

BANGLADESH RURAL ELECTRIFICATION BOARD

DHAKA, BANGLADESH

PBS INSTRUCTION 200-16

SUBJECT: REVOLVING FUND AND ADMINISTRATION POLICY

I. PURPOSE:

The purpose of the policy is to establish a Revolving Fund to be administered by the BREB. The Revolving Fund shall be used to self-finance expansion of the Rural Electrification Program and to assist Palli Bidyut Samities (PBSs) that have been unable to create good financial base. The Revolving Fund is being established in order to reduce dependence on external financing. In 1978 the Rural Electrification Program has started with Loans and Grants extended by Donors and is still dependent on external financing. By this time, some of the PBSs have achieved a sound financial base and are generating sufficient cash flows through operating surplus. This Funding Program can provide internally generated funds out of contributions made by financially sound PBSs and BREB to assist other PBSs to develop and grow. The Fund will be administered by a Board of Trustees constituted as follows:

Member, Finance	President
Controller, Finance and Accounts	Member
Executive Director	Member
Chief Engineer, Planning & Operation	Member
Director, Loans & Budget	Member-Secretary
*Two (2) General Managers	Members


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Asst. Secy. (Board), BREB.

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* Two(2) General Managers, one from Group-1 PBSs and another from Group-2 PBSs will be nominated by the Chairman, BREB, as defined in the Performance Target Operational Plan.

The BREB Chairman may nominate and co-opt any resourceful person or Consulting firm as a member.

11. FUNDING:

The sources of funding for the Revolving Fund are as follows:

- A. BREB will deposit cheque(s) derived from the difference in principal repayments received from the PBSs and those due to GOB, in this fund.
- B. BREB will deposit the interest into this fund.
- C. Financially sound PBSs may invest amounts equal to their Debt Service Liability (DSL) to BREB provided the amount of the investment that will be established within the Annual Performance Agreement (APA) of each PBS after consideration of the contents of paragraph D.1 of section-II Funding. The money received will be considered as an "Investment in the Revolving Fund" until final disposition is made.
 1. Interest earned and accrued on the investment(s) will be at the same rate of two (2) percent per annum as it is charged on the loan. This rate of interest may be changed from time to time by the Board of Trustees.

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2. Upon due date of the payment of Debt Service Liability to BREB, the PBS will have the following options:

a. The principal and interest amount for the "Investment in the Revolving Fund" will be transferred to loan account of the contributing PBS, if for some financial difficulty; the PBS is unable to meet its DSL.

Or

b. The amount will be left in the Revolving Fund Account. However, advance notification will be given by the PBS to the Trustee Board of the Fund, if they are unable to make their DSL payment.

c. In order to effectively manage the investments in the Revolving fund, withdrawals from the fund shall be considered for approval by the Board of Trustees on a case to case basis. The request for withdrawal shall be submitted in advance so as to allow the Board of Trustees adequate time to analyze the request.

D. In order to enhance the money supply and benefit the Rural Electrification Program in Bangladesh, the PBSs may first make their investment according to paragraph C. If any excess funds remain above the seven percent (7%) limit as stated in paragraph D.I that may be deposited in the Revolving Fund and such excess deposit will earn interest of two percent (2%) per annum.

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1. After meeting all of their obligations, the PBSs that have over seven percent (7%) combined funds (2% General Funds and 5% Replacement Reserve Funds) may deposit in the Revolving Fund and receive interest on their deposits (as detailed in Section II-C-I.
2. These deposits will be included in the PBSs' Books of Accounts as "Investment in Revolving Fund".
3. Member-Secretary of the Trustees Board on behalf of BREB will issue a Certificate of Beneficiary Ownership (CBO) to the PBSs for the amount to be invested with prior approval of the President of the Trustees Board.

E. BREB shall maintain two (2) individual Bank Accounts as follows :

1. Revolving Fund for Capital loans:

The source will be as described in II. Funding (A) and (C).

2. Revolving Fund for Operational Loans Grants:

The source will be as described in Section II. Funding (B) and interest realized from the operation of the Revolving Fund.

F. If the necessity of Revolving Fund financing is declined, the fund will remain idle. So, as and when the total fund exceeds Tk. 1 (one) crore, the Trustee Board, governing the fund, may consider investment in term deposit. When the necessity of the fund will be more than Tk. 1 (one) crore for a PBS/ PBSs, the FDR(s) will be encashed considering the maturity date.

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III. LOAN QUALIFICATIONS

BREB and PBSs will be required to set Performance Targets and the PBSs will be required to adhere to these Targets. These Targets will take into consideration the demographics and financial characteristics of each PBS. The Performance Targets will be incorporated into a formal agreement between BREB and the PBSs. These Performance Targets will be the basis for Trustee Board actions for compliance with financial goals.

IV. OUTLINE OF LOAN POLICY

A. BREB is authorized to make loans for Rural Electrification development to PBSs from funds available, under the provisions of Paragraph B below of this Loan Policy. Loans will be made available for financing the construction and operation of power distribution systems for furnishing electric energy in rural areas. The PBSs that are receiving subsidy under Cross Subsidy Policy and have Performance Target Agreement in force can borrow from this Fund.

B. BREB is authorized to make loans from the sources available for the following purposes:

1. **Indirect loans (Capital Expenditures)**

Loans made under this category are to have the same terms that are specified in the original mortgage contract with the exception of interest rates. A variable interest rate of three percent (3%) to seven percent (7%) is to be applied, with a five year grace on principal payment, based upon compliance with Performance Target Agreement.

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