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## 12. ADVANCE PAYMENT

### (a) Grant of interest free mobilization advance

It has come to the notice of this Commission that PSUs are stipulating payment of interest free mobilization advance in their tenders. Many times mobilization advance is allowed after acceptance of tender also. The amount of mobilization advance thus paid to the contractor is prone to be used by him for building his own capital or for the purpose other than the one for which it is disbursed. For big projects mobilization advance of 5 to 10% stipulated in the contract works out to a huge amount and the contractor is likely to be benefited with interest free amount to a very big extent. Normally while preparing justification, elements of gain in terms of interest on capital investment by way of mobilization advance is also not considered and thus the contractor gets higher rates than that may be justified. In case there is a delay in commencement of work the contractor is likely to get undue benefit by way of retention of huge money.

2. It is, therefore, desired that adequate steps may be taken to ensure stipulation of mobilization advance only for selected works and advance should be interest bearing so that contractor does not draw undue benefit. Timely execution/completion of all projects is an essential requirement and the contractor would like to draw interest bearing mobilization advance only when he needs to maintain his cash flow.

(CVC OM No.UU/POL/19Dated 8 Oct.,1997)

### (b) Mobilization Advance

In order to address the problem of misuse of mobilization advance provision in the civil and other works, the Commission had issued an O.M. dated 8.12.1997 for grant of interest bearing 'Mobilization Advance' in selected works. In view of references from certain organizations on this

issue, the Commission has reviewed the issue and it has been decided to modify and add the following provisions in the existing O.M. This may be read as addendum to the Commission's O.M. dt.8.12.1997.

If the advance is to be given, it should be expressly stated in the NIT/Bid Documents, indicating the amount, rate of interest and submission of BG of equivalent amount.

The advance payment may be released in stages depending upon the progress of the work and mobilization of required equipments etc.

There should be a provision in the contract for adjustment of advance progressively even as the bills are cleared for payment.

( No.4CC-1-CTE-2 Dated 08<sup>th</sup> Jun 2004)

(c) Mobilization Advance.

Commission has reviewed the existing guidelines on 'Mobilization Advance' issued vide OM No.UU/POL/18 dt 08.12.97 and OM No.4CC-1-CTE-2 dt 08.6.04. The following guidelines are issued in supercession of earlier guidelines issued by the Commission on 'Mobilization Advance':-

1. Provision of mobilization advance should essentially be need-based. Decision to provide such advance should rest at the level of Board (with concurrence of Finance) in the organization.
2. Though the Commission does not encourage interest free mobilization advance, but, if the Management feels it necessity in specific cases then it should be clearly stipulated in the tender document and its recovery should be time based not linked with progress of work. This would ensure that even if the contractor is not executing the work or executing it at a slow pace, recovery of advance could commence and scope for misuse of such advance could be reduced.
3. Part 'Bank Guarantees' (BGs) against the mobilization advance should be taken in as many numbers as the proposed recovery installments and should be equivalent to the amount of each installment. This would ensure that at any point of time even if the contractor's money on account of work done is not available with the organization, recovery of such advance could be ensured by encashing the BG for the work supposed to be completed within a particular period of time.
4. There should be a clear stipulation of interest to be charged on delayed recoveries either due to the late submission of bill by the contractor or any other reason besides the reason giving rise to the encashment of BG, as stated above.
5. The amount of mobilization advance, interest to be charged, if any; its recovery schedule and any other relevant detail should be explicitly stipulated in the tendered document upfront.
6. Relevant format for BG should be provided in the tender document, which should be enforced strictly and authenticity of such BGs should also be invariably verified from the issuing bank, confidentially and independently by the organization.

7. In case of 'Machinery and Equipment advance', insurance and hypothecation to the employer should be ensured.
8. Utilization certificate from the contractor for the mob advance should be obtained. Preferably, mob adv should be given in installments and subsequent installments should be released after getting satisfactory utilization certificate from the contractor for the earlier installment.

(No.4CC-1-CTE-2 Dated 10<sup>th</sup> Apr 2007)

(d) Corrigendum Circular No. 5/2/08 Mobilization Advance

The commission has reviewed the existing guidelines on Mobilization advance Circular No. 10/4/07 [issued vide OM No. 4CC-1-CTE-2; dated 10-04-07]. Para 1 of the above circular may be read as under

"Decision to stipulate free mobilization advance in the tender document should rest at the level of Board [with concurrence of Finance] in the organizations. However in case of interest bearing mobilization advance, organizations may delegate powers at appropriate levels such as the CMD or Functional Directors

(No.4CC-1-CTE-2 Dated 05<sup>th</sup> Feb 2008)

Mobilization advance

Commission had earlier issued guidelines on granting of 'Mobilisation Advance', vide OM No. UU/POL/18 dated 08.12.1997, OM No. 4CC-1-CTE-2 dated 08.06.2004 and OM No. 4CC-1-CTE-2 dated 10.04.2007.

2. The matter has been further reviewed and it has decided by the Commission that following additional guidelines may be followed in case of grant of Mobilisation Advance.
  - (i) The Bank Guarantee etc. taken towards security of 'mobilisation advance' should be at least 110% of the advance so as to enable recovery of not only principal amount but also the interest portion, if so required.
  - (ii) The mobilisation advance should not be paid in less than two instalments except in special circumstances for the reasons to be recorded. This will keep check on contractor misutilizing the full utilisation advance when the work is delayed considerably.
  - (iii) A clause in the tender enquiry and the contract of cases providing for interest free mobilisation advances may be stipulated that if the contract is terminated due to default of the contractor, the 'mobilisation advance' would be deemed as interest bearing advance at an interest rate of %, (to be stipulated depending on the prevailing rate at the time of issue of NIT) to be compounded quarterly.

(No. 02/02/11 dated 17th Feb. 2011)