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PERFORMANCE BONDS

FOR CONSTRUCTION AND
ENGINEERING BUSINESSES

PERFORMANCE BONDS

WHAT IS A PERFORMANCE BOND?

A performance bond is issued to one party of a contract (the beneficiary) as security against the failure of the other party to meet obligations specified in the contract. Banks often require a 100 per cent cash deposit as security for the bond, which ties up considerable amounts of working capital. You might not have the level of security that your bank requires to provide a bond facility for your contracts.

HOW IBA CAN HELP

IBA can either issue bonds directly to your buyer or provide cash security to a bank who will issue the bonds. The types of bonds that IBA can provide include:

Performance bonds – give the buyer of your product or service assurance that if you don't meet your obligations under a contract, the buyer can call on the bond to reduce its losses.

Warranty bonds – protect your buyer from loss if you don't meet your contractual warranty latent defects period (usually 12 months), after the contract is completed.

IBA does not provide advance payment bonds, rental bonds, or bid bonds.

HOW DOES IT WORK?

You are successful with a tender and, at the time that the contract is issued, the beneficiary (usually a government department or major contractor) requires you to provide a bank guarantee or bond for five per cent or more of the value of the contract, or similar. Depending on the requirements of the beneficiary, IBA is able to either issue the bond directly to the beneficiary, or provide the funds to a bank to issue a bank guarantee on your behalf.

Upon the successful completion of the project, the beneficiary returns the bond, or part of it (if required to secure your warranty obligations) to IBA. Upon the successful completion to the defects period, any remaining bond will be returned by the beneficiary.

In order to determine if, or how, we can assist, IBA will assess, upon a satisfactory application being submitted, both your financial and technical capability to fulfil the terms of the contract. Once satisfied that you can meet these criteria, IBA will issue a facility offer outlining the terms and conditions of the facility, including pricing, for your consideration.

IBA security requirements

IBA's offering has considerably lower security requirements than banks usually need. The level of security and the cost of the facility will depend on IBA's assessment of the risk which may include:

- cash security of 20 to 50 per cent of the bond value (versus 100 per cent required by banks)
- guarantees of key director/shareholders.

BENEFITS AND FEATURES

Having a performance bond with IBA allows benefits including:

- less cash tied up in bond security
- capacity to pitch for more, or larger contracts, without being hampered by lack of security
- relatively low cost
- confidence in you.

IBA will back your capability to deliver under the contract rather than rely on your cash as security.

RATES AND FEES

Once the bond is confirmed, an application fee is charged to cover the cost of setting up the facility.

Depending on whether the bond is issued directly by IBA or requires IBA to provide the cash security to a bank guarantee, a premium or interest rate of between 1.5 and 3.5 per cent per annum is payable based on IBA's credit assessment.

ELIGIBILITY

To be eligible to apply, you must meet these requirements:

- applicant must be 50 per cent Indigenous owned and controlled
- have a track record of profitability and successful completion of similar projects
- entity must be incorporated or be a partnership/joint venture between incorporated entities
- must demonstrate capable management, including contract management capability
- have an adequate credit history.

Other terms and conditions apply. Contact us for more information.

HOW TO APPLY

Contact IBA today to discuss your business, the contract and the project that you are tendering, or have tendered for.

The application process will provide us with the necessary information to evaluate your request, which includes:

- application form
- copy of the draft contract
- last three years financial statements
- history of the business, the key executives and completion of similar projects in the recent past.

Email IBA at cashflow@iba.gov.au or visit iba.gov.au/performancebonds for more information.

We acknowledge the financial support for this new product given by the Commonwealth Government as represented by the Department of Prime Minister and Cabinet.

Call 1800 107 107 or visit iba.gov.au



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