

## MINT

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**NEW DELHI** : Millions of India's small businesses may be ranked above unsecured financial creditors in the bankruptcy resolution process if a policy proposal by the Union ministry for micro, small and medium enterprises (MSMEs) is approved.

According to two officials aware of the matter, the new MSME policy draft proposes priority payment of dues over all other unsecured payments after settling dues of employees when a company enters insolvency. Currently, MSMEs are categorized as operational creditors, the lowest on the priority list when creditors' dues are settled under the Insolvency and Bankruptcy Code (IBC).

Bringing MSMEs above unsecured financial creditors gives these companies, among the biggest employment generators in India, the charge on settlement money after dues to secured financial creditors are settled. Currently, very little is left for operational creditors, including MSMEs, in any IBC resolution, as settlements occur at a huge haircut and all financial creditors get priority.

Union MSME minister Narayan Rane will meet ministry officials on 28 April to discuss the draft policy and related laws, payment delays faced by MSMEs, and their access to the global market, the people cited above said. The new policy may also include measures to amend the MSME Development Act. Mint has seen the agenda note for the meeting.

The ministry has also invited major industry bodies to discuss the issue. Later, it will finalize the MSME policy and take it for cabinet approval.

Queries sent to an MSME ministry spokesperson remained unanswered till press time.

The change would be a major relief for MSMEs, as the sector waits for dues totalling several hundreds of crores of rupees in companies undergoing bankruptcy resolution. If MSMEs can recover a portion of their dues, their liquidity position will improve, pushing up investment from this key segment.

The proposed MSME policy is also likely to redraft the MSME Development Act, 2006 for a comprehensive and holistic MSME Code having a provision for sunset on a plethora of complex laws. The MSME Code will also provide a detailed procedure for implementing the Act, which will bring clarity over the procedural aspects and bring uniformity in the implementation of the Act at the state level and remove any ambiguity.

According to the meeting's agenda, the government also proposes adopting a cluster development approach for MSMEs in collaboration with companies offering innovation infrastructure, R&D institutions, and universities specializing in a specific industry or knowledge area. The MSME ministry is also expected to formalize loan restructuring schemes for MSMEs after the meeting.

The draft policy, prepared by the Indian Institute of Public Administration (IIPA), said the move is

in continuation of measures to promote competitiveness, technology upgradation, infrastructure, cluster development, dedicated credit, procurement of products and financial assistance to MSME.

To ensure liquidity issues do not bog down MSMEs during the pandemic, the government introduced the Emergency Credit Line Guarantee Scheme (ECLGS) in 2020. In the same year, the Centre also widened the definition of MSMEs to cover more firms under its ambit. According to the new definition, a firm with up to 1 crore investment and up to 5 crore revenue qualifies as a micro-unit. Businesses with an investment of up to 10 crore and revenue of up to 50 crore are classified as small. For medium enterprises, the investment limit is up to 50 crore and turnover up to 250 crore.

Over 60 million MSMEs in India employ 110 million people (next only to agriculture). The sector contributes nearly 30% to the country's GDP and accounts for 40% of the exports.

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