

Govt considers changes to MSME scheme

IBBI may get more teeth after the changes are implemented

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Taking cue from the poor response to the prepackaged scheme for MSMEs, the corporate affairs ministry is considering measures to make it more attractive. This would include more power to the Insolvency and Bankruptcy Board of India (IBBI) for making changes as required for easing the process and holding more awareness and advocacy sessions for banks, according to government sources.

“We are thinking of putting the prepackaged scheme in a sort of regulatory sandbox. Right now, it is a very prescriptive approach. Every step of the way is defined,” a senior government official said.

Only three companies have been admitted under the scheme since 2021. The government is planning to take a more flexible approach and allow the IBBI to tweak requirements related to majority votes, avoidance transactions among other things for the MSMEs applying for the prepackaged insolvency scheme. Voting for initiating

prepack process, government sources said should not be brought below 51 per cent from the current 66 per cent.

Prepackaged resolution is a fast track process that identifies a resolution plan before the admission of the process by National Company Law Tribunal. It is an arrangement where the promoter of the stressed company proposes a resolution plan to the creditors before the company can be taken to bankruptcy proceedings. The purpose of this

scheme is not just to have a timely and faster resolution mechanism but also to give legal sanction to a plan agreed between banks,

promoters and the buyer.

Experts feel that the current voting limit of 66 per cent for initiating the prepack process is a very rigid condition, which has been a deterrent for MSMEs.

“A normal corporate insolvency resolution process ends up in the liquidation of a company if it does not get a resolution plan. Yet it commences on the application of a creditor...,” said M S Sahoo, distinguished professor, National Law University, Delhi, and former chairperson of IBBI.

These changes would help IBBI make changes to ease process of holding more sessions for banks