply chain finance from local financial institutions," which limits their ability to move up the value chain.

- [95]For exporters especially micro, small and medium-size enterprises (MSMEs) – securing supply-chain finance from local banks is a significant challenge, owing to weak legal frameworks, inadequate technological infrastructure and prohibitively high costs. This limits many firms' ability to grow and thrive, and their countries cannot reap the full benefits of global trade. Even in countries like Vietnam and Cambodia – where many small firms have managed to tap into supply chains in sectors like textiles and consumer electronics, despite operating primarily on a cash basis – shortages of supply-chain finance are causing economic harm.

  WTO research shows that a 10% increase in the use of international factoring – the main type of supply-chain finance, used primarily by MSMEs to secure immediate cash against their unpaid outstanding invoices – can boost countries' trade by 1%.

- [96]The International Finance Corporation (IFC) and DBS Bank have unveiled a $500 Mn financial initiative aimed at enhancing trade in emerging markets. This collaborative effort is part of IFC's Global Trade Liquidity Programme (GTLP) and seeks to increase capital and trade flows across Asia, Africa, the Middle East, and Latin America. The initiative is a strategic response to the US$2.5 trillion global trade finance gap, targeting economic acceleration in these pivotal regions.

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[93] Breaking down barriers to trade finance in Africa, https://www.euromoney.com/article/2dxqkjv0h88teg7hu9k3k/sponsored-content/breaking-down-barriers-to-trade-finance-in-africa
[94] WTO, https://www.wto.org/english/news_e/news24_e/trfin_25oct24_e.htm
[95] Data from joint trade-finance surveys conducted by the International Finance Corporation and the World Trade Organization, WTO, https://www.scmp.com/opinion/world-opinion/article/3283631/fairer-trade-expand-supply-chain-finance-emerging-markets
[96] IFC bridging trade finance gap, https://fintechnews.sg/94030/blockchaintradefinance/ifc-dbs-address-trade-finance-gap-with-us500-million-programme/

- [97]BIS launches project to connect open finance infrastructures across borders. It is a collaboration between the BIS Innovation Hub's Hong Kong centre, the Central Bank of the United Arab Emirates (UAE), Banco Central do Brasil, the UK's Financial Conduct Authority (FCA), Hong Kong Monetary Authority, Global Legal Entity Identifier Foundation, International Chamber of Commerce Digital Standards Initiative and Hong Kong University Standard Chartered Foundation FinTech Academy.

  Businesses engaged in trade finance face numerous challenges when using financial products that facilitate trade, such as letters of credit, trade credit insurance and supply chain financing,' the webpage reads. 'Processes are often inefficient and costly due to excessive manual paperwork and a lack of digital data portability. Digitalising trade finance can promote sustainable economic growth and support financial stability, contributing to the overall resilience of the global financial system.

  BIS states that about 70 jurisdictions currently regulate open finance through 'various approaches', pointing out that these open finance ecosystems often operate with differing domestic standards and protocols, preventing the smooth flow of data across borders. 'But technologies based on proven APIs have the potential to significantly enhance cross-border data portability via these existing ecosystems, as the true value lies in facilitating international data flows,' BIS states.

  The initiative, which has been called 'Project Aperta', is to explore how to reduce 'frictions and costs in global finance by enabling seamless cross-border data portability'. Project Aperta 'could play a pivotal role in bridging the gap'

- [98]Hong Kong – The Hong Kong Monetary Authority's (HKMA) efforts to establish a joint task force with banks to bolster small and medium-sized enterprise (SME) lending in Hong Kong is a welcome move, especially at a time when the credit gap facing these businesses is reaching more than HK$170 billion (US$21.8 billion) according to one estimate.

  One of the biggest hurdles to growth faced by SMEs is securing working capital and trade finance loans. While banks and financial institutions have

[97] Project Aperta, https://www.globalgovernmentfintech.com/bis-project-aperta-cross-border-data-portability/
[98] Hong Kong financing small businesses, https://www.scmp.com/opinion/letters/article/3279373/hong-kong-could-look-beyond-big-banks-help-small-businesses

been instrumental in offering long-term business loans, there is an opportunity to collaborate with the city's alternative lenders. These additional options offer a more diversified risk appetite and leverage real-time data, enhancing access to short-term financing for businesses.

- [99]RIVO Platform is revolutionizing trade finance with electronic bill of lading (eBL). The key is that RIVO™ is orchestrating the ownership transfer on the eBL issuing platforms, so the 'truth' and transparency will always be on the respective eBL platforms, making it very straightforward for parties to collaborate.

  Using the RIVO™ platform enables banks to process any type of eBL. Once the exporter uploads an eBL and presents it to the bank, the downstream parties can see the document, similar to the paper process.

- [100]UAE – ADCB (one of largest banks in UAE) provides a host of working capital solutions to help SMEs manage their finances more effectively. This includes
  - Invoice financing solutions, which allows SMEs to make payments to suppliers and receive cash against their sale of goods or services. Supply chain finance, like invoice financing and dynamic discounting can also help SMEs optimize their working capital by allowing them to raise finance against their accounts receivable, improving cash flow and liquidity
  - bank also helps clients with loans to settle their LC payments and provides loans or discounted payments on shipments under export LCs

  ADCB works closely with Abu Dhabi and UAE government entities to increase financial inclusion of SMEs and help private sector access critical trade finance solutions. The bank is committed to helping build an effective SME ecosystem in UAE by rationalizing SME onboarding process for banks, optimising processes around periodic account reviews and developing customised credit guarantee and administrative programmes.

  ADCB's suite of trade finance options include widely utilised instruments such as Bank Guarantees (BGs) and Letter of Credit (LCs) which are critical for managing counterparty risks.

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[99] RIVO Trade Finance Platform, https://treasuryxl.com/blog/from-paper-to-digital-in-one-hour-how-rivo-is-revolutionizing-trade-finance-with-electronic-bills-of-lading/

[100] Empowering SMEs through Trade Finance, https://www.euromoney.com/article/2dg3w9iinyevt3f088tmo/sponsored-content/unlocking-growth-empowering-smes-through-trade-finance

▪ Turbocharging the growth of factoring and supply chain finance in MENA and India. The online platform, efcom's efOnline, enhances the interaction between factors and clients. This web-based application provides a real-time dashboard, live data reports, and comprehensive debtor and invoice overviews.

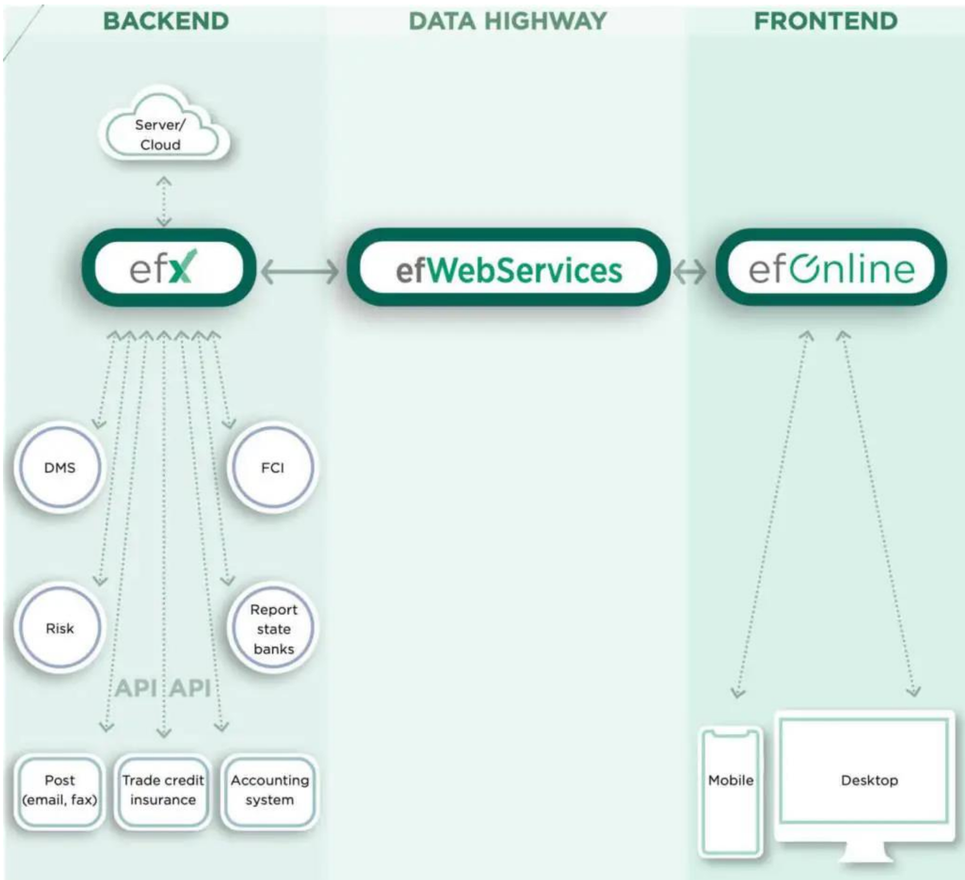


*Figure 11 efcom's efOnline Platform*

- **National Committee on Trade Finance (NCTF)**

○ About NCTF

It was pointed out during the industry consultations and brainstorming sessions about the challenges pertaining to `presence of multiple stakeholders in decision/ policy making & facilitation – RBI, MoCI, DFS, ECGC, Exim bank, DEA, IFSCA, Commercial banks, Factors, ITFS that causes unnecessary delay & ambiguity in decision making; Shared and overlapping responsibilities; Different working mechanism and data collection across different departments.

In this regard, Government appreciated the idea of setting up of a National Trade Finance Committee (Secretariat with representatives from concerned departments and industry bodies) and directed efforts to move forward with its creation.

Additionally, Government decided to form focused Working Groups under the NCTF to delve deeper into respective issues and prepare an implementation strategy, roadmap for future. These focused working groups will have representatives from government, industry bodies, industry stakeholders.

- Suggestive Working Groups
    - Working Group 1: Trade Credit
    - Working Group 2: Trade Credit Insurance
    - Working Group 3: Cross Border Factoring
    - Working Group 4: Digital Public Infrastructure & Digitalisation of Trade Documents through DNIs

*Note: More working groups/ sub-working groups can be formed or members/ representatives across different working groups could be modified in consultation with advisory council of Advisory Council of National Trade Finance Committee (NTFC)*

- Terms of Reference & Responsibility Matrix (suggestive and high-level)
    - Advisory council may discuss the immediate/ high importance matters with Commerce & Industry Minister, Finance Minister or PMO depending upon the sensitivity of the issue
    - Encourage collaboration amongst different departments to work/ monitor action items finalised during the meeting; form sub-working groups in case necessary to address specific focused issues/ immediate matters
    - Call of brainstorming sessions/ workshops/ Chintan Shivir to voice the concerns/ issues of the exporters (especially MSMEs & E-commerce), banks and other concerned players in this industry
    - Discuss and build consensus on effective way ahead/ action plans during Chintan Shivir/ industry workshops from both govt and industry representatives
    - Plan regular capacity building workshops/ training sessions in collaboration with concerned industry associations and industry leaders
    - Prepare monitoring tracker to measure the status of implementation/ recommendations; highlight any concerns to group leader/ advisory council at the earliest in case of any default

- Set the KPIs such as implementation timelines, milestones, achievements, disbursement of export credit, trade credit insurance, factoring services and digitalisation of trade incentives
- Schedule monthly/ fortnightly meetings with the concerned members in consultation with group leader

# Abbreviations

AA- Account Aggregator
AD-Authorized Dealer
ADB-Asian Development Bank
AEM-Anonymised Escalation Mechanism
AI- Artificial Intelligence
AML- Anti Money Laundering
ANBC- Adjusted Net Bank Credit
API- Application Programming Interface
BG-Bank Guarantee
BIN- Business Identification Number
Bn- Billion
CBDC-Central Bank Digital Currencies
CEOBE- Credit Equivalent of Off-Balance Sheet Exposure
CIC-Credit Info Centre
DGCI&S-Directorate General of Commercial Intelligence and Statistics
DGFT-Directorate General of Foreign Trade
DIFC-Dubai International Financial Centre
DNI-Digital Negotiable Instruments
DSI-Digital Standards Initiative
EBRD- European Bank for Reconstruction and Development
ECA- Export Credit Agency
ECGC-Export Credit Guarantee Corporation
ECTS-E-Cargo Tracking System
EDI-Electronic Data Interchange
EDPMS- Export Data Processing and Monitoring System
EPC-Export Promotion Council
ERP- Enterprise Resource Planning
EXIM-Export Import
FCI-Factor Chain International
FCY-Foreign Currency
FEMA-Foreign Exchange Management Act
FIP-Financial Information Providers
FIU- Financial Information Users
G2G- Government to Government
GDP- Gross Domestic Product and Gross Direct Premium
GIFT- Gujarat International Finance Tec-City
GPS- Global Positioning System
GSTN- Goods and Services Tax Number
HKECIC-Hong Kong Export Credit Insurance Corporation
ICC- International Chamber of Commerce
ICD- Inland Container Depots
ICEGATE- Indian Customs EDI Gateway
ICP- Integrated Check Post
ICRIER-Indian Council for Research on International Economic Relations
IEC-Import Export Code
IES-Interest Equalisation Scheme

IFSC- International Financial Services Centre
IFSCA- International Financial Services Centres Authority
INR- Indian Rupee
IoT-Internet of Things
IPC- Integrated check posts
IRDAI-Insurance Regulatory and Development Authority of India
LC- Letters of Credit
MAS- Monetary Authority of Singapore
MCA-Ministry of Corporate Affairs
MLETR-Model Law for Electronic Trade Records
ML-Machine Learning
MLT-Medium- and Long-Term
Mn- Million
MSME- Micro, Small and Medium Enterprise
NCTF- National Committee for Trade Facilitation
NBFC-Non-Banking Financial Company
PAN-Permanent Account Number
PIB- Press Information Bureau
RBI-Reserve Bank of India
SCF-Supply Chain Finance
SWIFT- Society for Worldwide Interbank Financial Telecommunications
TBML- Trade-Based Money Laundering
TCI-Trade Credit Insurance
WCO-World Customs Organisation
UNCITRAL- The United Nations Commission on International Trade Law
UNIDROIT- International Institute for the Unification of Private Law
US-United States
USD-Unites States Dollar

*Note: The facts and figures in this report have been taken till December 2024*

# Annexure 1

# Annexure 2

## Capital Relief in Trade Finance : Overview

While extending any export credit loan, banks are required to keep certain amount (capital) in reserve as mandated by the Central Bank. The capital reserve amount varies with risk attached with the loan. Globally the risk associated with the export credit loans are assessed on the basis of the [101]BASEL III recommendation.

Capital constraints have pushed banks to use credit risk mitigation tools (CRM) to soften the capital requirement and one of the risks mitigating tools which is used more often by banks globally is trade credit insurance. The reduction in the amount of capital that a bank or other financial institution is required to hold against potential losses is referred as capital relief. Capital relief can be provided by governments or regulators, and it can be used to encourage banks to make loans and investments.

## How does Trade Credit Insurance help?

Credit risk mitigation tools helps banks to hold lesser capital in their reserve which they can utilise for other purposes. By having Trade Credit Insurance, Bank/Financial institutions can safely expand its client base to include small and medium enterprises (SMEs) and other smaller clients that it might otherwise consider too risky.

Furthermore, Trade Credit Insurance provides a clearer understanding of risk exposure, often referred to as the "purity of risk." This concept acknowledges that while losses are inevitable, knowing the extent and timing of such losses can significantly mitigate risk. In essence, TCI doesn't just protect against potential defaults but also equips Bank/FI with the knowledge and tools to manage these risks effectively, ensuring sustained business growth and stability.

[102]In the Indian context, the guidelines on TCI, which were issued in 2016, did not allow the insurance companies to offer full fledge benefits that provides much needed protection to suppliers and restricts TCI covers to banks and financial institutions. Credit Insurance market in India is dominated by ECGC which provides only export credit insurance facilities to banks and exporters. Domestic credit

[101] Master Circular – Basel III Capital Regulations, https://rbidocs.rbi.org.in/rdocs/notification/PDFs/31MCE5308DBA8F0D411C80989DDF3259E843.PDF

[102] Report of IRDAI Working Group on Revisiting Guidelines on Trade Credit Insurance, https://icmai.in/upload/BI/IRDAI_WGC.pdf

insurance on the other hand is also being provided by all insurance companies except ECGC.

Around 80% of the total Credit Insurance business is contributed by ECGC Limited, which is outside the purview of the Trade Credit Insurance guidelines. The balance around 20% is contributed by other general insurance companies, both public and private, governed by the Trade Credit Insurance guidelines.

## Current Situation

The Reserve Bank of India (RBI) allows banks and financial institutions (FIs) to maintain lower capital reserves against loans backed by insurance policies from the Export Credit Guarantee Corporation (ECGC). This is because ECGC, being a government-owned entity, is considered to have a lower risk profile than private insurance companies.

As per RBI guidelines, Master Circular No. DBOD.BP.BC.6/21.06.201/2014-15 dated 1-07 2014 regarding credit risk mitigation (CRM) through guarantee, it has following key elements:

As per the Clause 7.5.4"……*guarantees are direct, explicit, irrevocable and unconditional banks may take account of such credit protection in calculating capital requirements*[103]"

This clause is same as the CRM related in BASEL III guideline and in other countries and jurisdictions, [104]Trade credit insurance is permissible as a credit risk mitigation instrument.

As per the "Master Circular – Basel III Capital Regulations" dated May 2023[105]

**Section 5.2.3 states**

"*The risk weight applicable to claims on central government exposures will also apply to the claims on the Reserve Bank of India, DICGC, Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE) and Credit Risk Guarantee Fund Trust for Low Income Housing (CRGFTLIH) and individual schemes under National Credit Guarantee Trustee Company Ltd. (NCGTC) which are backed by explicit Central Government Guarantee. The claims on ECGC will attract a **risk weight** of **20%**.*"

**Additionally, section 7.5.11 states**

"*Under the Export Credit insurance for banks on Whole Turnover Basis, the guarantee/insurance cover given by ECGC for export credit exposures of the bank's*

[103] https://www.rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=9015
[104] Report of IRDAI Working Group on Revisiting Guidelines on Trade Credit Insurance, https://icmai.in/upload/BI/IRDAI_WGC.pdf
[105] 31MCE5308DBA8F0D411C80989DDF3259E843.PDF (rbi.org.in)

*ranges between **50% and 75% for pre-shipment credit** and **50% to 85% in case of post-shipment credit**. However, the ECGC's total liability on account of default by the exporters is capped by an amount specified as Maximum Liability (ML). In this context, it is clarified that risk weight (as given in para 5.2.3 of this Master Circular) applicable to the claims on ECGC should be capped to the ML amount specified in the whole turnover policy of the ECGC. The banks are required to proportionately distribute the ECGC maximum liability amount to all individual export credits that are covered by the ECGC Policy. For the covered portion of individual export credits, the banks may apply the risk weight applicable to claims on ECGC. For the remaining portion of individual export credit, the banks may apply the risk weight as per the rating of the counterparty*."

Thus, for the portion of the exposure covered by ECGC guarantee, a risk weight of 20% is applied. This reflects the lower risk associated with ECGC-backed exposures, as the government-owned entity is considered more reliable. For the uncovered portion of the exposure, the risk weight is determined based on the credit rating of the borrower or a standard risk weight of 100% if the borrower is unrated.

For example, assume an exporter has an export credit exposure of ₹1 crore which is covered by a private insurance provider, the total RWA for this export credit exposure would be standard risk weight of 100% = **₹100lakhs**

However, in the case that 80% of this exposure is covered by an ECGC guarantee, the RWA for the covered portion (₹80 lakhs) would be 20% of ₹80 lakhs = ₹16 lakhs. If the remaining 20% (₹20 lakhs) is unsecured, the RWA would be 100% of ₹20 lakhs = ₹20 lakhs. Hence, the total RWA for this export credit exposure would be ₹16 lakhs + ₹20 lakhs = **₹36 lakhs.**

This shows that for an ECGC backed export credit, bank has a **surplus** of **64 lakhs.**

Lack of capital relief for private insurance players results in.

- **Limited Options for Exporters:** This policy limits the options available to exporters seeking credit insurance. They may feel compelled to choose ECGC even if other insurers offer better terms or more suitable products, simply to benefit from the capital relief available to their lenders.
- **Higher Cost of Credit:** Banks and FIs may charge higher interest rates on loans not backed by ECGC insurance due to the higher capital requirements. This could increase the cost of credit for exporters, potentially making them less competitive in international markets.
- **Uneven Playing Field:** The policy creates an uneven playing field for insurance companies in the export credit insurance market. Private insurers may find it difficult to compete with ECGC, even if they offer superior products or services, due to the regulatory advantage enjoyed by ECGC that is reflected in the market share of ECGC, which remains dominant in the Indian export credit insurance market.

## Reasons for not extending capital relief to private insurance providers in India

- **Higher Credit Risk:** Private insurers, unlike the government backed ECGC, may have varying levels of creditworthiness and financial stability. This exposes banks to the risk of insurer default, where the insurer may be unable to honour claims in the event of an export-related loss.
- **Inconsistent Underwriting Standards:** Private insurers may have different underwriting practices and risk assessment methodologies compared to ECGC. This could lead to inconsistencies in the quality of insurance coverage, potentially leaving banks exposed to greater losses.
- **Regulatory and Supervisory Challenges:** While the Insurance Regulatory and Development Authority of India (IRDAI) oversees the insurance sector, the regulatory framework for private insurers may not be as stringent as that for ECGC. This could raise concerns about the effectiveness of supervision and the ability to enforce prudential norms.
- **Concentration Risk:** If banks rely heavily on a few private insurers for export credit insurance, it could create concentration risk. If one of these insurers faces financial difficulties, it could significantly impact the banks' exposure to export-related losses.
- **Market Volatility:** The insurance market can be subject to volatility, with premium rates and coverage terms fluctuating. This could create uncertainty for banks, as the capital relief they receive may not always adequately reflect the underlying risk.

## Role of Capital Relief in Boosting Trade Credit Insurance Penetration in India

Increased Trade Credit Insurance penetration can significantly benefit the Indian economy:

- **Enhanced Competitiveness:** Lower financing costs enable exporters to offer more competitive prices in the global market, boosting their sales and market share. The RBI could consider extending capital relief to insurance policies from other reputable insurers that meet specific criteria, such as credit rating, claims history, and solvency ratio. This would level the playing field and promote competition in the market.

- **Increased Access to Finance:** TCI can make exporters more creditworthy in the eyes of lenders, increasing their access to trade finance and working capital.

- **Boost to SMEs:** Small and medium-sized enterprises (SMEs), which often face challenges in accessing trade finance, can benefit from TCI as it reduces the perceived risk for lenders.
- **Regulatory Harmonization:** The government could harmonize regulations for export credit insurance across different insurers, ensuring that all players are subject to the same prudential norms and reporting requirements. The following measures may be adopted.
    - **Definition of eligibility criteria for insurers:** The eligibility criteria for insurers whose policies can be used for capital relief should be clearly defined, focusing on their financial strength, expertise in trade credit risk, and claims-paying ability.
    - **Development of Risk Assessment Framework:** A robust risk assessment framework for factoring and bill discounting transactions should be developed, accounting for the creditworthiness of both the seller and the buyer, as well as the quality of the underlying TCI policy. The RBI should adopt a more risk-based approach to capital requirements for export credit, considering the specific risk profile of each transaction and the creditworthiness of the insurer. This would allow banks and FIs to make more informed decisions about credit risk mitigation and pricing.
    - **Establishment of stringent reporting mechanisms:** Mechanisms for continuous monitoring and reporting of TCI-backed transactions should be established, requiring banks to report relevant data to the RBI regularly.

In conclusion, capital relief plays a crucial role in promoting trade credit insurance (TCI) in India. By allowing banks and FIs to hold lower capital reserves against loans backed by TCI, the cost of capital is reduced which can lead to easier access to credit insurance through competitive interest rates, encouraging usage of trade credit insurance as a risk mitigation tool.

## Annexure[106]

As per the "Master Circular – Basel III Capital Regulations" dated May 2023

**Section 5.15.2**

**Table 8: Credit Conversion Factors – Non-market related Off-Balance Sheet Items**

| S.No. | Instruments | Credit Conversion Factor (%) |
|---|---|---|
| 1. | Direct credit substitutes e.g., general guarantees of indebtedness (including standby L/Cs serving as financial guarantees for loans and securities, credit enhancements, liquidity facilities for securitisation transactions), and acceptances (including endorsements with the character of acceptance). (i.e., the risk of loss depends on the credit worthiness of the counterparty or the party against whom a potential claim is acquired) | 100 |
| 2. | Certain transaction-related contingent items (e.g., performance bonds, bid bonds, warranties, indemnities and standby letters of credit related to particular transaction). | 50 |
| 3. | Short-term self-liquidating trade letters of credit arising from the movement of goods (e.g., documentary credits collateralised by the underlying shipment) for both issuing bank and confirming bank. | 20 |

[106] 31MCE5308DBA8F0D411C80989DDF3259E843.PDF (rbi.org.in)