

“BANK GUARANTEE SCHEME OF GOVERNMENT OF INDIA”

Dr. Pravir Kumar Singh

Assistant Professor in Commerce

A.B.S. College Lalganj, Vaishali

The Bank Guarantee scheme formulated by the Government of India for the issuance of bank guarantees in favour of Central Government Departments. In lieu of security deposits, etc. by contractors. Departments to accept freely guarantees, etc. from all scheduled commercial banks.

Banks should adopt the Model Form of Bank Guarantee Bond given in Annex

1. The Government of India have advised all the Government departments/Public Sector Undertakings, etc. to accept bank guarantees in the Model Bond and to ensure that alterations/ additions to the clauses whenever considered necessary are not one-sided and are made in agreement with the guaranteeing bank. Banks should mention in the guarantee bonds and their correspondence with the various State Governments, the names of the beneficiary departments and the purposes for which the guarantees are executed. This is necessary to facilitate prompt identification of the guarantees with the concerned departments. In regard to the guarantees furnished by the banks in favour of Government Departments in the name of the President of India, any correspondence thereon should be exchanged with the concerned ministries/departments and not with the President of India. In respect of guarantees issued in favour of Directorate General of Supplies and Disposal, the following aspects should be kept in view.

- i. In order to speed up the process of verification of the genuineness of the bank guarantee, the name, designation and code numbers of the officer/officers signing the guarantees should be incorporated under the signatures (s) of officials signing the bank guarantee.
- ii. The beneficiary of the bank guarantee should also be advised to invariably obtain the confirmation of the concerned banks about the genuineness for the guarantee issued by them as a measure of safety.
- iii. The initial period of the bank guarantee issued by banks as a means of security in Directorate General of supplies and Disposal contract administration would be for a period of six months beyond the original delivery period. Banks may incorporate a

suitable clause in their bank guarantee, providing automatic extension of the validity period of the guarantee by 6 months, and also obtain suitable undertaking from the customer at the time of establishing the guarantee to avoid any possible complication later.

- iv. A clause would be incorporated by Directorate General of Supplies and Disposal (DGS&D) in the tender forms of Directorate General of Supplies and Disposal 229 (Instruction to the tenders) to the effect that whenever a firm fails to supply the stores within the delivery period of the contract wherein bank guarantee has been furnished, the request for extension for delivery period will automatically be taken as an agreement for getting the bank guarantee extended. Banks should make similar provisions in the bank guarantees for automatic extension of the guarantee period.
- v. The Public Notice issued by the Customs Department stipulates, inter alia, that all bank guarantees furnished by an importer should contain a self-renewal clause inbuilt in the guarantee itself. As the stipulation in the Public Notice issued by the Customs Department is akin to the notice in the tender form floated by the DGS&D, the provision for automatic extension of the guarantee period in the bank guarantees issued to DGS&D, as at sub-paragraph (iv) above, should also be made applicable to bank guarantees issued favouring the customs Houses.
- vi. The bank guarantee, as a means of security in the Directorates General of Supplies and Disposal contract administration and extension letters thereof, would be on non-judicial stamp paper.

Guaranteed advances of the corporation

Guarantees to Banks

Packing Credit Guarantee

Timely and adequate credit facilities at the pre-shipment stage are essential for exporters to realize their full export potential. Exporters may not, however, be easily able to obtain such facilities from their bankers for several reasons, e.g. the exporter may be relatively new to export business, the extent of facilities needed by him is out of proportion to the equity of the firms or the value of collateral offered by the exporter may be inadequate. The packing Credit Guarantee of ECGC helps the exporter to obtain better and adequate

facilities from their bankers. The Guarantees assure the banks that, in the event of an exporter failing to discharge his liabilities to the bank, ECGC would make good a major portion of the bank's loss. The bank is required to be co-insurer to the extent of the remaining loss.

What are the loans and advances eligible for packing Credit Guarantee?

Guarantee?

Any loan given to an exporter for the manufacture, processing purchasing or packing of goods meant for export against a firm order or Letter of Credit qualifies for packing Credit Guarantee. Pre-shipment advances given by banks to parties who enter into contracts for export of services or for construction works abroad to meet preliminary expenses in connection with such contracts are also eligible for cover under the Guarantee. The requirement of lodgment of Letter of Credit or export order for granting packing credit advances is waived if the bank grants such advances in accordance with the instructions of the Reserve Bank of India in that respect.

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