

MANUAL ON LOAN POLICY & PROCEDURE
FOR
NON-BANK FINANCIAL ORGANIZATIONS
ESTABLISHED
UNDER THE WORLD BANK FUNDED
FARM PRIVATIZATION SUPPORT PROJECT
TAJIKISTAN

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PREFACE

Agriculture in Tajikistan is a priority sector for accelerating economic growth. Accordingly, the Government obtained a US \$ 20 million credit from the International Development Association for the Farm Privatization Support Project. The main objective of the project is to transform the existing state and collective farms into individual farming units by providing the individual farmers with enabling conditions to operate independently in a dynamic and competitive market economy. There was a provision for payment of one time privatization grant under the project for addressing the immediate capital needs of the emerging private farmers. The above grant's reach is to be enhanced through the development of grass roots member[farmer] owned Non-Bank Financial Organizations supporting the agricultural development by providing short term and seasonal credit.

In the first phase, Non-Banking Financial Organizations have been organized and established on a pilot basis in six raions covered by the project. These six NBFOs have already commenced their lending activities from August'04 and by now they have disbursed to 212 borrowers sum of 21,66,900 TJS [US \$ 7,22,300] accounting for 66.8 % of the lendable resources of 32,40,000 TJS [US \$ 10,80,000]. While a Manual for loan policy & procedure is a must for putting in place efficient credit delivery system, a Manual drafted way back in December'04 needs to be rewritten to provide more clarity as well as to serve as a desk reference book for its users.

An attempt is made in this manual not only to provide clarity in respect of loan policy and procedure for appraisal & sanction, but also role, functions & responsibility of elected as well as executive bodies are well defined. Besides, additional areas very pertinent & relevant to credit delivery system are covered in required details. These areas refer to formulation of annual business development plan; annual profit planning exercise; loan recovery management; three monthly returns for reviewing physical progress, income & expenses and recovery performance & overdue status on a monthly basis by the Board of Directors as a part of their concern to improve the functioning of NBFOs.

Indeed I am indebted to Mr Tohir Ostonaev, Director & Ms Svetlana Balkhlova, Chief Office Manager, Project Management Unit, Dushanbe for presenting me an opportunity to be associated with this project as Credit Association Specialist and their unstinted cooperation from time to time, despite their having a very busy schedule, in providing me the required facilities for completing this assignment on time.

I also like to thank Ms Zebo of the Project Management Unit, Dushanbe to accompany me during my field visits and assist me in understanding the functioning of NBFOs.

My thanks are also due to elected representatives & executive staff of NBFOs for having direct interaction as well as providing me necessary data & information on the existing status of the NBFOs & future plans.

I am extremely grateful to Mr Sampath & Mr Daniel Gerber of the World Bank, Washington who were kind enough to spare some time late evening of 12th February'05 and with whom I discussed the key issues inhibiting the growth, development & progress of NBFOs and emphasized the most urgent need for comprehensive training of elected representatives & executive staff of NBFOs.

My assignment could not have seen the light of the day without the prompt response from Interpreters & Translators Mr Firuz, Mr Didor, Ms Aziza & Ms Malika who shouldered the responsibility for interpreting the materials as well as translating the reports in Russian language on time, despite heavy constraints on the physical facilities. I record my profuse thanks to each one of them.

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I just cannot express my thanks but record my remembrance to my two sons Mr Bhadresh & Mr Yogesh whose love & affection; care & concern and inspiration & warmth had been a source of strength for me to complete the assignment successfully in a tension free environment in a remote place in Tajikistan.

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MANUAL ON LOAN POLICY AND PROCEDURE

Chapter No.1

INTRODUCTION

NBFO's Mission Statement

NBFO dedicates its unflinching efforts to facilitate its members to own and democratically manage NBFO and inspires them to sacrifice personal interest for the progress, growth and financial sustainability of NBFO.

Strategy to accomplish the Mission

This Manual on Loan Policy & Procedures, along with other Manuals on Operations & Accounting, accompanied by need based & result oriented training to General Assembly, Board of Directors, Members of Credit Committee, General Managers, Loan Officers & Chief Accountant, Shareholders & Borrowers for their capacity building & NBFOs' institution building is an integral part of the Strategy to accomplish the Mission.

Objectives of the Manual

NBFOs are farmer-member owned & managed credit dispensing financial intermediaries. In their effort to efficiently operate the institution and to respond to the newly emerging credit needs of the members as well as other borrowers, there is immediate need for Manual that can lay down the Loan Policy & operationalise the Lending Procedure.

Thus, following are the broad based objectives of this Manual.

To equip the staff of the NBFOs with necessary skills so as to facilitate them to take decisions on credit disbursement based on sound principles of credit management

To provide wider perspective and exposure to members of the Credit Committee, Board of Directors and enlightened members of the General Assembly in respect of established principles and practices of credit management and assist them in their capacity building so that they are enabled to take decisions on credit proposals.

To train members and borrowers of the NBFOs who are the primary loan applicants for preparing quality loan proposals that can meet sound principles of credit management

Users of the Manual

Staff of the NBFOs

Members of Credit Committees and Board of Directors

Members and Borrowers of NBFOs

Non-Bank Financial Organizations

The Government of the Republic of Tajikistan, having identified agriculture as a priority sector for stimulating economic growth in the country, sought and obtained a US \$ 20 million credit from the International Development Association for the Farm Privatization

Support Project. The Project Management Unit located in Dushanbe is responsible for implementing the Project. The main objective of the project is to transform the existing state and collective farms into individual farming units by providing the individual farmers with enabling conditions to operate independently in a dynamic and competitive market economy. For addressing the immediate capital needs of the emerging private farmers there was a provision for payment of a one-time privatization grant under the project. The above grant's reach is to be enhanced by the development of grass roots member [farmer] owned, Non-bank Financial Organization [NBFO] supporting the development of the agricultural sector by providing short-term and seasonal credit. At present six NBFOs one each in six raions covered by the project have been organized and established on a pilot basis. Based on lessons learned from this activity, a comprehensive rural credit/savings delivery system is expected to emerge covering the entire country.

Objectives of NBFOs

NBFOs main objectives are to provide easy access to its members/shareholders to credit at market rate of interest and play a catalytic role to lubricate the process of farm and non-farm sector development in six raions of Tajikistan. In the course of time, when NBFOs acquire sound financial sustainability, they will endeavour to provide to their members all types of credit, non-credit and financial services. In this process, members of NBFOs appreciate that it should be their endeavours to continuously manage these financial intermediaries on the basis of principles of sound business and financial management.

Six NBFOs established in Tajikistan are registered with Ministry of Justice as Closed Joint-Stock Company and they are licensed by National Bank of Tajikistan to conduct their activities of enrolling members/shareholders and lending to targeted group of clients. These NBFOs have their own democratically elected Board of Directors to implement policies and programs approved by the General Assembly, which consists of all members/shareholders. General Assembly is the competent body to formulate policies & programs for the development of NBFOs & direct the Board of Directors to implement these policies & programs and present a detailed Annual Report for discussion and adoption by the General Assembly. General Assembly has approved the Charter [Memorandum of Articles & Associations] describing the objectives and conducting the activities in detail.

NBFOs have appointed full time General Manager & Chief Accountant to manage the operations of NBFOs on a day-to-day basis and be accountable to Board of Directors.

Boards of Directors have appointed Credit Committees to approve credit proposals of the clients.

Chapter No.2

LOAN POLICY OF NBFO

NBFOs Loan Policy document is evolved within the overall framework of rules & regulations prescribed by NBT, Investment Agreement executed by the Project Monitoring Unit & NBFOs as well as Sub-Credit Agreement executed by AmonatBank & NBFOs under the World Bank funded Farm Privatization Support Program for six raions in Tajikistan.

Loan policy of NBFOs basically sharply focuses on following policy directives:

- **Area of Operation:** NBFOs lending activities shall confine to and cover specific geographical area of operations for the purpose of enrolling members/shareholders, providing loans to borrowers and canvassing for business.
- **Borrowers' Eligibility:** NBFOs borrowers belong to target group of farmers of privatized farms, cattle breeders/livestock owners, small & medium enterprises engaged in Agri-business, manufacturing/processing of agricultural produce, inputs and service providers for farm sector development. General Assembly can consider addition or deletion of types of activities pursued by borrowers after carefully discussing the issues.
- Borrower's eligibility and sanction of loan will be guided by assessment of character, credit worthiness, capital, collateral, willingness and capacity to repay loan.
- NBFOs will not discriminate borrowers on the ground of caste, color, creed or sex. NBFOs will encourage women borrowers if they meet eligibility criteria and their loan proposals are technically feasible & financially viable.
- NBFOs shall not provide loans to clients who have over dues with Government/Semi-Government or any Financial Institutions.
- NBFOs shall not provide loans for refinancing or redemption of existing debts; for purchasing consumer goods; for meeting emergent family needs or personal loans; for investment in equity capital in any enterprise for speculative trade transactions with agricultural commodities;
- **Eligible Projects:** NBFOs will provide loan for such projects under agriculture, animal husbandry & small business enterprises as are technically feasible and financially viable.
- NBFOs will grant such loans as are quality and productive which means loans obtained by borrowers must enhance production, productivity and profitability of farm enterprise and that loans are to be repaid along with interest on time.
- Purposes of loans, size of loans, exposure limits to each borrower, interest rate, maturity period of loans, repayment terms, collateral required and other conditions relating to loans proposed to be advanced to borrowers will be decided by Board of Directors.
- **Loan Maturity Period:** NBFOs will extend short Term Loan i.e working capital loan for a maturity period not exceeding 12 months in the first year for crop

- cultivation, maintenance of fruit trees, livestock maintenance & small business enterprises.
- **Business Operations:** NBFOs business operations need to be financially sustainable i.e all expenses including cost of borrowed funds, provision for loan losses, operational & administrative cost, imminent risks etc shall have to be met from NBFOs income derived principally from interest charged to clients on loans provided to them, income from investments made and if any, fees collected for providing services to clients. Besides, NBFOs expect reasonable level of profit each year.
 - **Interest Rate:** Interest Rate structure on loans will be market driven which will cover all expenses as referred to above. Interest Rate policy will be reviewed periodically to reflect market forces, inflation and risk factors and therefore interest rate will be decided by the BoD and given effect for its implementation by NBFOs. Interest rate structure may vary among NBFOs as well as among borrowers depending upon the risk factors & need for achieving operational & financial sustainability of the concerned NBFO. The Credit Committee of the concerned NBFO will work out interest rate structure for types of loans & borrowers, loan amount etc and recommend for its approval to Board of Directors & giving effect for implementation..
 - **Fees:** NBFOs shall stipulate payment of over due interest on all loans & interest which are not repaid on due dates. Presently, fees @ 18 per cent per annum shall be levied on late payment. It shall be for number of days for which amount has been paid late.
 - **Collateral:** All loans need to be adequately secured by free, marketable and unencumbered collateral offered by borrowers and minimum one guarantor of good means as stipulated by NBFOs in order to minimize risks factor at borrower level.
 - **Loan Limits:** Loans up to 10,000 TJS to one single borrower [including family member living under one roof] will be approved by the Credit Committee and loans above 10,000 TJS will be approved by the BoD subject to recommendation by the Credit Committee.
 - Maximum loan exposure to a single member [including family members residing under one roof] shall not exceed to 2.5 % of the available resources made available under the Sub-Credit Line Agreement in the first year and 3.5% in the subsequent years.
 - **Loan Diversification:** NBFOs will endeavour to their best to diversify and balance the loan portfolio among segments like agriculture, animal husbandry & small sized processing/business units such that income can be maximized and risk can be minimized
 - **Credit Contract:** Credit Contract document [a legal document enforceable in the Judicial Court of Law in Tajikistan] stipulating all terms & conditions of loans will need to be executed between borrower and NBFO for availing loans prior to the date of disbursement of loans. One copy of this document shall be provided to the borrower for his/her record.

- ***Supervision & Inspection:*** NBFOs will inspect/supervise end use of loans disbursed to borrowers and in the event of its misuse NBFOs have the right to recall the loans.
- ***Portfolio Management:*** NBFOs shall classify their Loan Portfolio & make appropriate provision for loan losses in accordance with the criteria as defined by the National Bank of Tajikistan
- No member of Credit Committee or Board of Directors shall consider and act on a loan proposal emanating from himself/herself or from a family member or relative.
- ***Responsibility:*** Lending authority carries responsibility to use the authority in a proper & prudent manner. Any violation of policy and procedure must result in restricting or canceling his/her authority or entailing stringent disciplinary actions.
- ***Secrecy of Information:*** All information pertaining to any customer of the NBFO shall be kept strictly confidential. No information of any customer shall be disclosed or passed on to any one including customer's relatives, except as a result of Court order. In future it is possible that there may be some arrangement for exchange of information either through a formalized Credit Bureau or other kind of credit clearing mechanism where in delinquent borrower's information can be obtained. In this event NBFO may consider to participate and share information with other financial institutions after obtaining approval of the BoD.

Chapter No.3

MANAGEMENT STRUCTURE

Non-Bank Financial Organization would have following Management Structure to lay down policy framework, to implement its policies and to supervise that the policies are implemented.

- NBFO's Management structure consists of two tiers, one of which is Board of Directors/elected body and other one is Administration Department/executive body.
- BoD which has members elected by the General Assembly is responsible for formulating business, management and financial policies and programs for the growth and development of NBFO.
- BoD is accountable to General Assembly.
- Administration Department headed by the General Manager [Chairperson] with supporting staff, viz. Chief Accountant, Loan Officer etc is appointed by BoD.
- Administration Department is responsible to carry out the policies and program formulated by the BoD with the objectives of managing the day to day affairs of the NBFO in such a way that members of the NBFO feel that it is owned and managed by them and it is customer friendly.
- Administration Department is expected to put in its best effort to make NBFO's operations viable & financially sustainable.

Broad based functions of the General Assembly, Board of Directors, Credit Committee & supporting staff of the Administration Department in relation to NBFO's Loan Policy & Procedure are indicated as under.

General Assembly

- General Assembly is the plenipotentiary and competent body of the member-owned & managed NBFO to elect members of the BoD, Credit Committee & Supervisory Commission..
- It has the prerogative to direct the BoD to formulate Loan Policy & Procedure and submit for GA's approval.
- GA is responsible to supervise the affairs of the BoD with the objective of ensuring that NBFO retains its character as "members-owned & managed" and achieves operational viability from the 1st year itself & progressively financially sustainability.
- It has the added responsibility to ensure that BoD is carrying out its functions of drawing and repaying funds with interest in accordance with the provisions

embodied in the “ Investment Agreement & Sub-Credit Agreement” as executed by NBFO with Project Monitoring Unit & AmonatBank under the Farm Privatization Support Program.

- GA would require that BoD, at its Annual General Meeting, presents Annual Balance Sheet and Annual Report for discussion and adoption.
- Presentation of Annual Balance Sheet should focus sharply the steps initiated by the BoD to make NBFO’s lending activity operationally viable, maximizing income, minimizing risk assets and deploying human resources optimally.
- Annual Report should critically analyze the progress achieved in respect of Lending Plan as compared to the targets stipulated, identify factors inhibiting the flow of credit & repayments and make recommendations to accelerate the flow of credit & repayments.
- Present for approval current year’s Annual Business and Financial Plan covering projections on mobilizing membership & share capital; lending activities; strategy for reduction in Non-Performing Assets; Income & Expenses and Profit & reserves.

Board of Directors

- formulates Loan Policy & Procedure and obtains approval of the GA
- formulates, on an annual basis, Business Development Plan focusing annual business growth and strategy to accomplish the business goals
- formulates annual Financial Plan focusing on operational viability of the NBFO in the 1st year and progressively financial sustainability in subsequent years.
- supervises the Administration Department to ensure that it carries out its functions of drawing and repaying funds with interest in accordance with the provisions embodied in the “ Investment Agreement & Sub-Credit Agreement” as executed by NBFO with Project Monitoring Unit & AmonatBank under the Farm Privatization Support Program.
- presents Annual Balance Sheet and Annual Report in the Annual General Meeting of the GA for discussion and adoption.
- Presents, for approval of the GA, current year’s Annual Business and Financial Plan covering projections on mobilizing membership & share capital; lending activities; strategy for reduction in Non-Performing Assets; Income & Expenses and Profit & reserves.
- Appoints need based supporting staff of Administration Department viz, General Manager, Chief Accountant, Loan officer etc, fixes the remuneration of each one of them in accordance with the provision in the Charter of the NBFO, subject to ratification by General Assembly and allocates the job role, functions & responsibility to each one of them in writing.
- Supervises the General Manager with regard to his/her managing the affairs of the NBFO.
- Approves Interest Rate Structure on loans to be advanced to borrowers upon recommendation by the CC
- approves all loans above 10,000 TJS subject to recommendation by the CC.

- will take decision on a loan proposal of a voting member of the CC as well as any relative's of the member of the CC
 - will take decision on the loan proposal of a member of BoD where the concerned loan applicant shall not remain present
 - will review on a monthly basis Monthly Progress Report [Annex-7], Income & Expenses Statement [Annex-8]and Recovery performance & over due status of individual borrowers[Annex-9]
 - will review on a quarterly basis following matters in detail & give directions to concerned person /committee for improving the quality of business, & performance of lending activities
- *Number of borrowers with past due loans & loan amount involved*
 - *Cases involving Non-accrual loans*
 - *Credit Committee's Minutes*
 - *Report on the quality of asset in accordance with requirements of NBT*
 - *Watch list on Problem loans*
 - *Report on new loan sanctioned & disbursed*
 - *Status on the Reserve for loan losses*
 - *Accounts relating to Loan restructuring and charge offs*

Credit Committee

The Credit Committee shall have following three members.

The Deputy Chairman of the BoD shall be the Chairperson of the CC.

One person out of stockholders/ members elected, as member of the CC, by the General Assembly at its Annual General Meeting.

One voting member representing Project Management Unit, Dushanbe. Project Management Unit can appoint a person from Project Implementation Unit as its representative.

Loan officer of the Executive body shall write minutes of the CC meetings. Loan officer shall not participate in the decision making process of the CC. Minutes shall be signed by all members in token of having been party to the decision of the CC.

Credit Committee shall meet as frequently as possible, but in any case at least twice a month, and shall approve all loans up to 10,000 TJS.

The Credit Committee shall be responsible for following:

- to interview the Loan Applicant and verify the facts stated in the Loan Application Form, Business Plan, other documents & recommendations of the Loan officer and satisfy with his/her **willingness & capacity** to repay the loan.
- to comply with all the requirements as embodied in the loan policy and procedure while considering loan proposals of the clients.
- to work out Interest Rate Structure on loans to be advanced to borrowers and recommend to BoD for approval & giving effect
- will review all inspection reports prepared by the Loan officer [Annex-5]& indicate future course of action on problem loans .
- to develop loan products best suited to the emerging needs of the members/clients & diversify the loan portfolio and submit to BoD for consideration and approval.
- to review the implementation of the NBFO's loan policy and procedure which can increase the flow of credit & enhance repayment of loans and make recommendations to BoD
- will be responsible for all loans sanctioned for recovery along with the Loan officer

- to review all loans proposed for restructuring or write off and make recommendations for the consideration and approval of the BoD.
- to monitor the loan portfolio and ensure its growth & quality.
- to analyze cases of loan delinquencies on a monthly basis & formulate action plan for minimizing the incidence of loan delinquency.
- to identify training needs of the existing & prospective borrowers, based on its experience, and organize one day training program.

General Manager

General Manager is expected to possess requisite qualification & adequate experience/exposure in the field of Banking & Credit.

- General Manager shall report to BoD & is accountable to BoD in all the matters relating to Lending activities.
- He/ She will implement and monitor day to day administration of the NBFO's lending activities.
- It is his/her responsibility to implement loan policy and procedure stipulated in the Manual, recommend revisions and strategy for accelerating the performance and developing loan business qualitatively.
- He/She is responsible along with the Credit Committee for all loans made by the NBFO.
- He/ She is authorized by BoD to sign all legal documents [including Credit Contract], certificates and correspondence on behalf of the NBFO

General Manager shall carry out the functions of the Loan officer till NBFO develops outstanding loan portfolio of 6,00,000 TJS covering not less than 75 borrowers when effort for recovery & follow up actions are simultaneously called for. .

Chief Accountant

Chief Accountant is expected to possess requisite qualification & adequate experience/exposure in the field of Book-keeping & Accountancy:

- He/ She will be responsible to General Manager
- He/ She will be responsible for proper maintenance of all Books of Accounts & record entries in accordance with the detailed instructions contained in the “ Operation Manual & Manual on Accounting” prescribed for NBFO
- He/she shall be responsible for proper fund management of the NBFO so that borrowed funds are lent immediately within a day or two and NBFO should not have to pay interest unnecessary.

Loan Officer

Loan officer is expected to possess requisite qualification & adequate experience/exposure in the field of Banking & Credit.

Loan officer, in addition to his/her role in the process of credit appraisal, should endeavour to perform following tasks:

- to undertake marketing of NBFO's lending activities to accelerate business growth in a planned way
- to establish rapport with borrowers & coordinate with Agronomist & Veterinarian to transfer new technology to improve production, productivity & profitability of farm enterprise.
- to educate customers about NBFO's Loan Policy & Procedure and how it can facilitate them to increase production and income
- to study customers' problems and organize meeting with General Manager or members of CC or BoD to resolve them and clarify their doubts/misgivings
- to create atmosphere quite congenial for prompt recovery of loans which can reduce instances of loan delinquencies,.

Marketing of business

Marketing business for NBFOs is very crucial for selecting good borrowers, securing quality loan proposals, ensuring timely repayment of loans and ultimately increasing income and profit. In this process, Loan officer has a very significant role to play. In Banking terminology it is called “Relationship Management” under which NBFOs have to build up an enduring relationship with existing as well as new clients. For this purpose the Loan officer is expected to perform following tasks:

- Organize clients meetings as frequently as possible, in a cost effective manner, in the area of operation
- Discuss with them the role of the NBFO and its offer for services & products that can benefit clients, particularly increasing their production, productivity & profitability of crop & livestock farming enterprises
- Make them fully aware of all the terms & conditions as detailed in the NBFO’s Loan Policy & Procedure that can help them better understand the procedure for obtaining loan as well as their obligations.
- In the event of clients’ having confusion or seeking clarification on some difficult issues, a meeting with Board of Directors can be considered necessary.
- During these meetings good clients as well as their credit needs/loan products should be identified.
- Some more/additional data & information can be collected that can be useful for better credit appraisal and understanding realistically the local situation to fit in NBFO’s business policy & program
- Problems encountered during inspection of clients’ business activities can be discussed to seek solution to these issues.
- Services of Agronomist & Veterinarian or Information Unit can be requisitioned for imparting technical guidance on the better methods of crop & livestock farming, reducing cost of production, mitigating outbreak of pests & diseases, identifying possible risks & initiating measures to minimize risks etc.

Loan Disbursement

A careful study of the Investment Agreement, Sub-Credit Agreement and Loan Policy & Procedural Manual reveals that a borrower has to wait for disbursement of his/her loan till the following procedure comprising 12 steps is completed which means disbursement may require a period of one month or even more.

- Prospective borrower visits NBFO and contacts Loan officer for information on availability of loan. Loan officer briefs about certificates/documents to be produced for his/her eligibility of loan and, if eligible, issues a Loan Application Form & guides how to fill the form and attach documents required for processing the proposal
- Prospective borrower prepares loan proposal along with required documents and visits NBFO to hand over the loan proposal
- Loan officer appraises the proposal, prepares summary report, makes recommendations and keeps ready for submission to Credit Committee’s Meeting being the competent authority to take the decision

- Credit Committee meets once in a fortnight and takes decision on loan proposals after taking interview of the prospective borrowers.
- All proposals on which decisions are taken by the CC are passed on to Loan officer for proper recording purpose. Loan officer informs the Chief Accountant of the NBFO in writing details of proposals already favorably considered by the CC for arranging for funds from AmonatBank. Loan officer is expected to communicate in writing to individual prospective borrowers about the fate of his/her proposal whether it is sanctioned or rejected. If rejected, borrower expects the reasons for declining the request for loan by the CC.
- The Chief Accountant of the NBFO, in terms of the Sub-Credit Agreement executed by the NBFO with AmonatBank, fills up all seven Annexes from A to G as a part of NBFO Credit Line Application and Sub-Credit Disbursement Application Form and obtains signature of the Chair person of the NBFO and is required to send in duplicate to PMU for approval. For subsequent disbursements only Sub-Credit Disbursement Application in Annex G is to be submitted by the NBFO to PMU for approval of credit disbursement
- The Chief Accountant sends all these documents to PMU for approval of NBFO's Sub-Credit Disbursement Application.
- PMU, after verifying the requirements in the light of the Sub-Credit Agreement and establishing the genuine needs for disbursements either approves or disapproves the Application and returns to NBFO for further necessary action.
- The Chief Accountant of the NBFO then fills up Sub-Credit Disbursement Order in Annex H, obtains the signature of the Chair person of the NBFO and sends the Disbursement Order along with PMU's approved document to AmonatBank for obtaining the funds for disbursement to borrowers.
- AmonatBank is expected to transfer the requested funds to the specified bank accounts at the specified location in the vicinity of he NBFO.
- On receiving the funds the Chief Accountant will inform the Loan officer who would subsequently inform the borrowers to get all required documents executed before obtaining loans.
- Borrowers arrange to register their collateral and provide Guarantors.
- After verifying that all required documents as stipulated by the CC while sanctioning loans are obtained duly signed and certified/notarized borrowers are disbursed loans either in cash or credited to their bank Account.
- Loan officer and the Chief Accountant then account the borrower-wise disbursements in the respective books of accounts and initiates process of supervision, follow-up, inspection and ultimately for the repayment of loans along with interest.

Consultant during the field visits attempted to verify whether NBFOs & PMU follow this procedure and assess the time taken between the requests of loan by the borrower and disbursements of loans. It was confirmed that while NBFOs do not follow this procedure, it takes around one month for the borrowers to obtain loans.

Timely & Speedy Sanction of Loans

For this purpose, following suggestions are made.

It would be necessary to include in the Loan Application Form itself the summary report & recommendations of the Loan officer as well as the decision of the Credit Committee. Loan Application Form is now revised to include these requirements.

Loan officer should organize prospective borrowers meetings as frequently as possible and arrange for guiding about filling up Loan Application Form at one sitting.

After prospective borrowers have completed the forms alongwith required documents, date for CC meeting should be fixed for interviewing them and decide on loan proposals.

When CC has taken decision, borrowers should be informed to complete the procedure for pledging collateral and simultaneously arranging for funds from PMU /AmonatBank.

When NBFO comes to know that funds are going to be received on a particular date, all borrowers whose loans are sanctioned should be called at one place and disbursements should be made along with execution of credit contract.

This process will reduce time and ensure efficient fund management.

Chapter No.4 ESSENTIAL INGREDIENTS OF LENDING ACTIVITY

As NBFO's main activity is lending to its members/ borrowers, following are the essential ingredients of the lending activities.

Borrower's eligibility

- He/ She should be residing within the geographical area of operation of the NBFO
- He/ She should be able to demonstrate experience of profitable operations in the activities for which loan is required
- He/ She should not have any over dues with Government/Semi-Government or any financial institutions.
- Borrower should be willing to provide correct and updated information to NBFO and understand carefully that false information will lead to serious consequences
- Repay the full amount of the principal loan on or before the date stipulated in the credit contract
- Pay all accrued interest at the interest rate and on or before the date noted in the credit contract.
- Abide by all terms and conditions stipulated in the credit contract.

Purposes of loans

NBFOS will provide loans to borrowers for following purposes for Agriculture & Animal husbandry development:

- Loans for cultivation of crops and vegetables
- Loans for seed production
- Loans for maintenance of fruit trees
- Loans for purchasing farm equipment & machinery
- Loans for soil and moisture conservation and land reclamation
- Loans for agri-processing & business
- Loans for purchase of livestock
- Loans for fattening of livestock
- Loans for raising calves
- Loans for small business activities that promote farm sector & animal husbandry development
- Loans for stocking and supplying inputs for crop production
- Loans for stocking and supplying cattle feeds/concentrates for livestock farming
- Loans for providing contractual and marketing services to promote farm sector and animal husbandry development.

Loans for crop & vegetable cultivation, seed production, maintenance & fattening of livestock, maintenance of fruit trees and such activities which have a loan maturity period not exceeding 12 months will be provided during the first year operation of NBFOs.

NBFO will endeavour to consider providing credit for a combination of activities such as crop /vegetable cultivation along with maintenance of livestock so as to ensure payment of interest on a monthly basis and diversify loan portfolio to minimize financial risks. After gaining sufficient experience and assessing the emerging credit needs of borrowers the scope will be extended to other activities for providing credit.

Interest Rate

The Credit Committee shall work out Interest Rate Structure taking into consideration cost of borrowed funds, provision for loan losses, operational & administrative expenses, servicing requirements, inflation, risk factors, competitive interest rate structure prevailing in the market, reasonable profit etc and recommend to the BoD for approval. The Interest Rate Structure can be reviewed periodically by the BoD and revised to reflect the objectives of the NBFO and market situation.

Fees

The CC can consider levying fees on providing better & efficient customer services, delayed payment of interest & loans etc and recommend to BoD for approval.

Collateral

NBFO's lending is based on cent percent repayment of principal that is to be assessed through critical study of financial data & information provided by the borrower as also from other reliable sources during the process of interview. NBFO's policy to secure loan by obtaining free, marketable and unencumbered collateral is necessary to recover loan at the last resort and minimize risks.. It should be appreciated that collateral does not necessarily make a bad loan good. All loans secured by collateral should, also, be carefully appraised to ensure that repayment is primarily forthcoming from the income generated out of the use of the loan. Loan officer should verify the existence, quality and value of the collateral borrower wishes to pledge. Value of collateral must be adequately higher [as indicated here below]than the outstanding loan at any point of time. The collateral should be properly valued and registered with appropriate state authority. Original document establishing the rights & ownership of the borrower must be obtained by the NBFO and kept in the safe custody. Where necessary opinion of Lawyer must be obtained to avoid any confusion. During inspection of client's activities after the loan is disbursed collateral should invariably be inspected and its status should be properly recorded. In the event of deterioration in quality and/or value borrower must be asked in writing to make good the loss in value of the collateral by offering other/additional collateral acceptable to the NBFO within 10 days. In the event of borrower not repaying the loan and/or interest on time as well as on dates promised by him/her subsequently because of extraordinary circumstances and having agreed to do so in writing NBFO can consider to seize and sell the collateral and recover the loan with all other dues & fees, as the case may be, till the date sale proceeds are received.

Depending on the risk associated with financing different activities, the minimum requirements of collateral for the year 2005 can be as under.:

- *crop production 125% & above*

- *livestock 150% & above*
- *farm equipment loans – 100% and the equipment*
- *agricultural products processing and commercial activities: 150% & above*
- *small businesses 150% & above*

Business Plan

In order to objectively & realistically appraise the loan proposal formulation of business plan by the prospective borrower for the economic activity he/she desires to pursue by obtaining loan is very important. The business plan should facilitate Loan officer & Credit Committee to assess following:

- Past experience to establish applicant's ability & competence to manage the business activity
- Past experience to withstand natural disaster & pests and disease outbreak in the area of agriculture & animal husbandry
- Applicant's preparedness/ ability to bear and manage financial risks while conducting the activity
- Adoption of scientific methods of cultivation of crops/ maintenance of livestock through use of yield-enhancing inputs & marketing of produce/ products to conclusively establish borrower's concern for earning sufficient profit of the activity.
- Applicant's proper understanding of maintenance of books of accounts to ensure expected level of profitability in the enterprise.
- Details of projected production, cost, income, gross margin, rate of return etc under the activity to be pursued by obtaining loan
- Applicant's knowledge & commitment for payment of interest & repayment of loans on time

Business Plan should, therefore, provide data & information as indicated under the caption "Business Plan" in the Loan Application Form [**Annex-1**].

Loan commitment

A formal commitment indicated in the loan contract is legally binding on both parties as spelt out in a written document. NBFO is legally bound to provide credit as stated in the commitment document, subject to borrower's fulfilling all the terms and conditions.. The commitment document should specify the maximum loan amount, method of disbursement/borrowing, date of expiry of the commitment, terms of repayment, interest rate, any fees and the collateral to be pledged as agreed between the two parties. All loan commitments must be written.

Client's responsibilities

NBFO's Clients must appreciate & acknowledge that their loans are their direct and unconditional obligation towards repayment in full with interest. They must repay these loans according to their Terms & Conditions as agreed upon. This means that NBFO's Clients are responsible to:

- i) repay the full amount of the loan principal on or before the date stipulated in their Loan Agreements;

- ii) pay all accrued interest at the interest rate and on or before the date prescribed in their Loan Agreements; and
- iii) abide by all other Terms & Conditions stipulated in the Loan Contract.

Loan contract

In addition to the general requirements, livestock and crop production loans, must have, as applicable, the following additional controls and covenants:

- The loan monitoring process must be sufficient to insure that all of the loan proceeds will be used for the intended purpose. In case of a livestock loan, the NBFO must ascertain that the livestock and feed were actually purchased. This can be verified by a visit to the borrower's operation
- -The loan contract must allow the NBFO to perform an on-site inspection and audit of the collateral whenever requested. The fNBFO must perform such inspections no less than once every four to six months depending upon the types of collateral,.
- -The borrower is given a loan for a certain purpose. The loan can be used only for that purpose, unless otherwise agreed upon, and amended in writing, by the NBFO.

The borrower has the legal obligation to repay the loan within the terms of the conditions set in the contract. If these are not followed, the negative consequences should be clearly explained. For example they will face legal actions, bear all cost of court proceedings and will never be eligible for another loan or further business assistance with the NBFO.

Chapter No.5 CREDIT MANAGEMENT

Credit management is significantly important to ensure that credit to be provided to prospective borrowers lubricates the process of crop & livestock farming and increases the production, productivity & ultimately profitability of borrower's economic activity. In this process, credit appraisal, sanction, disbursements and repayments are extremely important. These functions are expected to be carried out by qualified, experienced & trained Loan officer of the NBFO. Besides, as NBFO is owned & managed by its stockholders the elected representatives on the Credit Committee have added responsibility to approve the loans and ensure that loans shall be fully repaid with interest on time. Following are the critical stages of the Credit Management.

Screening by Loan officer

Loan officer is primarily responsible to appraise all credit proposals emanating from prospective borrowers. For the purpose of meaningful and critical appraisal of credit proposals following steps are necessarily initiated.

Ensure that applicant has applied for obtaining loan in the prescribed Loan Application Form [LAF-Annex-1]. Loan officer should carefully go through the LAF & verify that all the required information and data are furnished in the LAF, along with copies of following documents:

- Passport
- Certificate for Place [Address]of Residence
- Certificate of Family Composition
- Land Certificate
- Contract on Land Rent, if Land is Rented

Business Plan & Cash Flow

In case LAF does not contain some information or copies of documents, Loan officer should guide him/her in the matter and request to submit at the earliest. It is advisable for Loan officer to hold periodical meetings of clients as an integral part of marketing strategy to identify good borrowers. In these meetings Loan officer should provide full details to prospective borrowers on “ How to obtain loan from NBFO?” Effort should be made to seek cooperation of Information Unit & Project Implementation Unit and bring out small handouts/booklets on ‘ How to obtain loan from NBFO?’ and make available to

prospective borrowers. This will facilitate better understanding among them about the Loan Policy & Procedure and make NBFO's task easy and smooth.

After obtaining LAF complete in all respects, important particulars of the LAF should be entered into the Loan Application Disposal Register [Annex-2] in order to keep watch on the movement of the loan proposal right from its receipt by the NBFO till loan is finally repaid.

Loan officer, then, should study all the information, data & documents attached with the LAF and verify following aspects for preparing summary report and making recommendations on the proposal.

Credit Appraisal

Loan officer will carry out credit appraisal taking into consideration following

- 1) Is the borrower residing within the geographical area of operation of the NBFO?.
- 2) Is the borrower a person of integrity, industrious and committed to honor the repayment of loan with interest? Loan officer through direct & indirect inquiry may need determine this aspect of character being very crucial during the market survey. Other attributes of good character are absence of criminal record, possessing good reputation on account of his/her social work & status etc.
- 3) Does the study of LAF establish that the borrower manages household expenses within limits and not having any external debts/over dues that can jeopardize repayment prospects?
- 4) Does LAF reveal that the borrower has invested adequate amount from his own sources and created sufficient fixed assets in the activity he/she likes to be supported by NBFO's loan?
- 5) Does careful perusal of the business plan establish that the borrower [i] is having managerial attributes & technical acumen on account of his/her having received training or having been a progressive farmer/cattle breeder.[ii] is an experienced professional farmer or cattle breeder demonstrating the ability to manage the activity efficiently & easy access to adoption of scientific technology that can increase production & productivity of crops/livestock; able to mobilize inputs of crop/livestock production & market produce/products without any problems? [iii] can earn sufficient income that can take care of all operational expenses while conducting the economic activity, pay interest on the loan, meet some eventualities, if any? [iv] is capable of withstanding financial risk during the course of conducting the activity and existence of adequate capital in the form of land, fixed assets livestock, equipment and net worth as could be evident from the LAF ?and [v] loan requirement is adequate for the purpose for which it is requested?
- 6) Does the study of Cash Flow reveal that the borrower has adequate sources to pay interest on monthly basis and make repayment of loan on time?
- 7) Does the request for loan synchronize with the time of planting of crops and repayment with the marketing of produce?
- 8) Does the term of loan or maturity period of loan adequate [not more or less] to reflect the time of planting and marketing of produce?

- 9) Does the evaluation of collateral offered by the borrower justify that its quality and value is adequate to redeem the debt in case NBFO has to recover loan from selling the collateral?
- 10) Does the guarantor have adequate net-worth [assets more than liabilities] on which NBFO can fall back for the repayment of loan, if borrower fails to repay on due dates?
- 11) Has the guarantor expressly understood the consequences of providing guarantee?

Loan officer will, then, briefly summarize his/her evaluation aspects and recommend [Annex-1] either for sanction or rejection of the loan proposal to the Credit Committee and make proper record in the Loan Receipt & Disposal Register [Annex-2].

Interview by Credit Committee

The Credit Committee is the authority to approve loans up to 10,000 TJS in case of single borrower. This limit includes the total of loans and extensions of loans to any of the borrowers who are family members residing under one roof. BoD shall approve all loans above 10,000 TJS. However, the BoD shall take decision on a loan proposal of the member of the CC. In case of loan proposal of member of the BoD above 10,000 TJS, the decision shall be taken by the members of the BoD at its meeting in which the concerned member shall not participate and be a party to the decision. The CC will interview all applicants and verify most important attributes having bearing on borrower's *willingness* and *capacity* to repay the loan on time. As members of the CC possess practical and field oriented knowledge of the local area which is most crucial for them to take correct decision on borrower's loan proposal, particularly with regard to *assessment of the character being important ingredient to determine willingness to repay loan*. Besides, members of CC are expected to possess a good deal of field level experience & knowledge of the social and economic environment of the geographical area of operation which should help them assess more realistically all aspects of borrower's economic activities having direct bearing on the emerging risks and repayment of loans. The CC should specifically evaluate borrower's credit worthiness, capacity & collateral through interview process and satisfy about the technical feasibility & financial viability of the project and managerial ability & risk bearing capacity of the borrower. Training imparted to members of CC can provide wider perspective and exposure to them in respect of established principles and practices of sound credit management. Thus, objective oriented interview by the CC should facilitate to select right type of borrowers, decide amount and terms of loan while approving loans.

Decision by Credit Committee

The CC's decision/resolution [Annex-1] should include, purpose of loan, loan amount, date/s of disbursements, rate of interest, term of loan, dates of payment of interest & repayment of loan, collateral to be charged, penalty in the event of default on payment of interest & repayment of interest on the stipulated dates and other terms & conditions specific to the purpose of loan. All terms & conditions of sanction must be communicated in writing to borrowers. It may be appreciated that crop production loan does not necessarily be disbursed at one time but can be disbursed in stages in accordance with the cash flow statement.

The Loan officer should properly record all decisions of the CC in the minutes- book as the Secretary. Minutes should be signed by the all participating members of the CC in token of having been party to the decision..

Loan officer should record particulars of all sanctioned & rejected loan proposals in the Loan Receipt & Disposal Register immediately. All borrowers should be informed of CC's decision [sanction or rejection] preferably, through written communication.. Borrowers whose loan proposals are sanctioned should be informed to be in readiness to complete the documentation procedure, such as pledging collateral & obtaining guarantor acceptable to NBFO.

Documentation & Disbursement

Chief Accountant will arrange for receiving required funds from AmonatBak and will inform Loan officer who, in turn, immediately communicate borrowers to visit NBFO on the prescribed date & time to receive the loan.

While the Loan officer would ensure that borrowers have submitted all the required documents complete in all respects along with execution of the Credit Contract [Annex-3] & collateral requirements [Annex-4], Chief Accountant would disburse the loan to individual borrowers either in cash or transferring the amount to their Bank Account, as the case may be, and make entries into the respective Books of Accounts. If loan is disbursed in cash borrower shall sign a dated receipt for each cash disbursement and it is necessary that transaction is witnessed by the Loan officer.. Loan officer will ensure that borrower receives one copy of the Credit Contract for his/her information and record & understand clearly all the terms & conditions of the disbursed loan, more importantly use and repayment of loan, failing which NBFO has the right to proceed for legal action. Loan officer can educate borrowers in a group when they visit NBFO to receive loans. NBFO can consider sticking posters on the walls on most important aspects of loans for the knowledge of visiting clients.

Loan officer would properly file the loan papers and security documents in safe custody separately.

Loan Supervision & Monitoring

Loan officer should prepare a cost effective supervision/inspection plan of visiting maximum borrowers pursuing same activity[crop/livestock production] in a geographically homogenous area. He/ She shall carry out inspection/supervision over the end-use of credit to ensure that borrower uses the loan for the purpose for which it has

been sanctioned and, in any case, does not misuse the loan. He/ She should verify and satisfy that borrower's activity is progressing in accordance with the business plan and cash flow statement. He/she should discuss with the borrower whether crop growth/livestock production is unsatisfactory or normal or better as compared to other farmers in the same geographical area. If unsatisfactory, the reasons may need to be obtained and if possible, expert opinion of the Agronomist/ Veterinarian may be sought immediately and corrective steps should be initiated by the borrower as precautionary measures to mitigate possible risks. If necessary, Agronomist/Veterinarian can be invited to visit farmers and guide them to take up mid-season corrections.

He/ She would simultaneously carry out inspection of the collateral pledged by the borrower, particularly in respect of the physical condition, quality & value which can adversely affect the interest of the NBFO. He/ She should properly file inspection papers and make record of the collateral's condition. Loan officer submits to the CC for review the inspection report with his/her critical observations having bearing on the production & productivity and income as well as any possible risk factor that can seriously adversely affect the repayment of loan.[Anex-5]

The CC after reviewing borrower-wise inspection reports would consider taking follow-up action on those loan accounts, which have indicted *Early Warning Signals of potential Sickness*. Such accounts would be reported to BoD periodically once in a month initially for information and seeking BoD's instructions, if any.

Repayment of Loan

A borrower for the purpose of paying interest and repayment of loan would contact the Loan officer who would verify records and direct the borrower for payment to the Chief Accountant. The Chief Accountant is responsible to calculate correctly the amount of interest and loan due from the borrower from time to time, collect and account for. It would be desirable if an entry is made in borrower's documents, along with issuing receipts in token of having received the payments. In case of cash payments, it is desirable that transaction is witnessed by Loan officer.

Loan delinquency

Loan officer should remind borrowers at least one month in advance of their due date of repayments in writing. This would help them make necessary arrangement for obtaining money for repayment of loans. It is also desirable to hold a meeting of borrowers well in advance of the due date of repayment of loans and inform them about the date and amount of loan due for repayment. If some borrowers have not repaid the loans on the due date, he/she should immediately contact individual borrowers on the next day and put all endeavours to collect the loans. Besides, the message of repayment must be communicated to them through all possible communication channels such as, through their relatives, friends, neighbourers, guarantors etc. If still some borrowers have yet not repaid their loans cooperation of members of CC & BoD may be sought and a plan of action should be worked out to contact defaulters personally and persuade to repay the loan on a specified day/date failing which legal actions would be initiated. This should be followed by a written communication. Each contact with the borrower should be properly recorded in borrower's loan file. This is a documentary evidence of the efforts put in by

the loan officer and members of CC & BoD to recover dues. All verbal conversations with borrowers & promises given by them in the field & premise of the NBFO as well as all attempts made to reach defaulters, which failed to recover loans, should be systematically recorded. All these would prove to be useful if NBFO decides to proceed in the Court of Law against the defaulters. If repayments are received during this process late fee/penal interest in accordance with NBFO loan policy should be charged and collected.

Portfolio quality & Risk management

It should be the constant endeavour of the NBFO that the quality of its loan portfolio is maintained and in any case not allowed to deteriorate for which following functions must be performed on an on-going basis.:

- assessment of loan status from time to time
- verification of loan and security documentation
- analysis of borrowers' financial status/ condition and historical performance
- discussion with borrower in respect of problem loans
- compliance with all requirements of Loan Policy & Procedure
- compliance with applicable laws and regulations framed by the Republic of Tajikistan.

Loan review is the responsibility of the Loan officer. He/ She should establish proper system to review all loan cases, particularly loan delinquent, in order to accomplish the stated objectives. This system should include periodic analysis of the cogent causes of loan delinquency and formulate time bound action plans to bring the Loan Account to order. For this purpose, whatever information is required should be collected & discussion, if necessary, be held & corrective steps initiated without any delay. These reports must be discussed in the Credit Committee meetings. The standard reporting format for quality portfolio management is presented in **Annex 6**.

Reporting

The following information on loan shall be reviewed monthly at Credit Committee meetings and reported to the BOD for decision.:

- Scheduled payment of all loans (agricultural or commercial) over 30 days past due (by borrower and amount).
- Single payment or loans with principal or interest past due over 30 days (by borrower and amount).
- Ratio of past due amounts and past due number of loans divided by outstanding amount and number of loans in that category of loans with the loan portfolio.

A copy of the report should be sent to the PMU office..

Problem loans

NBFO should carefully study & analyze all loan accounts and prepare the list of such loan accounts as can provide advance signals of some accounts likely to be sick. A list of such accounts called "Watch List" should be prepared and updated to include such accounts as and when warranted. This would reflect health of the NBFO from time to

time. A detailed report of such accounts should be prepared & utilized to understand the gravity/ magnitude of potential problem loans in order to draw the required attention of NBFO's BoD and initiate corrective action at the earliest opportunity. These accounts should be reviewed in depth by the Credit Committee at least monthly and presented to the BOD for decision.

Watch List loans will normally exhibit one or more of the following problems:

- Adverse financial trends and condition; i.e., declining profits, sales and working capital, increasing debt-to-worth ratio, adverse balance sheet ratios, etc.
- .Managerial problems as also family problems that may adversely impact on the financial status or cash-flow;
- .Declining growth & profitability at the level of industry or commodity sector.
- .Borrower's failure to provide financial information or collateral documentation.
- .Repeated delinquency or request for renewals.

Loan portfolio classification

Each loan Account should be placed in one of the following classifications as defined by the National Bank of Tajikistan Classification.

The classification and risk assessment of each loan depends on presence of appropriate and properly legalized real security and number of days loan has remained overdue. The categories not applicable for NBFO (like loans secured by Government guarantee) are excluded from the category list:

- Category of “**Standard Loans**” includes loans expected to be paid in full and on time, including properly extended loans (but not more than one time) and overdue (past due) secured loans (upto 30 days) and accrued interest. Depending on solvency of the client, this group may include credits given to borrowers having sustainable financial situation and high rating of solvency. Borrower has never delayed repayments to bank. Borrower has a reliable guarantee for repayment of a credit. In the case of Standard Loan, commercial banks have to keep a reserve in amount of not less than 2 % of the loan to cover probable losses.
- Category of “**Non-standard Loans**” – includes overdue under secured loans (upto 30 days), and overdue secured loans (31 to 60 days) and accrued interest. Depending on solvency of the client, this group may include credits given to borrowers with good financial situation but some aspects of his financial situation may cause some doubts about the borrower's repayment ability. In the case of Non-standard Loans, commercial banks have to keep a reserve in amount of 5% of the loan to cover probable losses.
- Category of “**Uncollectible Loans**” – includes overdue unsecured loans (upto 30 days), overdue under secured loans (31 to 60 days) and overdue secured loans (61 to 180 days) and accrued interest. Depending on solvency of the client, this group may include credits given to borrowers who by reporting date have doubtful or unreliable financial situation, large amount of debts and questionable repayment ability. In the case of Uncollectible Loans, commercial banks have to keep a reserve in amount of 30% of the loan to cover probable losses.

- Category of “**Dangerous Loans**” – includes overdue unsecured loans (31 to 60 days), overdue secured loans (61 to 180 days) and accrued interest. Depending on solvency of the client, this group includes credits given to borrowers, whose financial situation is poor. Borrowers lack cash flow. They were often extended other loans. They are engaged in legal disputes and have cases of debt collection by other banks. In the case of Dangerous Loans, commercial banks have to keep a reserve in amount of 75% of the loan to cover probable losses.
- Category of “**Bad Loans**” includes overdue unsecured loans (61 to 180 days) and all overdue secured loans (more than 181 days) and accrued interest. This category includes credits given to borrowers with no repayment ability, no liquidity or have made false representations concerning their operations. Borrowers are declared bankrupt. For this category commercial banks have to keep a reserve in amount of 100 % of amount of a loan to cover probable losses.

Portfolio at risk includes all outstanding loans with amounts past due in all these categories. In the case of default, the entire principal outstanding is considered to be at risk, not just the amount past due amount.

NBFO should establish the same reserves for possible loan losses as commercial banks do for the various types of loans.

Non-accrual interest

NBFOs will not allow interest to accrue on:

- Any loan for which payment in full of interest and principal is not expected.
- Any loan in which principal has been in default for a period of 90 days or more and interest is in default more than 120 days.

Loan officer will review the report of past due loans on a weekly basis to ensure compliance with this policy. He/ She would recommend to the Credit Committee for its approval, the loans that should be identified as non-accrual interest loans. At the time when a loan is identified as non-accrual interest loan all previously accrued interest must be written off.[This, however mean that NBFO should put in serious & concerted effort to recover accumulated interest].

The schedule of non-accrual loans and the amount of accrued interest written off each month should be reported monthly to the Credit Committee and quarterly to the BOD

A current list of non-accrual loans must be maintained for the purpose of disclosing this information to auditors. At such time as interest and principal payments on the loan are brought current and it is evident that repayment capacity has resumed, the loan can be restored to an accrual status.

Loan restructuring

NBFO should, before writing-off any loan as bad debt, consider necessity of some changes in the terms & conditions of loan such as,, loan maturity period/ term of loans, interest rate and repayment schedule and procedures. The objective of doing this exercise is to explore the possibility of loan recovery. For example, in some cases it could be agreed to reschedule the loan repayment for another agricultural season or review the

interest rate charged to the borrower. The Credit Committee can review the need for restructuring the loan and recommend to the BOD for its consideration. The BoD may approve or decline the restructuring of each loan on a case-by-case basis.

If all these actions have not produced the desired results, the NBFO would proceed for filing civil suit in the Court of Law for recovery of loans with interest and force the borrower to pay his debt due to NBFO. In case the forced repayment of debt does not yield expected results, the NBFO can initiate the bankruptcy process according to the Tajikistan legislation currently in force.

Charge-offs, Recovery & Reserve for Loan Losses

NBFO's policy is to write off the principal amount, interest and fees when the loan is bad or non-collectible for more than six months. The decision to write off loans, which can not be covered through the loan loss reserve or increasing the amount of expenses for the amount of the loss, is made by the BOD based on the Credit Committee's recommendation. A report, reflecting borrower's problems, the measures taken for repayment, evaluation of borrower's ability to resume normal activity and reasons for the write-off should be prepared by the loan officer and should be presented to the Credit Committee for review. The credit committee's recommendation should be presented to the BOD for its approval.

The writing-off the loan balance does not free the borrower from his/her obligation to repay the debt. This action should not influence NBFO efforts for debt repayment.

NBFO may consider maintaining constant rapport & establish communication system with the borrowers either directly or through their relatives for recovering all dues. In case borrower is not available or traceable NBFO may consider through mass media communication for disclosing information on the borrower/debtor, etc.

The Credit Committee's recommendation to write-off a loan must be presented to BOD for approval. The record of any loan written-off against the loan loss reserve should be maintained on off balance system loan accounts during five years from the day of writing off. Writing off is carried out using the Loan Loss Reserve if there is one or using current year account of expenses.

The Credit Committee for appropriate action should also review loans on which principal or interest payment has not been made within 30 days from the date when such payment was due. Any loan which was over due for more than six months in payment of principal or interest would be charged off to reduce the loan balance to an amount equal to the liquidation value of the collateral.

The Loan officer responsible for follow up on the charge off loans would report in writing to the Credit Committee and BOD, what recovery actions have been taken during the previous quarter on charge offs made during the past two years. The report will include a listing of payments made to an account after charge off has been made.

NBFO will maintain a reserve for loan losses that should be adequate given the overall quality of the loan portfolio, general economic conditions, expected future losses and the magnitude of problem and non-accrual loans in the portfolio. Management should recommend an adequate amount for the provision, considering loan losses that could be

reasonably expected. It will accrue for these losses on a monthly basis. The management and Credit Committee will be responsible for maintaining adequate reserve. Management should review the level of the reserve for loan loss on a monthly basis and should recommend changes that may be necessary for creating adequate reserve for loan loss.

The objective is to maintain a minimum of 2% to 10% of total gross loans in the reserve for loan loss account.

Segregation of functions

With a view to maintaining a good degree of internal control following functions should remain independent. This is expected to guard against intended or unintended misappropriation or mistakes in the lending process.

- Client contact by Loan officer
- Processing of loan proposal & recommendation by Loan officer
- Loan approval after interview of the borrower by Credit Committee/BoD
- Management & control of funds by Chief Accountant
- Accounting for loans, interest & fees by Chief Accountant
- Control of collateral by Loan officer
- Supervision & inspection of loans by Loan officer
- Monitoring of the loan portfolio by Loan officer
- Loan classification & delinquent loan management by Loan officer & Credit Committee
- Write-off of bad loans is recommended by loan officer & CC & approved by BoD. Chief Accountant makes proper accounting entries

Record keeping & Documentation

NBFO would comply with applicable rules & regulations framed by Republic of Tajikistan with regard to retention/ archive of loan records.

Files are to be maintained on each borrower in sufficient detail to enable either internal or outside evaluators to determine the credit worthiness of the borrower and the status of the account. NBFO will document in the Loan File following information:

- .Loan application including, name, amount of loan, purpose of loan, source of repayment, collateral pledged and all corresponding documents.
- Financial statement or document showing the assets and liabilities of the borrower.
- For the larger loans , business plan and cash flow projection.
- .All loan collateral/ mortgages, titles and other applicable legal documents.
- .Any current loan memoranda; documentation of loan monitoring and supervision;
- Any applicable loan or loan review documents, loan classification memoranda and citations/notifications.
- Loan Contract, which contains the details of any commitment to extend loan or funds over some future period.
- Only one loan-file per customer, including the information on all loans to the repeat borrower who previously received from NBFO.

- Financial information (appropriate to the specific loan) on each party to the obligation (borrower, endorser, guarantor).
- Spread sheet (for the larger business and agricultural borrowers) to be used by the loan officer to record data from each annual or interim financial statement.
- Loan analysis, which is performed by the loan officer to evaluate the annual or interim financial statement of any borrower;
- Inspection reports/ documents, such as visit reports, employment verification etc.
- correspondence between the NBFO/loan officer and borrower;
- Any other information as deemed appropriate by the loan officer or General Manager or Credit Committee or BoD.

It is a common practice to maintain two files [i] a loan file which contains the loan application & all loan related information, etc. and [ii] a collateral file with legal documents. These files should be stored and safeguard in separate places with adequate security protecting the collateral file.

Chapter No.6 Formulation of Business Development Plan & Strategy

Formulation of business development plan by each NBFO is very crucial to achieve the objectives for which NBFO is established & make its operations financially viable. It must be appreciated that NBFO has to be self-supporting & profit making. In any case NBFO can not afford to incur financial loss. It is in this context that General Manager & BoD have a responsibility to formulate business development plan as well as strategy to implement the plan. Following are the broad based guidelines for formulating the plan.

- 1) NBFO should scan business environmental data with regard to its geographical area of operation in order to assess business potential.
- 2) It should analyze the past three years' performance very critically to understand the reasons as to why the performance is unsatisfactory? Attempt must be made to assess NBFO's strength in terms of human resources in particular to exploit business opportunities.

Business development plan should focus on fixing targets for the current year in respect of following business parameters

- *Number of new members to be enrolled*
- *Amount of Share Capital to be raised*
- *Number of new borrowers to be financed*
- *Loan amount to be disbursed to new borrowers*
- *Number of repeat borrowers to be financed*
- *Loan amount to be disbursed to repeat borrowers*
- *Number of defaulters to be brought down*
- *Repayments from defaulters to be mobilized*
- *Upgrading Non-Standard Loans to Standard Loans*

Required information can be collected, discussed and incorporated in the following format

Format for Annual Business Development

[FIGURES IN TJS]

SR .NO.	PARAMETERS	DURING THE PREVIOUS YEAR	TARGET FOR THE CURRENT YEAR	REMARKS
1	NUMBER OF MEMBERS			
2	MEMBERS' SHARE CAPITAL			
3	START-UP CAPITAL DATE OF RECEIPT AMOUNT RECEIVED AMOUNT UTILIZED			PURPOSE OF UTILIZATION AND AMOUNT
4	SUB-CREDIT LINE DATE OF TRANSFER AMOUNT TRANSFERRED TO NBFO			
5	NUMBER OF BORROWERS			
6	LOAN AMOUNT DISBURSED			
7	REPAYMENTS			
7.1	NO.OF BORROWERS DUE FOR REPAYMENT			
7.2	AMOUNT DUE FOR			

	REPAYMENT			
7.3	ACTUAL NO.OF BORROWERS WHO REPAYED THE LOAN DUE TO THEM % REPAYERS			
7.4	ACTUAL LOAN AMOUNT REPAID % OFRECOVERY			
7.5	NO.OF BORROWERS WHO DID NOT REPAY LOANS DUE TO THEM % DEFAULTERS			
7.6	AMOUNT OF LOAN NOT REPAID THOUGH DUE % OVER DUE AMOUNT			
8	STANDARD LOANS LOAN DEFAULT UP TO 30 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % OF DEFAULT AMOUNT			
9	NON-STANDARD LOANS LOAN DEFAULT BETWEEN 31 & 60 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % DEFAULT AMOUT			
10	DANGEROUS LOANS LOAN DEFAULT BETWEEN 61 & 180 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % DEFAULT AMOUNT			
11	BAD LOANS LOAN DEFAULT MORE THAN 181 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % DEFAULT AMOUNT			

Strategy

After formulating Business Development Plan, Strategic Action Plan to accomplish business goals should be developed which include following:

- Breaking down annual targets month-wise, giving more weightage to market forces i.e season, economic, social & religious environment etc
- Taking all employees and members of BoD & CC as well as enlightened members of GA & some valued borrowers into confidence, the business plan may be discussed with them to solicit cooperation from each of them in NBFO's effort to achieve business goals.
- While strength of individuals can be capitalised for achieving these targets, their weaknesses can be converted into strength through providing short term need based training to them
- Endeavour should be made to fix staff & member-wise targets
- Initially monitoring exercise can be undertaken on a weekly basis, say every Monday, by the Chairperson of the BoD.
- Every person who has been allotted targets should present in very brief the effort put in by him/her and results achieved. He/she should, also, inform current week's plan.

Chapter No. 7

Annual Profit Plan

NBFO should undertake Profit Planning Exercise on an annual basis in view of the fact that each NBFO's operations are expected to be financially sustainable. As mentioned earlier NBFO has to be profitable & in any case it can not afford to incur any financial loss. This is the guiding principle for farmer owned & managed NBFO to provide credit facility to its members & borrowers on a continuing basis. In accordance with this objective NBFO is formulating every year "Business Development Plan & Strategy". This plan is now required to be supplemented by an annual Financial Plan. While formulating Financial Plan following critical aspects of NBFO's Income & Expenses need to be addressed

Income : Sources of income

- Interest income
- Income from Fees etc

Expenses: Areas of expenditure

- Interest to be paid on borrowed funds
- Provision for loan losses
- Salary of staff & other benefits
- Administrative expenses
- Other expenses

In order to improve the financial viability of the NBFO, most important requirements are [i] to increase the income and [ii] to control & minimize the costs. For increasing income to a reasonable level interest rate structure should be reviewed periodically, However, interest rate can not be raised just to increase income as it has its limitation. Users of credit should, also, be able to bear the cost of borrowing, in which case interest is one component and the other one is various non-interest costs which borrowers have to bear. Like wise, in case of expenses, [i] interest to be paid for borrowed funds & [ii] provision to be made for loan loss as stipulated by National Bank of Tajikistan are known and there is no scope to reduce it. It is, therefore, volume of business of lending activities needs to be increased per employee & per unit of investment. Besides, the business must be qualitative and effort must be made to recover both interest and loans on time. Besides, most significant importance in earning profit is to ensure that borrowed funds should be utilised immediately for lending to borrowers without keeping idle. If it is delayed NBFO will have to pay interest to AmonatBank. Similarly, when repayments are received they should be repaid to AmonatBank immediately so that NBFO has not to bear the burden of paying interest to AmonatBank. It may be appreciated that NBFO, by statute, is not permitted to redisburse the funds received by way of repayments. Thus, efficiency in financial planning lies how NBFO is able to manage funds .Primarily this is the responsibility of the Chief Accountant to manage funds efficiently.

Annual Financial Plan will project data on income & expenses as under

Annual Statement on Income & Expenses

STATEMENT FOR THE YEAR-----'05 [FIGURES IN TJS]

SR.NO	ITEMS	DURING THE PREVIOUS YEAR	TARGETS FOR THE CURRENT YEAR '05	REMARKS
1	INCOME			
2	INTEREST INCOME			
3	OTHER INCOME			SPECIFY
4	TOTAL INCOME			
5.	EXPENSES			
6	INTEREST ON DEBT			
7	GROSS MARGIN [4-6]			
8	PROVISION FOR LOAN LOSSES STANDARD LOANS-2% NON-STANNDARD LOANS-5% UNCOLLECTIBLE LOANS-30% DANGEROUS LOANS-75% BAD LOANS-100%			
9	NET MARGIN [7-6]			
10	SALARY & OTHER BENEFITS			GIVE BREAK UP
11	ADMINISTRATIVE EXPENSES			GIVE BREAK UP
12	OTHER EXPENSES			SPECIFY
13	PROFIT OR LOSS [9-10-11-12]			

The Chief Accountant should study carefully the covenants agreed between NBFO & AmonatBank as well as between NBFO & PMU as reproduced here below which have impact on NBFO's profitability.

Agreement on Sub-Credit between NBFO & AmonatBank

Section 4.01 Disbursement of Funds

[i] Each disbursement of Sub-Credit funds must be for not less than 75,000 TJS nor more than 150,000 TJS.

[j] All disbursements of Sub-Credit funds pursuant to this Agreement must occur within two years of the date of the first disbursement.

[k] Funds made available pursuant to this Agreement can be disbursed only once. Principal repayments, whether scheduled amortized repayments or unscheduled prepayments, cannot be redisbursed.

[e] The NBFO will calculate the interest due on the Sub-Credit advances to an NBFO equal to the prevailing NBT discount rate.

[h] There will be two interest periods each year. Interest will be due and payable semi-annually on the 1st of July and on the 1st of January of each year that there is outstanding principal during an interest period. Specifically, the interest payments dates will be:

[1] the 1st July for the interest period from the 1st of January through the 30th June

[2] the 1st of January for the interest period from the 1st of July through the 31st of December

Section 4.04 Principal Amortization

[a] Each distribution of Sub-Credit funds to the Borrower by the Agent Bank must be repaid by the Borrower to the Agent Bank within 10 years of that distribution, as adjusted to the next interest Payment Date.

[b] The repayment of principal will be amortized separately for each disbursement of Sub-Credit funds as follows:

[1] no repayment of principal is required during the three year after a disbursement of funds; and

[2] starting with the fourth year the principal will be repaid in fourteen equal semi-annual installments.

Section 4.05 Principal Prepayments

[a] The Borrower can prepay any or all of the outstanding principal at any time by submitting to the Agent Bank a Principal Prepayment Notice

[b] Any such principal prepayment must include a payment of interest accrued on the amount of principal being prepaid up to the date that the Agent Bank receives the prepayment.

Section 4.06 Payments

[b] The Borrower is responsible that all payments are received by the Agent Bank by the appropriate interest Payment Date. There is no grace period that permits for late or delayed payments.

[f] All payments made by the Borrower to the Agent Bank must be for the full amount due.

Section 4.07 Overdue Payments

[e] The Borrower shall pay a Late Fee for all amounts in the overdue payments account at a rate of one-twentieth of one per cent [0.05%] of that amount each day until the Overdue Payment is received and the Late Fee paid.

Investment Agreement between PMU & NBFOS

The PMU & IDA have decided that DCA funds will be made available to approved NBFOS as an investment in the form of a Subordinated Loan in the amount of US \$ 50,000. The Subordinated Loan will have three-year grace period on principal repayment, but interest payments must be paid on it on the basis of prevailing NBT discount rate. These funds will be used for covering start-up expenses and meeting the capital requirements of the NBT for licensing a new NBFO.

Section 2.04.Maturity Date

The Subordinated Loan will mature in ten years and one day from the date that the PMU disburses the funds from its account to the borrower.

Section 3.02 Warrantees

[c][vi] NBFO will not make any changes to its Charter, except for increasing the number of shareholders, without the written consent of the PMU.

[vii] NBFO will not distribute any profits gained from its activities to its shareholders, personnel or other entities for the first three years, and not allow any current stockholders to sell any of their shares in the Borrower without first receiving written permission from the PMU.

Section 4.02 Performance Requirements

[a] NBFO will perform its lending activities in a prudent manner, in order to be operationally self-sustainable [be able to recover all of its operating expenses, including its cost of funds] by December 31, 2005.

[e] Until this Investment Agreement terminates, a representative of the Agent will be a voting member of the Borrower’s Credit Committee.

[f] Until this Investment Agreement terminates, a representative of the Agent will be a non-voting member of the Borrower’s Board of Directors

Section 4.03 Interest

[a] Interest on the Subordinated Loan will accrue at a rate equal to the full NBT discount rate as long as the Borrower is in compliance with the Terms & Conditions of this Investment Agreement as determined by the PMU at its discretion.

The Chief Accountant should, also, on a quarterly basis verify data on actual interest rate applied to each borrower, correct calculation of interest and actual amount of interest collected on due dates [if not, collection of fees for late payment even by a day].

study the dates of receipt of start up capital & amount received and its use on time, without keeping funds idle.

Borrower-wise & Month-wise Interest Income

[Amount TJS]

Sr. No	Name of Borrower	Purpose of Loan	Loan Amount	Date of Disbursement	Date of Repayment	Interest Rate %	Actual Interest Amount collected	Dates of interest collection

He/ She should, also, study the dates of receipt of Start Up Capital as well as Sub-Credit from AmonatBank and dates of on-lending to borrowers. If there is no disbursement of

loans to borrowers within a day or two from the date of receipt of sub-credit from AmountBank NBFO will have to pay interest to AmonatBank even if the borrowed funds are not utilized.

Receipt and use of start up capital

[Amount in TJS]

Dates of Receipt	Amount received	Dates of Utilization	Amount Utilized	Purposes for which used

Receipt of Sub-Credit From AmonatBank and Dates of its Utilization [TJS]

Dares receipt	of Amount received	Dates Lending	of Amount Disbursed	No.of Borrowers

He/ She should, also, study in detail month-wise expenses in respect of Interest on Debt & provision for loan losses and satisfy that calculations are correct. Likewise, expenses on staff, administration, etc should be very thoroughly examined to see that unnecessary expenses are avoided and expenses must be within the approved budget. It is necessary to disallow expenses which are not within the approved budget. He/ She should draw the attention of the Head of the NBFO and ,if need be, of the BoD. The financial discipline is a must.

Month-wise Expenses Statement

[Amount in TJS]

Sr.No.	Items	Sept'04	Oct'04	Nov'04	Dec'04	Jan'05
1	Interest on Debt of AmonatBak					
2	Provision For Loan Losses					
3	Expenses on Staff					
	<i>Chairperson</i>					
	<i>Chief Accountant</i>					
	<i>Loan Officer</i>					
	<i>Cashier</i>					

	<i>Others [Specify]</i>					
4	Administrative Expenses					
	<i>Social Security</i>					
	<i>Office Rent</i>					
	<i>Stationary Cost</i>					
	<i>Telephone/Fax/ Electricity bills</i>					
5	Others [Specify]					
	<i>Other Expenses</i>					
	<i>Give items of Expenses</i>					

Determination of Interest Rate Structure

NBFOs should be able to determine interest rate structure taking into following cost & income factors.

Projecting monthly average outstanding business @ 5,40,000 being the available lendable resources

Interest on borrowed funds to be paid @ 10 % at present

Provision for loan losses @ 2% of outstanding loan at present

Cost on staff & administration @ 10% or 12% of the loan outstanding

Profit before tax @ 5% or 6% Of the loan outstanding.

If NBFOs strictly observe these guidelines then interest rate structure can be as under.

Model -1

Projected monthly outstanding loan business	5,40,000 TJS
Interest to be paid @ 10% on 5,40,000 TJS	54,000 TJS
Provision for Loan Loss @ 2% on 5,40,000 TJS	10,800 TJS
Staff & Administrative cost @ 10 % Of 5,40,000 TJS	54.000 TJS
Projected Profit before Tax @ 5% of 5,40,000 TJS	27,000 TJS
Total annual cost	1,45,800 TJS

Anticipated interest would be @ 27%

Model-2

Projected monthly outstanding loan business 5,40,000 TJS

Chapter No.8

LOAN RECOVERY MANAGEMENT

Loan repayment should necessarily be cent percent & it should also be on time. It has its significance on the continued viability of the NBFO. In fact, real test for NBFO & its elected leaders & employed staff lies in the cent per cent recovery of all loans disbursed. Accordingly, NBFO should convey this message in very clear terms to all borrowers at the time of [i] canvassing for lending activities [ii] accepting Loan Application Forms from clients [iii] documentation, disbursement & signing credit contract [iv] supervising & inspection of borrower's activities & [v] receiving monthly interest. In short, Loan officer should create adequate awareness among borrowers for cent percent repayment of loans.

Month-wise-Borrower-wise Chart

Loan officer should prepare a month-wise chart indicating borrower-wise dates of repayment of loans. He/ She should send a written communication to each borrower **one month in advance** to concerned borrower reminding him/ her for repayment of specified loan amount on the stipulated date. Copy of this letter should also be sent to borrower's guarantor for his/her information and readiness to repay the loan in the event borrower fails to repay. This advance intimation should help borrower to make proper arrangement for getting money to repay the loan on the stipulated date. NBFO must appreciate that when loan maturity period for most of the loans is 12 months, it is possible that borrowers may forget or they may be out of town. Loan officer should once again contact personally borrowers before 10 to 15 days from the due dates of repayment of loans and get first hand information and borrowers attitude towards repayment of loans. He/ She should inform Head of the NBFO and seek guidance & support for loan recovery. Chairman of BoD may need to be informed if there is possibility of some borrowers not repaying the loans. Chairman may consider contacting borrowers and persuading them to repay on time. Once repayment is delayed it takes very much time and increases paper work for Loan officer to recover the loans and it is costly also.

Following Table present data on the loan amount & number of borrowers from whom all NBFOs have to recover loans month-wise.

Repayments to be received month-wise & NBFO-wise

[AMOUNT IN TJS]

Month	Ziroat	Barahak	Umed	Umad	Madadgor	Kishorvas	Total	% to Total
April'05	20,000 [3]						20,000	0.99
May'05	77,000 [6]						77,000	3.82
June'05	30,500 [4]						30,500	1.51
July'05	15,000 [1]		45,000 [3]				60,000	2.98
August'05	49,800 [5]						49,800	2.47
Sept'05	1,26,000 [11]						1,26,000	6.26

Oct'05	24,000 [3]	1,59,000 [14]	1,32,000 [14]		66,500 [7]		3,81,500	18.95
Nov'05	12,000 [1]	1,58,300 [11]	25,000 [4]	1,51,000 [19]	80,000 [8]	1,06,000 [14]	5,32,300	26.44
Dec'05	18,000 [2]		2,69,700 [28]	94,200 [11]	1,54,500 [14]	1,45,600 [23]	6,82,000	33.88
Jan'06	21,000 [2]		3,000 [1]	30,000 [2]			54,000	2.68
Total	3,93,300 [38]	3,17,300 [25]	4,74,700 [50]	2,75,200 [32]	3,01,000 [29]	2,51,600 [37]	20,13,100	
% to Total	19.54	15.76	23.57	13.67	14.95	12.5	100	100

The study of the data presented in the above Table show that Ziroat NBFO has to recover loans from one borrower on 6th April & two borrowers on 20th April'05. This process of recovery commences from April & continues till January'06. While amount and percentage of loans to be repaid in the months of April & July'0 is meagre, it is high in the month of May'05. Repayment is progressively rising from June'05 to December'05 except in the month of August '05 . While all NBFOs have to recover quite a good sum from October'05 to December'05, Ziraot NBFO has to gear up its efforts right from the month of February'05 by contacting individual borrowers and inculcating in them the habit of repayment of loans on time, without any excuse. This will provide very good lesson not only to Ziroat NBFO but all other NBFOs too.

Thus, BoD, CC & all four employees of Ziroat NBFO should not only be fully aware of recovering the loan cent percent but they should work out definite action plan to see that loans are fully recovered on due dates. It is important for Chairman of BoD & CC to see that if some one has not repaid loan on 6th April & 20th April'05, then a ***very wrong message would reach to other borrowers that would stop the process of recovery of loans.***

Thus, it would be very essential for Director PMU to invite BoD, members of CC & all four employees of Ziroat NBFO and discuss with them the plan they have worked out to recover cent percent loan from the month of April'05 and onwards. Besides, as this is the first NBFO to start recovery of loans, it would be desirable that PMU monitors on a weekly basis the process of recovery of loans. It is good that Ziroat NBFO is very close to PMU. The success of this first event would have a demonstrating effect on other NBFOs that start recovery from July'05 & onwards.

This, therefore, calls for formulating a detailed strategy and advance action plan by all NBFOs to create awareness among concerned borrowers for on time repayment of loans. It is, also, worth appreciating that during these months of collecting repayments, NBFOs will be busy to disburse further loans as well as collecting interest on a monthly basis of the loans already disbursed and being disbursed. NBFOs

High Value Loans

Loan officer must study the data on the loan disbursed to each borrower and find out that they are certain borrowers who have been given high value loans as is evident from the following Table:

**Table Showing NBFO-wise Number of Loans Disbursed
In Respect of varying Amount**

[Amount in TJS]

Loan Amount	Ziroat	Barahak	Umed	Kishorvas	Umad	Madadgor	Total	% to Total
Less than 3,000	3	-	-	1	-	-	4	1.9
3,000 & above but less than 5,000	7	2	8	14	6	2	40	19
5,000 & above but less than 10,00	-	4	14	16	16	13	63	30
10,000 & above but less than 15,000	14	1	16	1	2	8	42	20
15,000	14	18	12	5	8	6	62	29.4
Total	38	25	50	37	32	29	211	
% to Total Loans	18	12	24	17	15	14		100
Total Loan Amount	3,95,300	3,17,300	4,74,700	2,51,600	2,75,200	3,01,000	20,15,100	
% to Total Loan Amt	19.6	15.7	23.6	12.5	13.6	14.9		
Average Loan Amount	10,403	12,692	9,494	6,800	8,600	10,379	9,550	

Data presented in above Table all the six NBFOs have given loan amount of 15,000 TJS to 62 borrowers that account for 29.4 % of total borrowers. Besides, there are 20 % borrowers who have been given loans between 10,000 & above but less than 15,000 TJS. Thus, all six NBFOs have very high risk of lending to 104 borrowers. For this purpose, BoD, CC & all employees of NBFO should initiate steps to ensure that post-disbursement supervision and inspection of activities of these borrowers must be done very thoroughly and status of loan should be discussed by BoD along with CC & Loan officer and a time bound action plan should be formulated. The action plan should allocate responsibilities to each member of BoD, CC and staff of NBFO. The work done by them should be monitored by Chairman of the BoD.

If some borrowers have not repaid loans on due date, Loan officer should immediately contact individual borrowers on the next day and put all endeavours to collect the loans. Besides, the message of repayment must be communicated to them through all possible communication channels such as, through their relatives, friends, neighbours, guarantors etc.

Loan Delinquency

If still some borrowers have yet not repaid their loans cooperation of members of CC & BoD may be sought and a plan of action should be worked out to contact defaulters personally and persuade to repay the loan on a specified day/date failing which legal

actions would be initiated. This should be followed by a written communication. Each contact with the borrower should be properly recorded in borrower's loan file. This is a documentary evidence of the efforts put in by the loan officer and members of CC & BoD to recover dues. All verbal conversations with borrowers & promises given by them in the field & premise of the NBFO as well as all attempts made to reach defaulters which failed to recover loans should be chronologically recorded. All these would prove to be useful if NBFO decides to proceed in the Court of Law against the defaulters. If repayments are received during this process late fee/penal interest in accordance with NBFO loan policy should be charged and collected.

**NON-BANK FINANCIAL ORGANIZATION
LOAN APPLICATION FORM**

Annex - 1

Date of Application
Loan Receipt No.

SR.NO			
1	Primary Applicant's Name Date of Birth		
2	Passport Number		
3	Educational Qualification		
4	Name of Agricultural Farm		
5	Home Address		
6	Address of Agricultural Enterprise		
7	Number of Family Members	Adult	Minor
8	Number of Earning Members	Male	Female
9	Annual Family Income-All Sources		TJS
10	Annual Family Expenses		TJS
11	Assets owned		
12	Land	Total ha	Irrigated ha
13	Farm Equipment [Specify]	No.	Present Value Present Condition
14	Livestock [Specify]		
15	House		
16	Car		
17	Other [Specify]		
18	Investment in Stocks/Shares/Bonds		
19	Bank Account, if any	Name & Address of Bank	
20	Bank Balance as on the Date	TJS	
21	Collateral to be Pledged [Specify]	Location	Date of Acquisition Present Value

22. Have you received loans from any institutions or private persons? Yes/No
23. Have you repaid fully with interest or is it yet to be repaid?

24. Purpose of loan;
25. Total Loan Amount Requested TJS
26. Loan Maturity Period
27. Mode of payment of interest Monthly
28. Date/s of Repayment of Principal

I/we, the loan applicant(s), hereby affirm that the information provided in this Loan Application and Agricultural/Business Enterprise Plan for loan, as well as in all other supporting documents accompanying this Application, is correct and accurate. I/we understand that by providing any false or incorrect information will result in my/our being

denied loan or consideration for future loan. I/we also understand that submission of this Application does not guarantee that I/we will be granted loan from NBFO.

For the purpose of obtaining loan from the NBFO, and any future loan granted by the NBFO, or to support the extension of loan already given, i/we authorize the NBFO or its agents to verify the information contained in all submitted application materials, to obtain additional information concerning my/our financial condition, to furnish the same to others and to answer any questions about my loan experience and other financial relationship with lenders.

I/we further affirm that I/we are familiar with NBFO's Loan policy and procedures and with my/our obligations concerning repayment of principal and interest on a timely basis, and agree to fulfill these conditions in applying for loan through NBFO.

Applicant(s) signature(s): (1) _____
Date: _____

(2) _____
Date: _____

NBFO Loan Officer Signature: _____
Date: _____

BUSINESS PLAN

1. Since how many years have you been cultivating crops?

2. Which crops did you cultivate during past three years/

	1 st year	1 st year	1 st year	2 nd year	2 nd year	3 rd year	3 rd year	3 rd year	
	Crop	Crop	Crop	Crop	Crop	Crop	Crop	Crop	
Area ha									
Production in Kg									
Cost in TJS									
Income in TJS									
Gross Margin in TJS									

3. Whether in last five years any crop you raised failed due to natural disaster on your farm.

4. Whether in last five years any crop you raised was damaged due to Pests & Disease Outbreak on your farm.

Furnish information in the following table.

Sr.No	Type of disaster	Name of Pests & Disease		
Crops				
Loss in Production				
Loss in Income				
Crops				
Loss in Production				
Loss in Income				

5. Whether in last five years production of any crop you raised on your farm was less than normal production. [except during disaster or pests & disease outbreak]

6. Do you expect any social or religious ceremony in your family in this year for which you need to make arrangement for money?

7. Are you a member of any agricultural organization such as Water Users Association etc.?

8. Have you received any training in crop farming?

9. How much loan amount do you require?

10. How much money you can invest from your own resources?

11. How much additional production and income do you expect when you are raising crops by obtaining loan from NBFO?

12. Whether adequate quantity and quality of seeds, fertilisers, pesticides, fuel, water. Labor etc required for crop raising are available.

13. When are you going to market your produce and how much price per Kilogram do you expect?

14. When do you propose to repay loan ?

15. From which source would you pay monthly interest?

16. From which source do you propose to repay the loan, if you are not able to get production and income as suggested in your business plan?

17. Give following data for crops you propose to raise out of loan amount.

Name of Crop									
Month of Planting									
Month of Harvesting									
Area ha									
Production in Kg									
Cost in TJS									
Income in TJS									
Gross Margin in TJS									
Loan Amount Requested									
Month of Disbursement									
Month of Repayment									

Balance sheet for debts and assets, as of application date:

Current Assets		Value (somoni)	Current Debts		Value (somoni)
Cash			Loans		
Investment in Crops			Interest		
Livestock			Money owned to relatives		
Seed			House/Apt. rent due		
Fertilizer			Land rent due		
Machinery/Equipment					
Vehicles					
Fuel					
Cotton, stored					
Wheat, stored					
Tobacco, stored					
Potatoes, stored					
Other crops, stored					
Rent Loan					
Other assets			Other Debts		
Total Current Assets			Total Current Debts		
Fixed Assets			Fixed Debts		
Land (hectares)			Land (hectares)		
House			Home Mortgage		
Other Buildings			Other Building Mortgage		
Other Fixed Assets			Other Fixed Debts		
Total Fixed Assets			Total Fixed Debts		
TOTAL ASSETS			TOTAL DEBTS		

Date _____

ANNUAL INCOME AND EXPENSE PROJECTION

INCOME	Jan-Mar	Apr-June	July-Sept	Oct-Dec	Total for year
CROPS					
Wheat					
Barley					

Cotton					
Vegetables					
Other crops					
LIVESTOCK					
Dairy					
Cattle					
Sheep					
OTHER INCOME					
TOTAL INCOME					
EXPENSES					
Seed					
Fertilizer					
Chemicals					
Fuel					
Repairs					
Labor					
Social Tax					
Insurance					
Utilities					
Livestock					
Feed					
Interest					
Income Tax					
Total Farm Expense					
Family Expense					
TOTAL CASH OUT					
CASH BEFORE					
LOAN REPAYMENTS					
Loan principal					
Pay-other loans					
NET CASH FROM					
OPERATIONS					

LOAN SUMMARY REPORT & RECOMMENDATION BY LOAN OFFICER

Sr.No	PARAMETERS	Value	Remarks of Loan officer	Bench Mark
1	Total Family income as % to total family expenses			30 % & above
2	Total value of Assets owned by the Applicant [TJS]			
3	Total value of Assets as % to loan amount			200% & above
4	Total value of collateral proposed to be pledged [TJS]			
5	Value of collateral as % to loan amount			As indicated under collateral
6	Gross farm income after meeting farm expenses [TJS]			50% & above
7	Total Current Assets as % to Total Current Debts			35% & above
8	Total Fixed Assets as % to Total Fixed Debts			200% &above
9	Cash before Loan Repayment [TJS]			Should be more than interest & loan repayment
10	Net Cash from OPERATIONS			Sufficient to meet risks

Bench Mark data indicate that loan proposal should meet these requirements for consideration.

Analysis by Loan officer

Analysis of data & above parameters in respect of Loan Applicant Mr/Ms reveals that he/she is in a financially comfortable position to repay the loan amount of TJS in the month of _____ and interest on a monthly basis.

He/She is able to bear & manage financial risks with regard to repayment of loan.

Parameters at Sr. No. _____ are not favourable/strong enough to facilitate the Loan Applicant Mr/Ms _____ to repay loan amount of TJS in the month of _____ and interest on a monthly basis.

He/She is not able to bear & manage financial risk with regard to repayment of loan

Signature

I recommend for approval/ disapproval of loan to Mr/ Ms

Loan officer

[Name] [Date]

Decision of Credit Committee

The CC at its meeting held on _____ interviewed Mr/Ms

The CC has unanimously verified the facts as stated in the documents & was satisfied about the willingness & capacity of Mr/Ms _____ to repay the loan amount _____ TJS as recommended by the Loan officer. The CC, therefore, hereby approves disbursement of loan of _____ TJS on following terms & conditions.

Sr.No	Items	Terms
1	Loan Amount in words	
2	Purpose of Loan	
3	Rate of Interest [%]	% per annum to be paid monthly
4	Term of Loan	Months
5	Date/s of Repayment	
6	Collateral to be charged	
7	Personal Guarantee of Mr/Ms	
8	Other Conditions	

The CC was not satisfied to ensure that Mr/Ms _____ would be able to repay the loan amount of _____ TJS as parameters at Sr.No _____ are not strong enough to justify the sanction f loan of _____ TJS.

Signature of Chairperson
Of Credit Committee

[Name & Date]

Signature of Secretary
of Credit Committee

[Name & Date]

LOAN APPLICATION RECEIPT AND DISPOSAL REGISTER

Annex - 2

[Amount in TJS]

Sr.No	Name of Loan Applicant	Purpose of Loan	Loan Amount Requested	Date of Receipt of Loan Application	Loan Receipt No.
1	2	3	4	5	6

Date of Processing by Loan Officer	Date of Submission to Credit Committee	Date of CC meeting and its Decision.	Date of Communication to Applicant	Date of Request for Funds
7	8	9	10	11

Date of Receipt of Funds	Date of communication to Applicant for Documentation	Date of Registration of Collateral	Date of Disbursement	Date of interest Payments	Date of Repayments
12	13	14	15	16	17

Dates of Inspection	Action Taken On late payment of interest	Action Taken on Late Repayment	Action Taken For default On non-payment of interest	Action Taken For default On non-payment of Loan
18	19	20	21	22

LOAN CONTRACT # _____

Date : _____, Tajikistan

The _____ NBFO hereafter referred to as the CREDITOR represented by the Chair person,.....on _____ the _____ one _____ side, and _____, hereafter referred to as the BORROWER, represented by _____, passport number _____, on the other side, have concluded this contract for the following:

ARTICLE 1

1.1. The CREDITOR will provide the BORROWER with loan for the amount of _____ somoni to be used for the following purposes:

-

-

Name of Project: _____

Approved Loan Amount: _____

1.2 The loan shall be granted for a period of _____ months. Repayment of the loan shall be made by _____.

ARTICLE 2

2.1. The BORROWER agrees to pay an annual interest rate of% within the loan term indicated in Table A of this contract.

2.2. The BORROWER is obligated to use the loan for the purpose indicated in the loan application and submitted business-plan. Loan funds used under this Loan Contract for any other purpose is not authorized and will be viewed as a violation of the Loan Contract. If the BORROWER is found having violated the Loan Contract, the CREDITOR is entitled to collect the entire loan amount, including interest for the period of the loan within ten business days. The Borrower will have ten business days to return the entire amount before paying 5% of the total amount including the interest for each month of non-repayment starting on the day written notice was issued. In case if the BORROWER fails to pay the debts within 60 days after receiving written notification, his (her) mortgaged property will carry over to the NBFO.

2.3 The persons whose names and signatures are indicated in Table B of this contract, together with or separately from the head of the enterprise will guarantee the repayment of the loan

including the interest and freely accept all responsibility and repayment in accordance with this contract. The BORROWER is obliged to pay _____% of the total amount including the interest for each month of non-repayment beginning with the next day of deadline for repayment.

2.4 In case of non-repayment of loan before the term indicated in this contract, the BORROWER will be held liable according to the Law of the Tajikistan Republic.

2.5 The value of the mortgaged property must exceed the amount of the loan according to the approved regulations.

2.6 The BORROWER guarantees authenticity of all information provided by him.

2.7 To secure the loan the BORROWER must provide collateral as properly indicated in the Mortgage Agreement.

2.8 The BORROWER is obligated to present all financial receipts, reports or other information on proper use of the loan.

2.9 The BORROWER is responsible for all legal fees that may occur during the process of applying for loan.

3. All Mortgage Agreements, Guarantor Declarations and other official documents used to approve the loan are part of this contract.

ARTICLE 3

3.1 Any dispute, controversy, or claim arising out of or relating to this contract, or the breach, termination, or invalidity thereof shall be settled by arbitration court according to the Law of the Tajikistan Republic.

ARTICLE 4

4.1 Duration of the contract: The contract comes into force at the moment of signing and is valid until the principal and interest are fully repaid.

4.2 For purposes of serving notices, the juridical addresses of the parties shall be as follows:

CREDITOR

BORROWER

.....
..... Tajikistan
Phone #

If the above-indicated addresses or names change, each party must inform the other side in written form.

4.3 This contract is executed on this _____ day of _____, 2003.

SIGNATURES

CREDITOR:

BORROWER:

NBFO Chair person

TABLE A

For Loan Contractof2003

1. In accordance with Article 2.1 of this contract, the BORROWER is obligated to repay the loan and accrued interest according to the following schedule:

Interest Repayment Schedule

Repayment date	Number of days	Interest Rate (annual)	Amount to be repaid
	% annual	Of the loan amount
		% annual	of actual loan amount
		% annual	of actual loan amount
		% annual	of actual loan amount
		% annual	of actual loan amount
		% annual	of actual loan amount
		% annual	of actual loan amount
		% annual	of actual loan amount
TOTAL		% annual	of actual loan amount

Principal Repayment Schedule

Repayment Date	Amount
August 2003	Somoni
	Somoni
	Somoni
	Somoni
	Somoni
	Somoni
TOTAL	Somoni

Total for repayment: total loan amount plus actually accrued interest som.

2. The BORROWER is obliged to pay 5% of total amount including the interest for each month of non-repayment beginning with the next day of deadline for repayment.

BORROWER'S Signature:

CREDITOR'S Signature:

.....

NBFO Chair Person

Date: _____

Date: _____

TABLE B

For Contract _____ of _____ 2003

1. In accordance with article 2.4 of this contract we, the undersigned members of the organization, will together and separately guarantee repayment of the loan and interest amount to the Creditor.

Names :

Signatures :

Collateral requirements

Depending on the risk associated with financing different activities, the minimum requirements of collateral for year 2005 are:

- crop production 125% & above
- livestock 150% & above
- farm equipment loans – 100% and the equipment
- agricultural products processing and commercial activities 150% & above
- small businesses 150% & above

The format of the collateral assessment is presented below:

Act on Examination and Collateral Assessment

Borrower:.....

Date of examination:

Date of Assessment:

Place of Collateral:

Type of Collateral:

Collateral Status and Conditions of Maintenance:

Assessment Value of Collateral:

Plan for Periodical Collateral Revaluation:

Type of Warehouse:

Measures for Security (locks, security, lightening, electronic signaling, etc.)

Date when built:

Schedule for periodical examination:

Other:

.....
Loan Officer

.....
NBFO

LOAN SUPERVISION REPORT

Name of Borrower: _____ **File Number:** _____

Amount of Loan: _____ **Date of Visit:** _____ **& No. of Visit**

Discussion was held with: _____

Purpose of Visit: _____

First source of loan payment and present condition _____

- Observations on the physical condition of crop/ livestock finance
- Brief particulars of utilization of loan till date.
- Activities proposed for next one to two months
- Expectation production and income out of the activity
- Any problem experienced which has impact on loan repayment
- Guidance sought, if any, from Agronomist/veterinarian and its outcome

Second source of loan payment (collateral) and present conditions:

Discuss changes since last visit:

Is Borrower following original business plan and loan contract provisions? List any variances:

Summary Comments:

Special action recommended :

Loan Officer

Date

Reviewed by

Date

Annex - 6**Loan Portfolio Report**

	Date:		As of previous quarter	As of Current quarter
P1	No. of loans	Number #		
P2	Number of loans held by women	Number #		
P3	Number of loans to first time borrowers	Number #		
P4	Value of loans outstanding (gross)	Amount (TJS)		
P5	No of loans disbursed during the period	Number #		
P6	Value of loans disbursed during period	Amount (TJS)		
P7	Number of loans made with term of 6-9 months	Number #		
P8	Number of loans made with term of 3 months or less	Number #		
P9	Number of loans with monthly interest	Number #		
P10	Portfolio at risk total 1)	Number		
P11	Portfolio at risk total 1)	Amount (TJS)		
P12	Portfolio at risk less than 30 days	Number		
P13	Portfolio at risk less than 30 days	Amount (TJS)		
P14	Portfolio at risk 31-90 days	Number		
P15	Portfolio at risk 31-90 days	Amount (TJS)		
P16	Portfolio at risk above 90 days	Number		
P17	Portfolio at risk above 90 days	Amount (TJS)		
P18	Number of loans with initial value < 3,000 TJS	Number #		
P19	Value of loans with initial value < 3,000 TJS	Amount (TJS)		

Portfolio at risk defined as total loans outstanding where a portion of the loan principal is overdue

MONTHLY PROGRESS REPORT FORMAT

PROGRESS REPORT FOR THE MONTH ENDED-----'05

[FIGURES IN TJS]

SR .NO.	PARAMETERS	PERFORMANCE DURING THE MONTH ALONG WITH TARGETS	CUMULATIVE TOTAL FROM THE INCEPTION TILL THE END OF THE REPORTING MONH	REMARKS
1	NUMBER OF MEMBERS			
2	MEMBERS' SHARE CAPITAL			
3	START-UP CAPITAL DATE OF RECEIPT AMOUNT RECEIVED AMOUNT UTILIZED			PURPOSE OF UTILIZATION AND AMOUNT
4	SUB-CREDIT LINE DATE OF TRANSFER AMOUNT TRANSFERRED TO NBFO			
5	NUMBER OF BORROWERS			
6	LOAN AMOUNT DISBURSED			
7	REPAYMENTS			
8	NO.OF BORROWERS DUE FOR REPAYMENT			
9	AMOUNT DUE FOR REPAYMENT			
10	ACTUAL NO.OF BORROWERS WHO REPAID THE LOAN DUE TO THEM % REPAYERS			
11	ACTUAL LOAN AMOUNT REPAID % OFRECOVERY			
12	NO.OF BORROWERS WHO DID NOT REPAY LOANS DUE TO THEM % DEFAULTERS			
13	AMOUNT OF LOAN NOT REPAID			

	THOUGH DUE % OVER DUE AMOUNT			
14	STANDARD LOANS LOAN DEFAULT UP TO 30 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % OF DEFAULT AMOUNT			
15	NON-STANDARD LOANS LOAN DEFAULT BETWEEN 31 & 60 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % DEFAULT AMOUNT			
16	DANGEROUS LOANS LOAN DEFAULT BETWEEN 61 & 180 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % DEFAULT AMOUNT			
17	BAD LOANS LOAN DEFAULT MORE THAN 181 DAYS NO.OF DEFAULTERS % DEFAULTERS DEFAULT AMOUNT % DEFAULT AMOUNT			

MONTHLY STATEMENT ON INCOME AND EXPENSES

STATEMENT FOR THE MONTH ENDED-----'05 [FIGURES IN TJS]

SR.NO	ITEMS	DURING THE MONTH	CUMULATIVE RIGHT FROM THE INCEPTION TILL THE END OF THE REPORTING MONTH	REMARKS
1	INCOME			
2	INTEREST INCOME			
3	OTHER INCOME			SPECIFY
4	TOTAL INCOME			
5.	EXPENSES			
6	INTEREST ON DEBT			
7	GROSS MARGIN [4-6]			
8	PROVISION FOR LOAN LOSSES STANDARD LOANS-2% NON-STANNDARD LOANS-5% UNCOLLECTIBLE LOANS-30% DANGEROUS LOANS-75% BAD LOANS-100%			
9	NET MARGIN [7-6]			
10	SALARY & OTHER BENEFITS			GIVE BREAK UP
11	ADMINISTRATIVE EXPENSES			GIVE BREAK UP
12	OTHER EXPENSES			SPECIFY
13	PROFIT OR LOSS [9-10-11-12]			

