

Financial Guarantees for Tenders

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It is becoming increasingly important for companies responding to Government tenders in South Africa, to prove that the company responding, has financial capacity to execute the contract. The reason for this is to safeguard Government Entities against companies being awarded a tender and then failing to execute because of a lack of financial resources.

Underneath is a typical Financial Guarantee requirement we found in a recent Gauteng Provincial Government tender:

“The responding bidder must show capacity to deliver a sustainable service for a period of three (3) months without external support.

To do so a Bank guarantee letter must be provided, and this will count for 10 points towards the Functionality score:

- ***Supplying a R9 000 000.00 financial guarantee will earn the bidder 10 points;***
- ***Supplying a R6 000 000.00 financial guarantee will earn the bidder 6 points;***
- ***Supplying a R5 000 000.00 financial guarantee will earn the bidder 3 points;***
- ***A guarantee of less than R5 000 000.00 will earn the bidder zero points.***

Any other proof of financial resources of funding which the bidder intends on utilising to fund this project can also be submitted. (The Department requires this information to ascertain whether the bidder can carry the initial cash commitments for a period up to three (3) months for the district, or each of the districts, awarded to the bidder without any additional external support).”

As you can see from the example it is important to have financial resources to secure a tender.

A Financial Guarantee is also called a Bid Bond, Tender Bond, or a Tender Guarantee.

The purpose of a tender guarantee is to safeguard procuring entities against unqualified bidders submitting a bid. The tender guarantee acts as security against the risk of the bidder failing to accept or execute the terms of the contract awarded to them.

Remember that all financial guarantees are structured under secured credit facilities and credit agreements. Obviously, the bidder will have to provide assets as security for financial guarantees. Mostly part of the requirements will be that assets provided as security are properly insured and it is usually a condition of the credit facility agreement.

To learn more about this and many other tender conditions attend our “Become a Tender Expert” 2-Day workshops presented in Johannesburg, Pretoria, Durban, Port Elizabeth, and Cape Town. Book and pay online at <https://howtotender.co.za/tender-expert-form/>

Contact us at estelle@howtotender.co.za should you require more information.

You can also purchase a Tender Manual (Handbook) on our website <https://howtotender.co.za/> which is a step by step guide how to respond to a South African Tender. It includes examples of completed SBD forms.