

**BANGLADESH RURAL ELECTRIFICATION BOARD
DHAKA, BANGLADESH**

**PBS INSTRUCTION 200-31
BREB INSTRUCTION 600-26**

SUBJECT: DETERMINATION OF PBSs' LONG TERM LOAN- MORATORIUM PERIOD

I. PURPOSE

This instruction establishes and sets forth BREB policy in determining the effective date for commencement of PBS loan period, the basis for calculation of various loan amounts and the procedure for charging loan amounts to PBS long term loan accounts.


II. GENERAL

BREB will provide financial assistance to the PBSs under terms and conditions of Loan Agreements executed between BREB and PBSs. BREB will charge PBS loan accounts for transactions made both in cash and in kind. PBS loan accounts will normally include, but will not necessarily be limited to the following items:

- A. Cash loans for PBS initial operating fund, working capital and construction purpose.
- B. Values of materials, supplies and equipment transferred to the PBS for its own consumption either for construction or operation/maintenance purpose.
- C. Costs incurred in construction of plant, or other facilities, handed over to the PBS distribution entity including other renovated plants.

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D. BREB expenditures and foreign Consultancy costs (if not grant) which can realistically be allocated to PBS functions during the various stages of construction, development and expansion of the Rural Electrification Program.

E. Interest on Long Term Loan.

III. POLICY

A. Loan Effective Date:

1. The effective date of the loan agreement between BREB and the PBS will commence from the date of registration of the PBS.
2. Electric line construction work will begin after the PBS is registered and the loan agreement is signed.

B. Charges To PBS Loan Accounts:

BREB will charge PBS loan accounts for expenditures made by BREB on behalf of the PBS. All loans will bear interest in accordance with loan agreements. Charges will be made to loan account as practicable, after expenditure has been made or interest accrued by BREB.

Interest on loans will accrue from the date of disbursement by BREB or the date of commercial energization whichever is later.

C. Recovery of Initial Interest Costs By BREB:

Interest costs incurred by BREB between the time of disbursement by the donor, and the subsequent charge to the PBS will be recovered from the PBS by adding three percent (3%) to the value of imported materials.

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IV. CALCULATION OF LOAN QUANTUM - PRE-REGISTRATION PERIOD

Direct costs of plant, materials, supplies and services, expended by BREB will be accumulated in BREB accounts. These will be charged to the PBS loan account as of the date of registration. Director, PBS Monitoring and Management Operation will notify Director, Accounts when PBSs are registered and Loan Agreements are signed.

1. Charges to the PBS will be by Debit Note from BREB, which will provide sufficient detail of charges to enable the PBS to establish asset records.
2. Accounting for charges will be as follows:
 - a. PBS Dr. Appropriate Asset Account
Cr. BREB long Term Debt- Principal
 - b. BREB Dr. PBS Long Term loan
Cr. Appropriate Asset Account
Cr. Deferred Debit

V. CALCULATION OF LOAN QUANTUM - POST-REGISTRATION PERIOD

- A. Direct Classified Costs of plant, equipment, materials, supplies and services will be accumulated and will periodically be charged to the PBS as transfers take place.
 1. Cash loans and values of materials, supplies, equipment and services sold to the PBS, will be charged to the PBS loan accounts at the time of the transaction.

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2. Costs of land, building, substations, and distribution plant will be accumulated by BREB. These costs will be charged to PBS loan accounts when the facilities are transferred to the PBS for their use. Costs will include values of materials and labor/contractor payments for construction and/or development.
3. Expenditure for civil consultancy services will be accumulated by BREB and will be transferred to the PBS semiannually-on 31 May and 30 Nov. These costs will include architecture fees and construction supervision. The PBS will capitalize these costs as they are charged by BREB and will reallocate costs to individual structures when all civil works are completed.

Accounting for these charges will be as follows:

- a. PBS Dr. Appropriate Asset Account
Cr. BREB Long Term Loan - Principal
- b. BREB Dr. PBS long Term Loan- Principal
Cr. Appropriate Asset Account.

- B. Unclassified expenditures local electrical Consultancy and for BREB supervision (SE, XEN Project Office Staff) will be accumulated by BREB. Costs will be charged to PBS the semi-annually (on 31 May and 30 November).
 1. BREB will charge the PBSs for amounts paid to local electrical consultants engaged at the individual PBS.
 2. BREB will charge the PBSs for costs of supervision (SE, XEN & Project Office) by allocating these cost to the PBSs which received services.

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Payments to construction contractors will be the basis for allocation of the costs. The allocation formula will be as follows:

PBS be charged: $\frac{A}{B} \times$ Costs incurred by BREB for SE, XEN & Project Office Staff within the Zone

A = Payments made to contractors of individual PBS for line and substation construction.

B = Total payments to contractors for line and substation construction within the Zone of the SE.

3. Semiannually (on 31 May and 30 November) BREB will prepare Debit Notes to the PBS for the accumulated costs.
4. Accounting for these charges will be as follows:

- a. PBS
Dr. 184 Clearing Account
Cr. 224 BREB Long Term Debt Principal.
- b. BREB
Dr. PBS Long Term Loan- Principal
Cr. Allocated expenses to PBS.

C. Indirect costs, for expenditures incurred if applicable) by Training Directorate, will be accumulated by BREB. These costs will be charged to the PBS semiannually- on 31 May and 30 November. Allocation of these costs will be based on the number of employees at the PBSs.

The number of employees will be determined from Form 550. Costs will be allocated by the following formula

A

PBS Charge = $\frac{A}{B} \times$ Costs incurred by BREB for Training Directorate

A = Number of employees of individual PBS.

B = Total number of employees at all PBSs.

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1. On 31 May and 30 November BREB will prorate the accumulated costs to the PBS's. BREB will prepare Debit Notes to the PBS for their prorate costs.

2. Accounting for these charges will be as follows:

- a. PBS Dr. 184 Clearing Account
Cr. 224 BREB Long Term Debt - Principal
- b. BREB Dr. PBS Long Term loan- principal
Cr. Allocated expenses to PBS.

D. Indirect costs, for expenditures incurred by BREB on Foreign consultancy will be accumulated by BREB (if applicable) These costs will be charged to the PBS semiannually on 31 May and 30 November Half (1/2) of these costs will be considered as project Division construction related and half (1/2) will be considered as Institutional Development related.

1. Project Division Construction related costs 50% of the total will be allocated as per Section B of this Instruction without regard to Zone divisions.

2. Institutional Development related costs will be allocated by prorating 25% of the total costs equally to all registered PBSs and 25% of the total costs will be prorated on basis of operating revenue.

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PBS Financial Report for 31 March and 30 September (Year to Date) will provide operating revenue data. The formulas for allocating these costs are as follows:

PBS Charge = $(1/A - x 0.25) \times$ Total costs incurred by BREB
for foreign consultancy.

A=Number of registered PBS.

PBS Charge = $(A/B \times 0.25) \times$ Total costs incurred by BREB
for foreign consultancy

A = Operating revenue of individual PBS.

B = Total operating revenue of all PBSs.

3. On 31 May and 30 November, BREB will prorate the accumulated costs to the PBS's. BREB will prepare Debit Notes to the PBS for prorate costs.

4. Accounting for these charges will be as follows:

a. PBS Dr. 184 Clearing Account
Cr. 208 Donated Capital

b. BREB Dr. Foreign grant for PBSs
Cr. Allocated expenses PBSs

E. Interest costs incurred during the moratorium period will be accumulated by BREB. These costs will be charged to the PBSs at the end of moratorium period.

1. Interest will accrue to loan accounts at an annual interest rate of 0.75%. Interest charges will not compound.

2. The year-end principal balance of loan accounts will be the basis for calculation of interest charges for the first day of the following year.

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3. The formula for calculation of interest charges for additions to loan accounts during the year will be as follows:

$$\text{Interest Charges} = A \times 0.0075/2$$

A = Amount added to loan principal during the period.

Interest calculation will be done by PBS Loans and Budget Directorate of BREB. Based on such calculation of interest, BREB Accounts Directorate will issue Debit Notes to the PBSs.

4. Accounting for these charges will be as follows:

a. PBS Dr. 184 Clearing Account
Cr. 224 BREB long Term Debt -Principal

b. BREB Dr. PBS Long Term Loan-(Moratorium Interest)
Cr. Interest on PBS Loan- (Moratorium Interest)

F. Materials, supplies and equipment, if returned by the PBS to BREB or transferred to another PBS on orders from BREB will be credited to the PBS loan accounts.

1. Unused materials, supplies and equipment will be priced at the then current values recorded by the PBS from which goods are transferred.

a. The PBS will charge BREB for such costs by issuance of a Debit Memorandum with supporting Material Charge Ticket duly acknowledged by the receiving PBS. BREB will issue a Credit Note to the PBS and will credit the PBS Long Term Loan account as of the date the goods were transferred.

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b. The charge to the PBS which received the goods will be by Debit Note prepared by BREB- with copy of the Materials Charge Tickets prepared by PBS.

2. Materials, supplies and equipment, if any, are transferred from one PBS to another, will be accounted for as follows:

PBS- Issuing the Materials Dr. 143 Other accounts receivable
Cr. Appropriate asset account

PBS- Receiving the materials Dr. Appropriate asset account
Cr. 232 Accounts payable

The receivables and payables between the PBSs are to be Settled/adjusted within 6 months from the date of receipt of materials, supplies and equipment by the recipient PBS.

3. Used materials, supplies and equipment will be priced based on an appraisal by BREB CS&M Directorate and Accounts Directorate jointly.

a. Procedures as stated in 1- a & b will be followed.

VI. CALCULATION OF LOAN QUANTUM - AFTER MORATORIUM PERIOD

BREB will continue to provide financial assistance to the PBSs after the moratorium period has expired.

A. Interest accrued during the moratorium period will be transferred to Long Term Debt- Principal.

B. Until the PBS commences payment of debt principal, the provisions of this Instruction will remain in effect.

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With the Following Exceptions:

1. The interest rate will be 3% per annum.
2. Interest will be charged to the PBS's semi-annually on 31 March and 30 September. The formula for calculation of interest charges for additions to loan accounts during the year will be as follows:

$$\text{Interest charges} = \frac{\text{Amount added to the principal during the year}}{2 \times 2} \times 0.03$$

3. BREB Loans and Budget Directorate will prepare invoices to the PBS for interest charges.
4. Interest costs will not be capitalized by the PBS. This cost will be charged to Account 937 - Interest on Long Term Debt.
5. 1% penal interest will be charged on matured long term debit-principal of PBS fails to pay within due date.

VII. ACCOUNTING BY PBSs

BREB Long Term Debt amounts will accumulate as Debit Notes, received from BREB, are recorded. Loan accounts will include items listed in section II of this Instruction.

- A. All income and expenses incurred prior to energization will be capitalized as Organizational Costs.
- B. Cash loans will be recorded as funds are received.

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- C. Values of equipment, materials and supplies will be recorded as goods are received.
1. Complete records - such as stock records, continuing property records, or other prescribed asset/expense records - will be established and maintained as charges are received from BREB.
 2. If charges are not received as goods are delivered, or Debit Notes lack adequate documentation for final accounting, the PBS shall immediately notify Directorate of Loans & Budget and Directorate of Accounts, BREB.
- D. Costs of civil consultancy and PBS Development costs will be capitalized as debit Notes are received from BREB.
1. Civil consultancy costs will be charged to Building and, when civil construction is completed, these costs will be prorated to all buildings.
 2. Development costs will be capitalized as Organizational Costs.
- E. Costs of civil construction: land and land development, building construction and improvements will be capitalized as Debit Notes are received from BREB.
- F. Indirect and unclassified costs such as local consultancy, BREB supervision (SE, XEN & Project Office Staff), training, foreign consultancy, interest, etc. will be charged to Clearing Accounts when Debit Notes are received from BREB.
1. These costs will be capitalized by escalation of plant values which include only direct costs.

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G. Plant values for completed construction of substation and electric distribution plant including other electric utility renovated lines -will be capitalized when plant is turned over to the PBS for operation.

1. BREB will prepare Debit Notes for the direct costs of labor/ contractor payments and values of materials as work orders are completed. These Debit Notes will include complete close-out documentation.
2. When the PBS records these charges the direct costs will be escalated by 20% to include indirect and the unclassified expenditures which are indeed components of construction costs. The amount of this escalation will be credited to the Clearing Account of Paragraph F above.
 - a. From time to time the escalation factor will be reviewed and, if necessary, will be modified.
3. Complete asset records shall be established and maintained as per prescribed Instructions.

Note:1 If the loan amount remains unpaid after expiry of fifty (50) installments of principal amount of long term loan, unpaid loan amount shall have to be transferred to other Deferred Credit (Account No. 259.40) from Matured Long Term Debt (Account No. 239)

Note:2 If the Interest remains unpaid after expiry of fifty (50) installments of Interest on principal loan, unpaid Interest amount shall have to be transferred to other Deferred Credit (Account No. 259.41) from Matured interest (Account No. 240)

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