

भारतीय राष्ट्रीय राजमार्ग प्राधिकरण

(सड़क परिवहन और राजमार्ग मंत्रालय)

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No.11041/21/2002/Admn.III

September 23, 2002

POLICY MATTERS – ADMINISTRATION/FINANCE (21/2002)

(Decision taken on Finance Division File No.NHAI/F&A/2002/178)

Sub: Guidelines for release of Retention Money against Bank Guarantee

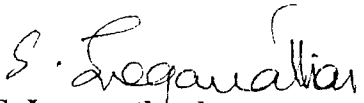
The National Highways Builders Federation of India had requested NHAI to accept Bank Guarantees for Retention Money instead of deducting cash from the running bills of the Contractors. The matter has been carefully examined as follows -

- 1.1 NHAI contracts for implementation of civil works generally provide for making deductions towards Retention Money @ 10% from every running bill. These deductions are continued till the total Retention Money reaches to a level of 5% of Contract Value. The contracts by and large provide for release of retention money against submission of Bank Guarantee by the Contractor at a stage when deductions towards Retention Money reach to its full value. However, provisions for release of Retention Money in some of the existing contracts of NHAI are at variance as some of the contracts allow release of Retention Money against Bank Guarantee at any stage at the request of contractor, while in some other contracts certain intermediate stages (with and without any flexibility) have also been provided for.
- 1.2 Under these contracts Bank Guarantees are accepted by NHAI towards Performance Security for an amount of 10% of Contract Value and also for releasing Mobilization Advance (both general and equipment advance). Accordingly, submission of Bank Guarantees is already recognized by NHAI as adequate and dependable security arrangement and accordingly interests of NHAI could be considered as safeguarded if retention money is released against the Bank Guarantees.
- 1.3 It is generally seen that projects require adequate liquidity for keeping the progress of the work at the desired level especially after recoveries of advances start. In this regard, National Highways Builder Federation of India have also stated that contractors have to invest a huge capital for deployment of heavy equipments and procurement of raw materials. They have further stated that recoveries go up to 43%. Even if this is considered on higher side, recoveries in the range of about 35 to 40% will take place in accordance with contract provisions. Accordingly, release of Retention Money will definitely improve the

cash flow for the project. It is felt that releasing Retention Money against Bank Guarantee at a very early stage will not serve any useful purpose towards improvement of cash flow for the project as sufficient funds are available with the contractors in the initial stages in the form of advances given by NHAI. However, financial support would become necessary at a point when the impact of various deductions from the IPCs begins to be felt.

- 2 -

2. In view of above, it has been decided to permit Contractors to have the Retention Money released on submission of Bank Guarantee at following two stages-
 - (i) At any one point of time after progress of the work in financial terms (Gross value of work done) has reached 25% of Contract Amount.
 - (ii) After the Retention Money has been deducted to the full value
3. This issues with the approval of Competent Authority.


[S. Loganathan]
General Manager [Admn.]

To

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