

AITMA/2024/06

29th November 2024

To,
Chief Secretaries in the States of

Gujarat, Maharashtra, Chhattisgarh, Madhya Pradesh, Haryana, Uttarakhand, Karnataka, Assam, Jammu & Kashmir

Sub: Request for Implementation of Insurance Surety Bonds as an Alternative to EMDs and Bank Guarantees in DISCOM Tenders

The All India Transformers Manufacturers Association (AITMA), established in 2017, is the apex body representing the Indian electrical transformer and allied industries. With over 75% of transformer manufacturers under its ambit, representing finished products, components, and services, AITMA plays a pivotal role in advancing the power infrastructure of the country. Notably, a substantial portion of our industry comprises of the small and medium enterprises (SMEs).

We are pleased to bring to your kind attention to an Office Memorandum of the Ministry of Finance, Government of India, dated 24th September 2024, regarding Insurance Surety Bonds as an alternative to Bank Guarantees. A copy of the Office Memorandum is attached as **Annexure I** for your ready reference.

The Indian transformer industry is currently experiencing a severe financial strain, primarily due to substantial working capital being tied up with the power distribution companies (DISCOMs) in the form of **Earnest Money Deposits (EMDs)** and **Performance Bank Guarantees**. This liquidity constraint adversely impacts the suppliers' ability to participate in tenders, thereby hindering fair competition, particularly for SMEs with constrained financial resources.

The Insurance Regulatory and Development Authority of India (IRDAI) introduced the IRDAI (Surety Bond Contracts) Guidelines 2022, encouraging the adoption of Surety Bonds as a credible alternative to Bank Guarantees. This initiative is designed to release the locked working capital of suppliers, enabling them to allocate resources more effectively. A copy of the IRDAI (Surety Bond Contracts) Guidelines 2022, dated 3rd January 2022, is attached as **Annexure II**.

We would like to inform that the Government of Rajasthan has adopted the Insurance Surety Bonds in the form of Rajasthan Transparency in Public Procurement (Second Amendment) Rules, 2024, by its Gazette notification dated 19th September 2024. A copy of the Gazette notification is attached as **Annexure III** for your ready reference.

In light of the above, AITMA respectfully requests your kind office to consider issuing necessary directives to adopt Bid and Performance Guarantee Bonds as substitutes for EMDs and Performance Bank Guarantees in the forthcoming tenders of power distribution companies in your state.

This progressive measure will alleviate liquidity constraints faced by suppliers, enhance their operational capacity, and promote greater participation in the tendering process, particularly by SMEs.

We sincerely hope for your favorable consideration of this request and stand ready to provide any further information or clarification as required.

With warm regards,

Sudeep Sarkar

Director General

Enclosures:

1. **Annexure I** – Office Memorandum of the Ministry of Finance, GoI, dtd 24th September 2024
2. **Annexure II** – IRDAI (Surety Bond Contracts) Guidelines 2022, dtd. 3rd January 2022
3. **Annexure III** – Rajasthan Transparency in Public Procurement (Second Amendment) Rules, 2024, dtd. 19th September 2024