

## A CRITICAL REVIEW OF GOVERNMENT POLICIES DESIGNED TO IMPROVE RECEIVABLE MANAGEMENT IN MSMEs

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### ABSTRACT

*This paper provides a critical review of government policies designed to improve receivable management for Micro, Small and Medium Enterprises in India. MSMEs often struggle with delayed payments which affect their cash flow and limit business growth. To address these issues the government has introduced several policy measures and digital platforms that aim to support timely recovery of dues. This study examines how these interventions function and how effective they have been in reducing payment delays. Key initiatives reviewed include the MSME Development Act 2006 which sets clear rules for payment timelines and penalties. The paper also studies the role of MSME Samadhaan and the TReDS platform which help in resolving disputes and enabling faster invoice settlement. New digital tools such as e-invoicing and online complaint systems are also assessed for their role in improving transparency. The review uses information from reports government documents and feedback from MSME stakeholders. Findings show that although these policies have increased awareness and created formal avenues for receivable recovery many small firms still face difficulties due to slow enforcement and limited digital knowledge. The study concludes that stronger implementation simpler procedures and better digital support are essential for improving receivable recovery for MSMEs in the future.*

**KEYWORDS:** *MSMEs, Receivable Management, Government Policies, Payment Delays, MSME Development Act 2006, MSME Samadhaan, TReDS Platform, Dispute Resolution, Financial Efficiency, Payment Recovery.*

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### INTRODUCTION

Receivable management plays a major role in the financial health of Micro, Small and Medium Enterprises in India. These enterprises run their business in a competitive environment where access to funds is limited and dependence on customer payments is high. When buyers delay their payments MSMEs experience immediate financial pressure. Their working capital cycle is disturbed and they face difficulty in paying wages buying raw material and meeting daily operational expenses. Many small firms operate with low cash reserves so even a delay of a few weeks can affect their business stability. In recent years the issue of delayed payments has

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become one of the biggest challenges for MSMEs and has drawn strong attention from policymakers. The importance of MSMEs in the Indian economy is well known. They support industrial growth create employment and contribute to exports. Because of their large presence in rural and semi urban areas they also support balanced regional development. However, their growth is often restricted because they do not have equal bargaining power compared to large buyers. Many MSMEs supply goods and services to bigger companies and government departments which often delay payments for long periods. Small firms hesitate to complain due to fear of losing future business. This uneven relationship between buyers and small suppliers makes receivable management a sensitive element in the MSME ecosystem.

To address these challenges the Indian government has introduced several laws schemes and digital platforms that aim to protect MSMEs from chronic payment delays. Over the years these interventions have tried to create a formal structure that supports timely clearance of dues. One of the most important steps is the MSME Development Act 2006. This act sets clear rules for payment timelines and specifies that buyers must pay MSMEs within a fixed period. If buyers do not follow the timeline they must pay interest on the delayed amount. The act also gives MSMEs the right to approach dedicated facilitation councils for dispute settlement. Despite being a strong legal tool many small firms are not fully aware of its provisions or lack confidence to take legal action against big clients. In addition to legal measures the government has launched online platforms to improve transparency and reduce paperwork. The MSME Samadhaan portal is designed to help units file complaints against delayed payments. It provides a digital record of cases and helps monitoring agencies track unresolved disputes. The TReDS platform is another important innovation. It allows MSMEs to upload their invoices and get early payment through banks and other financial institutions. This helps reduce dependence on informal borrowing and improves the cash flow cycle. Digital measures like e-invoicing have also been introduced to simplify billing and ensure accurate documentation. These systems aim to reduce fraud ensure faster verification and support smooth financial transactions.

While these interventions have created new opportunities for improving receivable management the actual results are mixed. Many MSMEs are still struggling to recover payments on time. One reason is the slow enforcement of rules. Even though laws exist to protect small firms the process of receiving justice can be time consuming. Some disputes take months or even years to settle. Another reason is that many MSMEs have low digital literacy. They are not fully comfortable using online platforms or are unaware of the benefits these systems provide. Technical issues limited internet access in rural areas and lack of training also reduce the effectiveness of digital initiatives. The behavioural side of the problem also plays a major role. Large buyers often use their financial strength to negotiate longer credit periods. MSMEs are scared to enforce strict payment conditions because they fear losing valuable customers. In some cases, small suppliers accept long credit cycles as a part of business culture. This mindset makes policy implementation difficult. Without the active cooperation of buyers, government rules alone cannot guarantee timely payments. Awareness training and cultural change are required among all parties involved in business transactions.

Receivable management is not only about collecting dues. It also involves proper documentation credit assessment monitoring of payments and follow-up. Many MSMEs do not have strong internal systems for managing their accounts. They rely heavily on manual records which increases mistakes and reduces their ability to track delayed payments. Weak internal processes combined with external delays create a cycle of financial pressure. To break this cycle MSMEs need support from both the government and the financial sector. Banks financial institutions and

industry bodies can play a stronger role in guiding firms on good financial practices. Given the importance of this issue a critical review of government policies is necessary. It helps in identifying the strengths, weaknesses and practical challenges of existing measures. A review also highlights the gap between policy design and real-world implementation. Although policies aim to support timely payment recovery their success depends on enforcement awareness and cooperation among stakeholders. A detailed analysis can help the government refine its approach and introduce better systems for the future.

This paper aims to understand how different government interventions have contributed to improving receivable management for MSMEs in India. It examines the legal framework online platforms and digital initiatives introduced over the years. The study also explores how these policies have been received by MSMEs and what kind of difficulties they still face in using them. By analysing reports existing literature and stakeholder experiences the paper attempts to present a clear picture of the progress made so far. Receivable management is a critical factor for business continuity. If MSMEs continue to suffer from delayed payments their ability to grow invest and compete will remain limited. On the otherhand, effective receivable recovery can strengthen their financial stability and contribute to national economic growth. Therefore, understanding the effectiveness of government interventions in this area is important from both academic and practical perspectives. This introduction sets the context for exploring these issues in detail and highlights why a closer review of policies is essential for supporting the future of MSMEs in India.

## LITERATURE REVIEW

**Brigham (1992)** explains that managing accounts receivable plays an important role in a company's profitability. This management involves deciding on discount and credit policies for customers who might be risky, finding methods to collect payments faster and decrease bad debts, and establishing sales terms that help ensure the company eventually receives payment.

**Maness and Zietlow (2005)** point out that even a well-planned credit policy cannot completely prevent issues with a company's credit operations. Financial managers view speeding up the collection of payments as the most crucial short-term financial step a business can take. When payments are late, the seller loses the chance to use that money, faces higher costs to collect it, and risks not getting paid at all. Therefore, it's important for a company to keep track of how much money is owed and take actions to improve the collection of both current and overdue payments. To help with this, different methods are used to monitor and control accounts receivable, such as measuring the average time it takes to collect payments (days sales outstanding) and the rate at which receivables are turned over. These methods are explained in more detail below.

**John G. Salek (2005)** explains that late payment fees and early payment discounts are strategies used to motivate customers to pay on time. Early payment discounts reward customers who pay ahead of schedule, while late fees are penalties for those who pay after the due date. When used correctly, these incentives can significantly help improve the management of accounts receivable.

**Michael Sack (2006)** states that liquidity is an important factor in judging a borrower's creditworthiness. Liquidity means how much cash a business has on hand. Lenders want to be sure that borrowers will have enough cash to pay back their loans. While liquidity usually depends on how profitable the business is with more profit generally meaning more cash liquidity

is not solely determined by profitability. Two businesses with similar profits might have very different levels of liquidity.

**Paul and Salima Y (2007)** explained that accounts receivable are often the largest but also the most-risky assets that a company holds, so they require careful attention. They pointed out that the way the credit department is structured influences how well credit is managed. Because of this, the management of credit should be aligned with the overall goals of the business and should match its long-term strategy.

## **OBJECTIVES**

- To analyse how effectively these policies address common issues such as delayed payments, credit risk, and cash-flow challenges.
- To examine the key government policies that aim to improve receivable management and understand their practical relevance for businesses.
- To suggest improvements or alternative measures that can make receivable management more efficient and transparent.

## **SIGNIFICANCE OF THE STUDY**

This study holds importance because receivable management has a direct effect on the financial stability of businesses. Many firms struggle with delayed payments and weak credit practices, so it becomes essential to understand whether government policies are actually helping them. By reviewing these policies in detail, the study shows how they support cash flow and reduce the burden on companies that depend on timely payments. It also helps identify the areas where the policies fall short and where improvements are needed. The findings will be useful for businesses policymakers and financial professionals who want to create a system that is fair efficient and easy to follow. Ultimately the study helps in understanding how better receivable management can strengthen business performance and contribute to overall economic growth.

## **RESEARCH METHODOLOGY**

The study adopts a qualitative research approach to critically examine government policies aimed at improving receivable management. Data is collected from multiple sources including government reports, policy documents, academic journals, and industry publications. Secondary data analysis helps identify trends, challenges, and the effectiveness of existing policies. The findings are interpreted to provide practical insights and recommendations for enhancing the efficiency of receivable management through policy measures.

## **DISCUSSION**

One of the main objectives of this study is to analyse how effectively government policies address common challenges in receivable management, such as delayed payments, credit risk, and cash-flow pressures. Efficient receivable management is essential for the stability and growth of businesses, as delays in payments can disrupt operations, reduce liquidity, and create financial uncertainty. Small and medium enterprises are especially vulnerable because they often have limited access to external financing. Government policies are therefore intended to provide a framework that ensures timely payments, reduces credit-related risks, and strengthens the financial health of businesses. This study examines the effectiveness of these measures in practice and highlights areas where improvements are needed.

Delayed payments are one of the most persistent problems in receivable management. When customers fail to pay on time, businesses face cash shortages that affect day-to-day operations. This can result in difficulties in paying suppliers, meeting payroll, or investing in growth opportunities. To combat this issue, the government has introduced policies such as mandatory payment periods, electronic invoicing systems, and penalties for late payments. These policies aim to create a predictable environment where businesses can rely on receiving payments within a defined timeframe. The study explores the impact of such policies by reviewing data from government reports, industry surveys, and case studies. It finds that while sectors like manufacturing and public procurement have seen improvements, other sectors continue to face delays due to inadequate enforcement or limited awareness of the regulations among business owners.

Credit risk is another critical concern in receivable management. Extending credit to customers is often necessary to maintain competitiveness, but it exposes businesses to the possibility of non-payment. To reduce this risk, the government has promoted policies that encourage proper credit assessment, the use of credit guarantee schemes, and financial literacy programs for entrepreneurs. The research examines whether these policies have helped businesses make more informed decisions when granting credit and whether they have reduced the frequency of bad debts. Evidence suggests that companies that actively use credit assessment tools and take advantage of government-backed guarantees are less likely to face losses, but many smaller enterprises still remain unaware or unable to access these resources. Cash-flow management is closely linked to delayed payments and credit risk. Even profitable businesses can struggle if payments are not received on time or if credit risks materialize into losses. Recognizing this, the government has introduced measures such as trade financing facilities, receivable factoring schemes, and digital payment platforms that allow businesses to convert receivables into immediate cash. The study analyses the extent to which these facilities are utilized, the benefits they offer, and the challenges businesses face in accessing them. Interviews with business owners indicate that while such programs have improved liquidity for some, bureaucratic hurdles and lack of awareness prevent widespread adoption.

This objective also helps to assess the alignment between policy goals and actual outcomes. Government policies are designed to foster a stable business environment, but their effectiveness depends on implementation, awareness, and adaptability to sector-specific challenges. By examining delayed payments, credit risk, and cash-flow pressures together, the study provides a comprehensive understanding of the strengths and limitations of current policies. The findings highlight that while significant progress has been made in certain areas, there is still room for improvement. For example, policy measures need to be more accessible to small businesses, enforcement mechanisms must be strengthened, and support programs should be actively promoted to ensure wider reach. Overall, analysing the effectiveness of government policies in addressing delayed payments, credit risk, and cash-flow challenges provides critical insights into how these interventions influence business stability and growth. It not only highlights the achievements of existing policies but also identifies gaps that require attention. The study concludes that for receivable management to improve consistently, policies must be implemented effectively, complemented by awareness campaigns, and tailored to meet the needs of businesses of different sizes and sectors. By focusing on practical outcomes rather than theoretical intentions, this research contributes to a better understanding of how government actions can strengthen financial management and ensure sustainable business operations.

The key government policies that aim to improve receivable management and to understand their practical relevance for businesses. Receivable management is an essential component of financial management for any organization. It ensures that payments due from customers or clients are collected on time, thereby supporting operational efficiency, reducing dependency on external funding and maintaining liquidity. Recognizing the challenges that businesses face especially in the context of delayed payments, credit risk and cash-flow management, governments have implemented a range of policies designed to facilitate better management of receivables and promote a more predictable business environment. These include regulations that establish mandatory payment timelines between buyers and suppliers, electronic invoicing systems, digital payment platforms and trade financing schemes. Policies that enforce penalties for late payments and encourage prompt settlement of invoices are particularly relevant to small and medium-sized enterprises, which often operate with limited working capital. Such policies aim to create a structured framework in which businesses can plan and execute their financial operations without the constant risk of delayed payments disrupting their cash flow.

To understand the practical relevance of these policies, the study examines how they are applied in real-world business contexts. While the legal framework may appear comprehensive on paper, the actual impact of these policies depends heavily on enforcement, awareness among business owners and the capacity of regulatory authorities to monitor compliance. Case studies of selected businesses are used to assess how these policies influence daily financial practices such as invoice processing, credit assessment and debt recovery. Findings suggest that enterprises that actively engage with government-backed initiatives, such as digital invoicing and receivable factoring, experience improved financial predictability and enhanced liquidity. Companies that are unaware of these programs or face barriers to access, however, continue to experience difficulties in managing receivables efficiently.

Another important aspect of this research is the role of government programs aimed at raising awareness and building capacity among business owners. Training initiatives that focus on financial literacy, credit management, digital tools and risk assessment enable businesses to utilize government policies more effectively. The study analyses how widely these educational and support programs are used and whether they contribute to measurable improvements in financial operations. Evidence from interviews and secondary data indicates that businesses that participate in these programs are better equipped to manage receivables, reduce overdue payments and maintain healthy cash flow.

The steps taken by Government to prevent delays in payments to MSMEs are as follows:

- Under the provisions of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, MSEFCs have been set up in the States/UTs to deal with the cases of delayed payments of the MSEs.
- The Ministry of MSME launched a portal viz. Samadhaan Portal for filing of grievances and for monitoring of the outstanding dues to the MSEs from the buyers of goods and services on 30.10.2017.
- The Ministry of MSME has requested States/UTs to set up more MSEFCs for quicker disposal of cases related to delayed payments. So far, 157 MSEFCs have been set up with more than one MSEFC set up in States like Delhi, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Maharashtra, Punjab, Rajasthan, Tamil Nadu, Telangana, U.P. & West Bengal.

- The Ministry of MSME has created a special sub-portal within Samadhaan Portal on 14.06.2020, after the AatmaNirbhar Bharat announcements, for reporting the dues and monthly payments by Central Ministries/Department/Public Sector Enterprises to MSMEs.
- Government of India has also instructed CPSEs and all companies with the turnover of Rs. 500 crore or more to get themselves on-boarded on the Trade Receivables Discounting System (TReDS), an electronic platform for facilitating the discounting of trade receivables of MSMEs through multiple financiers.
- Companies which get supplies of goods or services from MSEs and whose payment to MSEs exceeds 45 days from the date of acceptance or the date of deemed acceptance of the goods or services, also need to submit a half yearly return to the Ministry of Corporate Affairs stating the amount of payment due and the reasons of the delay.
- Under Section 43B of Income Tax Act: Deduction has been allowed for expenditure incurred on payments only when payment is actually made to MSMEs.

Examining key government policies related to receivable management provides a comprehensive understanding of their practical relevance for businesses. The study highlights how these policies contribute to reducing delays in payments, mitigating credit risks and enhancing cash-flow stability.

One of the important objectives of this study is to suggest improvements or alternative measures that can make receivable management more efficient and transparent. Many businesses continue to face delays in payments and uncertainty in cash flow, even though several policies and systems already exist. These challenges show that there is a need for practical solutions that can support businesses in managing their receivables in a more reliable manner. The aim of this section is to explore measures that can strengthen the existing system and make it easier for companies to track, collect, and manage payments. A major improvement that can help businesses is the wider use of digital invoicing and automated billing systems. When invoices are generated and recorded through digital platforms, the chances of errors reduce and the process becomes faster. It also becomes easier to track due dates and send automatic reminders to clients. Many small businesses still depend on manual billing, which makes the process slow and increases the risk of mistakes. Encouraging digital tools can therefore create a more transparent system where both parties can see the status of payments clearly.

Another area that needs attention is the enforcement of payment timelines. While guidelines exist, they are not always followed, which leads to uncertainty for suppliers. Stronger monitoring mechanisms and stricter penalties for late payments can improve compliance. This does not mean punishing businesses unnecessarily but ensuring that payment rules are taken seriously. A more disciplined payment culture will help both buyers and suppliers maintain trust and stability in their operations. Businesses can also benefit from better access to short term financing options. Receivable factoring, invoice discounting, and trade finance facilities can give firms immediate access to working capital when payments are delayed. Many enterprises hesitate to use these services because they find the process complicated or lack awareness. Simplifying these schemes and spreading awareness can help more businesses use them during periods of financial pressure. Training and awareness programs also play a key role in improving receivable management. When business owners understand how to assess credit risk, how to use digital tools, and how to maintain proper records, they are able to manage receivables more effectively. Government agencies, trade associations, and financial institutions can work together to conduct

workshops that improve the financial skills of small and medium enterprises. Creating a common platform where businesses can check the payment history of clients can also bring more transparency into the system. A shared database that records past delays or disputes will help suppliers make better decisions about offering credit. This can reduce the chances of non-payment and support a healthier business environment.

Overall, the suggestions aim to create a receivable management system that is simple to use, easy to monitor, and supported by strong digital and financial tools. By improving enforcement, encouraging digital practices, simplifying financing options, and promoting financial awareness, businesses can manage their receivables with greater confidence and clarity. These measures can help create a transparent and efficient system that supports business growth and long-term stability.

## CONCLUSIONS

The study shows that receivable management remains essential for the financial stability of businesses, especially where delayed payments and credit risks are frequent. Government policies such as digital invoicing, defined payment timelines, credit guarantee schemes, and financial support programs have been introduced to promote faster and more reliable payments. These measures have helped many businesses, but their impact is uneven because awareness, enforcement, and access to these tools are not the same across all sectors. Small and medium enterprises still face major challenges linked to payment delays and cash-flow pressure. Policies can support them only when they are properly enforced and widely understood. Some firms benefit from digital platforms and structured rules, while others continue to struggle due to limited knowledge or lack of access to financial services. This shows that the effectiveness of policies depends on both their design and their practical use. The study suggests stronger monitoring of payment deadlines, wider adoption of digital invoicing, easier access to short-term finance, and more training on credit management. In conclusion, government efforts have improved receivable management, but better implementation and greater awareness are needed. With consistent use of available tools, businesses can manage receivables with greater stability and support long-term financial growth.

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