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May 11, 2023

Shri T V Somanathan, IAS  
Secretary - Expenditure  
Ministry of Finance

**Subject:**

- 1. Requesting to limit the Performance Security for Indian MSMEs to 3%**
- 2. MSMEs with ZED certificates and proven track record may be permitted to submit Corporate Guarantees as a Performance Guarantee**

Respected Sir,

***Greetings from MAIT!***

At the outset, MAIT on behalf of the MSME sector thanks the **Procurement Policy Division** under the **Department of Expenditure, Ministry of Finance** for granting relief by reducing the percentage of Performance Security slab from 5%-10% to 3%-10% through an amendment made under Rule 171 of GFR 2017 dated April 03 2023 (OM No.F.1/2/2023/PPD).

MAIT would like to highlight that the Indian MSMEs have still not completely recovered from the acute financial crunch which in turn is affecting the timely execution of the contracts. The quantum of Security Deposits in Public contracts has always been a challenge for the MSME sector to cope with, leaving the sector in austerity. These guarantees can be challenging for MSMEs to obtain, particularly when they are already facing financial constraints.

**MAIT strongly believes that limiting the percentage of Performance Security for MSMEs to 3% will strengthen their position and help them become resilient in the situation of acute financial crunch.** It is also to be noted that huge capital is stuck up in these guarantees and for MSMEs, it results in high costs as well shortfall in capital available.

Going further to support the manufacturing MSMEs, the industry requests that established MSME manufacturing entities with proven track records may be permitted to submit corporate guarantees as a performance guarantee as is the practice followed in the private sector.

We draw your attention to the Zero Defect, Zero Effect program of the MSME Ministry under which firms who meet well-defined corporate governance and quality criteria are eligible to apply for the Zed certification status.

It is requested that MSME manufacturing industries with proven track records and who hold the Zed certification be permitted to submit a corporate guarantee to the extent of the PBG value as a surety bond.

These criteria could be:

1. The firm is a manufacturing entity.
2. The firm has been in operation for at least one year.
3. The firm has successfully executed three orders to the public sector/Gol entity.
4. The firm has taken Udyam registration and has obtained the Zed certification.

MAIT requests the Ministry to consider its representation and grant the above-said relief to the MSMEs. This, in turn, would help promote a culture of quality and sustainability in the MSME manufacturing sector, which is critical for the long-term growth and success of our country.

MAIT is confident that this step will go a long way in supporting the growth and development of the MSME sector in our country and helping achieve our PM's vision of "**Atmanirbharta**".

We are sanguine that our request will be answered in a positive manner.

**We also seek an appointment to discuss the request at a time convenient to you.**

Warm regards,



Col. AA Jafri, Retd.  
Director General

CC: Dr. Rajneesh, DC, MSME

CC: Dr. Ishita Ganguly Tripathi, ADC, MSME

CC: Shri Kanwalpreet, Director, Public Procurement, DoE, MoF