

No.F.1/6/2023-PPD  
Government of India  
Ministry of Finance  
Department of Expenditure  
Procurement Policy Division  
513, Lok Nayak Bhawan, New Delhi,  
24.05.2023.

**OFFICE MEMORANDUM**

**Subject: Proportionality in Performance Security for multiyear service contracts.**

This Department is in receipt of representation from the industry regarding amount of Performance Security (PS) amount being sought by procuring entities in case of service contracts spanning over multiple number of the years. In such cases, PS is retained by the procuring entities over the complete contract period, which may be of 5-7 years or may be more.

2. The right quantum of performance security has to strike a balance between protecting the procuring entity's interest in case of default in performance vs. avoiding increase in tendered price and /or reduced competition. If the security is low, the entity may be adversely affected if and when default occurs. If it is high, the extra financial cost of furnishing such security will be factored in by bidders when quoting prices & hence the cost may increase.

3. In this context, it is clarified that the Rule 171 (i) of the General Financial Rules (GFRs), 2017 states as follows:

*To ensure due performance of the contract, Performance Security is to be obtained from the successful bidder awarded the contract. Unlike contracts of Works and Plants, in case of contracts for goods, the need for the Performance Security depends on the market conditions and commercial practice for the particular kind of goods.*

Therefore, sufficient flexibility is already available in the GFRs to design the performance security for procurement of services, both value and duration, duly considering the market conditions and commercial practice for the particular kind of service.

4. Further to above, procuring entities may consider to proportionately keep reducing performance security in proportion to the balance service period, wherever feasible.

5. Wherever, it is decided to take lower or proportionally reducing PS, tender conditions may be suitably modified for the future cases.

6. This issues with the approval of Finance Secretary.

*Usha Rani*  
*24/05/2023*  
(Usha Rani)

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To  
Secretaries of All Ministries/ Departments of Government of India for information and necessary action.