

My No; FIN-1076-260-181,
Dept., of Public Finance,
General Treasury,
Colombo 1.

06.05.1999.

To: All the Secretaries to Ministries,
Heads of Department,
Chairman of Corporation & Statutory Bodies
and Govt., owned Companies.

Acceptable Securities and Guarantees

Your attention is drawn to the Guideline 46.2-3 of the Guidelines on Government Tender Procedure (Revised Edition – August 1997) and to Public Finance Circular No. 352(8), with regard to issue of securities and guarantees by the Insurance Companies.

It has been decided to allow the acceptance of securities and guarantees issued by Insurance Companies operating in Sri Lanka, subject to the following conditions;

- i. All such Securities and Guarantees should be 'On Demand' Guarantees;
- ii. Once a claim is made to forfeit a bond by an executing agency, two weeks' time should be given to the Insurance company that has issued the bond to negotiate with the executing agency and after such negotiations, the damage claimed by the executing agency should be settled by the company. In case of contracts over a value of Rs. 100 million this period should be determined by the executing agency in consultation with the Insurance Company.
- iii. The Head of the Department of the executing agency should ensure that the contract period is realistic and only if he is satisfied that the contractor had delayed the contract deliberately and perpetually, the Performance Bond should be claimed. In this regard the percentage of the progress of the contract should also be taken into consideration.

iv. After considering the progress made in respect of the contract as per sub paragraph (iii) above, if the damage recovered from the Insurance Company is in excess of the damage actually caused by the contractor, the balance should be paid back to the Insurance company.

v. The Insurance companies should be kept informed regularly about the part payments made to the contractors when they have submitted Advance Payment Guarantees Bonds.

vi. The maintenance period of the work should not be covered with the Performance Bond and that period should be covered with a separate Maintenance Bond. Once the Maintenance Bond is submitted the Performance Bond should be released.

vii. The insurance premium with regard to issue of securities and guarantees for public contracts will be decided by the Insurance companies taking the risk factor of the individual contractor into consideration. In this regard recommendation of the National Construction Contractors' Association could be obtained on the reliability of the contractor for the purpose of issuing bonds.

Viii All Insurance Companies which desire to issue Securities and Guarantees with regard to Public Contracts under Guideline No. 46.2-3 of the Guidelines on Government Tender Procedure should make an application to the Controller of Insurance and should have been registered with him/her on behalf of the Treasury.

B. M. C. S. 10/10/2000
B. Y. Diwaniage,
Deputy Secretary to the Treasury