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EVALUATION OF
ADVANCE PAYMENT SYSTEMS

BY

S. J. TALAGALA



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EVALUATION OF ADVANCE PAYMENT SYSTEMS

BY

SHARM JANAKA TALAGALA

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DEPARTMENT OF CIVIL ENGINEERING

SUPERVISED BY DR. A.A.D.A.J. PERERA

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UM Thesis
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We accept this thesis as confirming to the required standard

University of Moratuwa

OCTOMBER 1997

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To My Son "Taraka"

&

Daughter "Taruka"



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ABSTRACT.

The research was conducted to evaluate the advance payment methods in the construction sector. Data were collected from different contractors, consultants & clients to analyse the contractor's financing state and the effect of the advance payment methods on the contractor's finance. Interviews and the documentary research are the two methods adopted for the data collection.

From the data analysed during this research it is clear that the almost of all contractors are facing to cash flow problems during the projects. The existing advance payment practice of providing 20% advance at the beginning of the project is not sufficient to overcome these cash flow problems. Therefore improvement in the advance payment system is urgently required for the development of the construction sector in Sri Lanka.

The main conclusions of the research were that a better advance payment proposal couldn't be generalize. The three advance payment proposals considered in the research were:

- (A) Providing advance payment of 20% at the beginning.
- (B) 20% advance at the beginning and another 10% advance at the middle third of the project; and
- (C) Providing 20% advance & the material advances for the main construction materials.

The suitable advance payment proposal has a greater bearing on the variable factors for the contractors finance. These variable factors and their effect on each of these advance payment proposals are analysed and presented.

By observing in to the data analysed it's clear that the advance payment system for each and every contract, must be decided by considering limitations of the contractors finance. Presently the client & the consultant decide the advance payment method. But this system has to be modified, as the contractor will be able to request for his preferred advance payment option. By looking in to the other possible alternatives available for the contractors,(for to find the finance); going for his preferred advance payment system is profitable for the contractor even after allowing of a discount to the client. Therefore the existing advance payment system can be used to improve the contractors finance without increasing the advance payment percentage.

However allowing the selection of the advance payment option to the contractor may create an another difficulty in evaluation of the contracts at the tendering stage. If the request for discount percentages, for each and every advance payment option & their modifications (Delayed advance payment recovery or reduced payback period)are included in the tender document the evaluation of the tender can be done under the grounds of equity.

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