

LOAN AGREEMENT
(Ordinary Operations)
(Khadi Reform and Development Program)

between

INDIA

and

ASIAN DEVELOPMENT BANK

DATED 22 December 2009

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 22 December 2009 between INDIA, acting by its President (hereinafter called the "Borrower") and ASIAN DEVELOPMENT BANK (hereinafter called "ADB").

WHEREAS

(A) ADB has received from the Borrower a development policy letter, dated 1 September 2008 (hereinafter called the "Policy Letter"), generally setting forth certain objectives, policies and actions, described in Schedule 1 to this Loan Agreement, designed to develop the Borrower's Khadi and village industries (hereinafter called the "Program");

(B) the Borrower has applied to ADB for a loan from its ordinary capital resources for the purposes of the Program;

(C) the Program will be carried out by the Ministry of Micro Small and Medium Enterprises (hereinafter called "MMSME") and Khadi and Village Industries Commission (hereinafter called "KVIC"), and for this purpose the Borrower will make available to MMSME and KVIC the proceeds of the Loan provided for herein upon the terms and conditions satisfactory to ADB;

(D) the Borrower has also applied for a grant up to the equivalent of two million dollars (\$2,000,000) to finance technical assistance for the reform support under the Program (hereinafter called "Technical Assistance"), and ADB has agreed to provide a grant to the Borrower for such purpose; and

(E) ADB has, on the basis inter alia of the foregoing, agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions hereinafter set forth and in the Program Agreement between ADB and KVIC;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001, are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications thereof (said Ordinary Operations Loan Regulations as so modified being hereinafter called the Loan Regulations):

- (a) Section 2.01(49) is deleted and the following is substituted therefor:

49. The term "Program" means the program for which ADB has agreed to make the Loan, as described in the Loan Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Borrower.

- (b) The term "Project" wherever it appears in the Loan Regulations shall be substituted by the term "Program".

- (c) Section 2.01(51) is deleted and the following is substituted therefor:

51. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Loan Agreement.

- (d) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

- (e) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the amount of the credit against the interest payable by the Borrower.

- (f) Section 3.06 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of

the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(g) Section 3.07 is deleted and the following is substituted therefor:

(a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(h) Section 6.01(a) is deleted and the following is substituted therefor:

(a) Subject to any conditions or restrictions specified in the Loan Agreement, the Borrower shall be entitled to withdraw from the Loan Account such amounts as shall be required to meet payments for expenditures required for the Program and to be financed under the Loan Agreement.

Section 1.02. Wherever used in this Loan Agreement, unless the context otherwise requires, the several terms defined in the Loan Regulations have the respective meanings therein set forth, and the following additional terms have the following meanings:

(a) "benefit chart" means the chart to be used by the Khadi institutions registered at either KVIC or KVIB and other relevant Khadi ventures to ensure that the

surpluses generated by them are used for the benefit of the Khadi artisans and workers, upgrading technology and building the capital base of the registered Khadi institutions and the other relevant Khadi ventures;

(b) “central certification committee” means the committee established by KVIC for the purpose of the certification of Khadi institution;

(c) “Companies Act” means the Borrower’s Companies Act, 1956, as amended from time to time, including through the Companies (Amendment) Act, 2002;

(d) “Counterpart Funds” means the Rupees proceeds generated from the proceeds of the Loan and deposited by the Borrower through the Program Executing Agency in the Special Account in accordance with paragraph 19 of Schedule 5 to this Loan Agreement;

(e) “CSP” means the central sliver plants operated by KVIC;

(f) “DEA” means the Department of Economic Affairs of the Borrower or any legal successor thereto;

(g) “Deposit Account” means the account referred to in paragraph 4 of Schedule 3 to this Loan Agreement;

(h) “DSO” means the department sales outlets;

(i) “Eligible Items” means the goods imported under the Program except those specifically excluded pursuant to Attachment 1 to Schedule 3 to this Loan Agreement, the foreign exchange costs of which are eligible for financing out of the proceeds of the Loan;

(j) “enterprise model” means the model developed by KVIC for new Khadi ventures in the form of proprietorship or partnership;

(k) “First Tranche” means the portion of the proceeds of the Loan in an amount not exceeding the equivalent of twenty million Dollars (\$20,000,000) to be initially withdrawn and utilized;

(l) “Fourth Tranche” means the balance of the proceeds of the Loan after the utilization of the First Tranche, Second Tranche, and Third Tranche, to be withdrawn pursuant to and subject to the provisions of paragraph 8 of Schedule 3;

(m) “ISEC” means the interest subsidy eligibility certificate issued by KVIC, pursuant to which the Khadi institution that holds such certificate is entitled to a subsidized loan for the purpose of its capital;

(n) “Khadi” means the hand-spun and hand-woven cloth produced within the territory of the Borrower;

(o) “Khadi Reform Package” means the document that outlines the reforms to be introduced by the Borrower to strengthen the Khadi sub-sector;

(p) “KVI” means the Khadi and Village Industry sector;

(q) “KVIB” means the Khadi and Village Industries Boards established by states within the territory of the Borrower to implement the KVI-related program initiated by KVIC or the respective state government;

(r) “KVIC” means the Khadi and Village Industries Commission established under the Borrower’s KVIC Act, 1956;

(s) “KVIC Act, 1956” means the Borrower’s KVIC Act, 1956, as amended from time to time;

(t) “marketing organization” means the body corporate to be established in accordance with paragraph 9 of Schedule 5 to this Loan Agreement;

(u) “Ministry of Textiles” means the Ministry of Textiles of the Borrower or any legal successor thereto;

(v) “MMSME” means the Ministry of Micro, Small and Medium Enterprises of the Borrower or any legal successor thereto;

(w) “MOU” means Memorandum of Understanding;

(x) “Policy Matrix” means the Policy Matrix as set out in Appendix 6 of the RRP;

(y) “PPP” means public private partnership;

(z) “producer company model” means the model developed by KVIC for new Khadi ventures in the form of a producer company composed of primary Khadi producers (artisans, spinners and weavers) and incorporated pursuant to the Companies Act;

(aa) “production incentive plan” means the incentive plan to be developed by KVIC, in which the incentives for Khadi institutions shall be linked to cost of production;

(bb) “Program Executing Agency” means, for the purposes and within the meaning of the Loan Regulations, MMSME or any legal successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;

(cc) “Program facilities” means facilities provided or to be provided under the Program;

(dd) “RBI” means the Reserve Bank of India, which is the central bank of the Borrower;

(ee) “RID” means the Reform Implementation Division, as further described in paragraph 2 of Schedule 5 to this Loan Agreement;

(ff) “RIMC” means the Reform Implementation and Monitoring Committee, as further described in paragraph 1 of Schedule 5 to this Loan Agreement;

(gg) "RMU" means a Reform Management Unit, as further described in paragraph 3 of Schedule 5 to this Loan Agreement;

(hh) "RRP" means the Report and Recommendation of the President of ADB to the Board of Directors of ADB for the Loan;

(ii) "Rupees" or the sign "Rs." means rupees in the currency of the Borrower;

(jj) "Second Tranche" means the proceeds of the Loan in the amount of forty million Dollars (\$40,000,000), to be withdrawn pursuant to and subject to the provisions of paragraph 6 of Schedule 3;

(kk) "Special Account" means the account referred to in paragraph 19 of Schedule 5 to this Loan Agreement;

(ll) "Third Tranche" means the proceeds of the Loan in the amount of forty million Dollars (\$40,000,000), to be withdrawn pursuant to and subject to the provisions of paragraph 7 of Schedule 3;

(mm) "Trade Marks Act, 1999" means the Borrower's Trade Marks Act, 1999, as amended from time to time; and

(nn) "Village Industry" means the industry based upon know-how and skills of artisans and rural raw materials and/or markets.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of one hundred fifty million Dollars (\$150,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of twelve (12) years and a grace period as defined in paragraph (c) of this Section.

(c) The term "grace period" as used in paragraph (b) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of LIBOR and 0.60% as determined by Section 3.02 of the Loan Regulations, less a credit of 0.40% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay to ADB a commitment charge of 0.15% per annum on the unwithdrawn amount of the Loan. Such charge shall accrue from a date sixty (60) days after the date of this Loan Agreement to the respective dates on which amounts shall be withdrawn from the Loan Account or shall be cancelled.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 June and 1 December in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. The Borrower shall cause the proceeds of the Loan to be applied to the financing of expenditures for the Program in accordance with the provisions of this Loan Agreement.

Section 3.02. The proceeds of the Loan may be withdrawn from the Loan Account only for the purposes of financing foreign currency expenditures incurred for Eligible Items under the Program in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.03. Except as ADB may otherwise agree, all Eligible Items to be financed out of the proceeds of the Loan shall be produced in, and procured from, ADB's member countries in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.04. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 September 2011 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause the Program to be carried out with due diligence and efficiency and in conformity with sound administrative, financial, engineering, environmental and KVI reform practices.

(b) In the carrying out of the Program and operation of the Program facilities, the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.

Section 4.02. The Borrower shall make available, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Program and for the operation and maintenance of the Program facilities.

Section 4.03. The Borrower shall ensure that the activities of its departments and agencies with respect to the carrying out of the Program and operation of the Program facilities are conducted and coordinated in accordance with sound administrative policies and procedures.

Section 4.04. (a) The Borrower through the Program Executing Agency shall maintain or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.

(b) The Borrower shall enable ADB's representatives to examine any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.05. (a) As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower through the Program Executing Agency shall furnish or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

(b) Without limiting the generality of the foregoing or Section 7.04 of the Loan Regulations, the Borrower through the Program Executing Agency shall furnish or

cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following are specified as additional conditions to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations:

(a) the Borrower shall have complied with all of the First Tranche release conditions set out in the Policy Matrix to the satisfaction of ADB;

(b) the Borrower through the Program Executing Agency shall have established the RIMC, in accordance with the requirements specified in paragraph 1 of Schedule 5 to this Loan Agreement;

(c) the Borrower through the KVIC shall have established the RID, in accordance with the requirements specified in paragraph 2 of Schedule 5 to this Loan Agreement; and

(d) the Borrower through the KVIC shall have appointed the director of RID with qualification and experience to the satisfaction of ADB.

Section 5.02. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VI

Delegation of Authority

Section 6.01. The Borrower hereby designates KVIC its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.02, 3.03 and 3.06 of this Loan Agreement and under Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 6.02. Any action taken or any agreement entered into by KVIC pursuant to the authority conferred under Section 6.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 6.03. The authority conferred on KVIC under Section 6.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VII

Miscellaneous

Section 7.01. The Secretary, Additional Secretary, Joint Secretary, Director, or Deputy Secretary in the Department of Economic Affairs of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

The Secretary
Department of Economic Affairs
Ministry of Finance
North Block
New Delhi – 110001
India

Facsimile Numbers:

(91-11) 2309-2477
(91-11) 2309-7511

For ADB

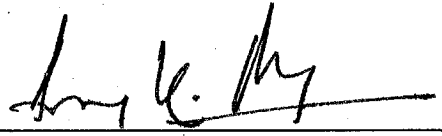
Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

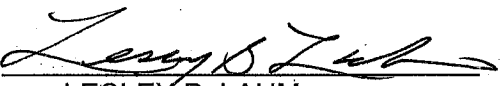
(632) 636-2444
(632) 636-2337.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

INDIA

By 
DR. ANUP K. PUJARI
Joint Secretary (MI)
Department of Economic Affairs

ASIAN DEVELOPMENT BANK

By 
LESLEY B. LAHM
Officer-in-Charge
India Resident Mission

SCHEDULE 1**Description of the Program**

1. The Program impact is the enhancement of income and employment growth for the rural non-farm sector. The Program outcome is the revitalization of the KVI sector with enhanced sustainability of Khadi, increased employment generation and incomes, increased artisan welfare, and development of select traditional village industries. The Program is described in more detail in the Policy Letter. The Program shall be implemented from October 2008 to September 2011.

2. In support of the Program:

(a) the proceeds of the Loan shall be used to finance the foreign exchange costs of Eligible Items; and

(b) the Counterpart Funds shall be used to finance the local currency costs relating to the implementation of certain programs and other activities consistent with the objectives of the Program, pursuant to the provisions of paragraph 20 of Schedule 5 to this Loan Agreement.

3. The proceeds of the Loan are expected to be utilized by 30 September 2011.

SCHEDULE 2**Amortization Schedule****(Khadi Reform and Development Program)**

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

| Date Payment Due | Installment Share (Expressed as a %) |
|------------------|---|
| | |
| 1 Dec 2011 | 2.247090 |
| 1 Jun 2012 | 2.359445 |
| 1 Dec 2012 | 2.477417 |
| 1 Jun 2013 | 2.601288 |
| 1 Dec 2013 | 2.731352 |
| 1 Jun 2014 | 2.867920 |
| 1 Dec 2014 | 3.011316 |
| 1 Jun 2015 | 3.161881 |
| 1 Dec 2015 | 3.319975 |
| 1 Jun 2016 | 3.485974 |
| 1 Dec 2016 | 3.660273 |
| 1 Jun 2017 | 3.843286 |
| 1 Dec 2017 | 4.035451 |
| 1 Jun 2018 | 4.237223 |
| 1 Dec 2018 | 4.449085 |
| 1 Jun 2019 | 4.671539 |
| 1 Dec 2019 | 4.905116 |
| 1 Jun 2020 | 5.150371 |
| 1 Dec 2020 | 5.407890 |
| 1 Jun 2021 | 5.678285 |
| 1 Dec 2021 | 5.962199 |
| 1 Jun 2022 | 6.260309 |
| 1 Dec 2022 | 6.573324 |
| 1 Jun 2023 | 6.901991 |
| Total | 100.000000 |

Schedule 2

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 3**Withdrawal of Loan Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan proceeds from the Loan Account.

2. (a) Withdrawals from the Loan Account shall be made for the financing of the cost of Eligible Items.

(b) No withdrawals from the Loan Account shall be made in respect of any expenditures which have been financed by credits from official international or bilateral aid agencies or any other loans made by ADB.

3. (a) An application for withdrawal from the Loan Account shall be submitted to ADB by the Borrower and shall be in a form satisfactory to ADB.

(b) Such withdrawal application shall be accompanied by a certificate of the Borrower confirming that (i) in case the proceeds of the Loan will finance imports already made, the value of Eligible Imports in the period concerned exceeded the amount of the requested withdrawal, or (ii) in case the proceeds of the Loan will finance items to be imported, the value of Eligible Imports in the immediately preceding one-year period was equal to or greater than the amount of the requested withdrawal plus all other amounts expected to be withdrawn from the Loan Account during the succeeding one-year period.

(c) For the purposes of this paragraph, the term "Eligible Imports" means the total imports of the Borrower during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports for ineligible items specified in the Attachment 1 to this Schedule; and
- (iii) imports financed from credits from official international or bilateral aid agencies or any other loans made by ADB.

(d) The Borrower shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Borrower has certified the value of Eligible Imports in its withdrawal application.

4. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account, the Borrower shall nominate an account (the Deposit Account) at RBI into which all withdrawals from the Loan Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with consistently maintained sound accounting principles. Upon ADB's request, the Borrower shall have the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with appropriate auditing standards. Promptly after their preparation but in any event not later than six (6) months after the date of ADB's request, certified copies of such audited accounts and records shall be furnished to ADB, all in the English language.

(c) Throughout the Program implementation period, the Borrower shall submit trade statistics and any other information as ADB may require from time to time to assess the Borrower's compliance with the formula for determining Eligible Imports.

5. The First Tranche shall be released upon the effectiveness of the Loan Agreement.

6. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Second Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Second Tranche specified in Attachment 2 to this Schedule.

7. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Third Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Third Tranche specified in Attachment 3 to this Schedule.

8. Notwithstanding any other provisions of this Loan Agreement or the Loan Regulations and except as ADB may otherwise agree, no withdrawals shall be made from the Fourth Tranche unless ADB shall be satisfied, after consultation with the Borrower, that (a) sufficient progress has been achieved by the Borrower in the carrying out of the Program; and, in particular, (b) the Borrower has fulfilled the conditions for the release of the Fourth Tranche specified in Attachment 4 to this Schedule.

List of Negative Items

1. Loan proceeds will finance the foreign currency expenditures for the reasonable cost of imported goods required during the Khadi Reform and Development Program.
2. No withdrawals will be made for the following:
 - (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Borrower:

Table A12: Ineligible Items

| Chapter | Heading | Description of Items |
|----------------|----------------|---|
| 112 | | Alcoholic beverages |
| 121 | | Tobacco, unmanufactured; tobacco refuse |
| 122 | | Tobacco, manufactured (whether or not containing tobacco substitute) |
| 525 | | Radioactive and associated materials |
| 667 | | Pearls, precious and semiprecious stones, unworked or worked |
| 718 | 718.7 | Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors |
| 728 | 728.43 | Tobacco processing machinery |
| 897 | 897.3 | Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971 | | Gold, nonmonetary (excluding gold ore and concentrates) |

Source: United Nations.

- (ii) expenditures in the currency of the Borrower or of goods supplied from the territory of the Borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and ADB; and

Attachment 1 to Schedule 3

- (vii) expenditures on account of any payment prohibited by the Borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Conditions for Release of the Second Tranche

In order to release the Second Tranche, the First Tranche conditions shall continue to be complied with and the following conditions shall have been complied to the satisfaction of ADB:

I. Establishing a Policy Reform and Implementation Framework

1. KVIC shall have ensured the completion of the audit for fifty (50) eligible Khadi institutions by independent auditors.
2. KVIC shall have disseminated the Khadi Reform Package nationwide through workshops.

II. Promoting and Marketing of Khadi

3. KVIC shall have developed the Khadi mark, including designing its logo, and shall have registered the Khadi mark under the Trade Marks Act.
4. KVIC shall have undertaken (a) the formulation and execution of the MOU with the Ministry of Textiles for testing infrastructure; (b) the formulation and execution of the model agreement for licensing the use of Khadi mark; (c) the development of the detailed plan for the creation of basic testing infrastructure for Khadi mark at KVIC; and (d) the arrangement for managing Khadi mark by KVIC state/divisional offices.
5. KVIC shall have adopted the procedures and assigned its Khadi directorate to grant usage of Khadi mark to Khadi institutions and other entities.
6. KVIC through its Khadi directorate shall have ensured that the Khadi institutions registered at either KVIC or KVIB adopt the Khadi mark.
7. KVIC shall have identified potential private partners for the establishment of the new marketing organization and shall have ensured the incorporation of the marketing organization.
8. KVIC shall have transferred the rights of promotion and usage of Khadi mark to the marketing organization under a licensing agreement.
9. The Borrower through the Program Executing Agency shall have issued a directive to allow KVIC to provide capital contribution for the establishment of the joint-venture marketing organization.
10. The marketing organization shall have commissioned a product specific market survey of Khadi and village industries products through a specialist firm.
11. The Borrower through the Program Executing Agency shall have developed the Khadi marketing extension program for incentivizing the establishment of the new DSOs by the marketing organization.

III. Realizing Procurement and Production Efficiencies

12. KVIC shall have conducted training for the three hundred (300) eligible Khadi institutions on quality testing of raw materials.
13. KVIC shall have executed PPP agreements, on pilot basis, in two (2) CSPs.
14. KVIC shall have issued a notification to allow Khadi institutions to set market-linked prices.
15. KVIC shall have formulated the benefit chart.
16. KVIC shall have formulated the production incentive plan and provides production incentive to all Khadi products.
17. KVIC shall have reassessed working capital requirement for Khadi production.
18. KVIC shall have appointed a focal person to engage with the bankers to enhance access of the Khadi institutions to working capital.
19. KVIC shall have developed the framework for producer company model and enterprise for new ventures in Khadi.

IV. Institutional Reforms

20. KVIC shall have (a) restructured its Khadi directorates, village industry directorates, science and technology directorates, and economic research directorates; (b) strengthened the human resource and administration directorates; (c) realigned reporting relationships for efficiency; and (d) devolved power to zonal offices.
21. KVIC shall have (a) reviewed the existing structures and processes for the certification of the Khadi institutions; and (b) issued appropriate guidelines to empower a committee within the directorates of KVIC with the authority for the certification of Khadi institutions, under the guidance and advice of the central certification committee.
22. KVIC shall have developed the staffing norms consistent with the Khadi Reform Package.
23. KVIC shall have developed an integrated management information system.
24. KVIC shall have developed IT/e-governance roadmap, infrastructure requirements, and linkage of IT/IS strategy to the Khadi Reform Package.
25. The Borrower through the Program Executing Agency shall have reviewed the functions of the marketing directorate of KVIC.
26. KVIC shall have modified categorization norms for Khadi institutions and re-categorize Khadi institutions using the modified norms.

27. KVIC shall have adopted the comprehensive reforms plan to empower and revitalize the three hundred (300) eligible Khadi institutions.
28. KVIC shall have signed with fifty (50) eligible Khadi institutions the MOUs for comprehensive Khadi institution reforms.
29. KVIC shall have completed (a) the assessment of existing training arrangements (infrastructure, capacity of trainers, curriculum, and demand for training); and (b) based on the assessment, the comprehensive plan for (i) demand driven training delivery, (ii) the creation of linkages with external training program, (iii) the upgrading of physical infrastructure, and (iv) the enhancement of the skills of training staff.
30. KVIC shall have identified around five thrust traditional village industries based on the market survey by the marketing organization.
31. In coordination with the marketing organization, KVIC shall have formulated the cluster development strategy for the identified village industries.

Conditions for Release of the Third Tranche

In order to release the Third Tranche, the First Tranche and the Second Tranche conditions shall continue to be complied with and the following conditions shall have been complied to the satisfaction of ADB:

I. Establishing a Policy Reform and Implementation Framework

1. KVIC shall have (a) undertaken the first independent assessment of the Khadi Reform Package; (b) held a stakeholder consultation on the outcome of the assessment; and (c) prepared appropriate measures to address the feedback.
2. KVIC shall have ensured the completion of the audit of remaining two hundred fifty (250) eligible Khadi institutions by independent auditors.

II. Promoting and Marketing of Khadi

3. KVIC through its Khadi directorate shall have prepared and maintained a list of Khadi institutions and other entities authorized to use Khadi mark and publish this in its website.
4. KVIC shall have created the basic testing infrastructure for the Khadi mark.
5. KVIC shall have conducted random spot audits of Khadi institutions and other entities authorized to use Khadi mark regarding their adherence to the licensing requirements for the use of Khadi mark.
6. The marketing organization shall have (a) developed the framework for introducing PPP in DSOs operated by KVIC; and (b) introduced PPPs in two (2) DSOs operated by KVIC.
7. Based on the outcome of the survey, the marketing organization shall have identified products for both domestic and international markets and develop marketing strategies for all Khadi related institutions and products.
8. The marketing organization shall have prepared a product catalogue and sets up the market information system.
9. The marketing organization shall have developed and implemented the plan to rejuvenate the institutional sales outlets.
10. The marketing organization shall have established three DSOs under the Khadi markets extension program.

III. Realizing Procurement and Production Efficiencies

11. KVIC shall have (a) assessed PPP in CSPs; and (b) identified the success factors and the issues to be resolved in the next phase of PPP.
12. KVIC shall have developed the sliver capacity augmentation plan for the Khadi institutions;
13. KVIC shall have notified the benefit chart and the requirement for the benefit chart to be implemented by the three hundred (300) eligible Khadi institutions.
14. In consultation with the marketing organization, KVIC shall have (a) determined the product categories that can be phased out of the production incentives and shall have commenced its phasing out; and (b) assessed the impact on sales as a result of this.
15. KVIC shall have commenced the phasing out of the ISEC, in line with the production incentives phase out.
16. KVIC shall have implemented the producer company model and the enterprise model for new ventures in Khadi.

IV. Institutional Reforms

17. KVIC shall have reallocated resources based on the staffing norms and manpower planning.
18. KVIC shall have implemented the management information system.
19. KVIC shall have implemented the integrated application system.
20. KVIC shall have incorporated the marketing directorate as one of divisions within the strategic planning cell.
21. KVIC shall have ensured that fifty (50) eligible Khadi institutions implement the comprehensive reforms plan.
22. KVIC shall have signed with two hundred fifty (250) eligible Khadi institutions the MOUs for comprehensive Khadi institution reforms.
23. KVIC shall have implemented the comprehensive capacity building plan.
24. KVIC shall have periodically published in its website the training calendar with inputs from the marketing organization.
25. KVIC shall have ensured the establishment of one (1) cluster for each of the identified village industry.
26. KVIC shall have ensured the implementation of the comprehensive capacity building plan in the identified clusters.

Conditions for Release of the Fourth Tranche

In order to release the Fourth Tranche, the First Tranche, the Second Tranche and Third Tranche conditions shall continue to be complied with and the following conditions shall have been complied to the satisfaction of ADB:

I. Establishing a Policy Reform and Implementation Framework

1. KVIC shall have (a) undertaken the second independent assessment of the Khadi Reform Package; (b) held a stakeholder consultation on the outcome of the assessment; and (c) prepared appropriate measures to address the feedback.

II. Promoting and Marketing of Khadi

2. KVIC through its Khadi directorate shall have updated the list of Khadi institutions and other entities authorized to use the Khadi mark.

3. KVIC shall have continued to conduct random spot audits of Khadi institutions regarding the adherence to licensing requirements for the use of Khadi mark.

4. The marketing organization shall have introduced PPPs in at least two (2) other willing DSOs operated by KVIC, in consultation with KVIC.

5. The marketing organization shall have continued the implementation of the plan to rejuvenate the institutional sales outlets.

6. The marketing organization shall have formulated guidelines for the setting up of new sales outlets by Khadi institutions.

7. The marketing organization shall have established a minimum of ten (10) DSOs under the Khadi marketing extension program.

III. Realizing Procurement and Production Efficiencies

8. KVIC shall have executed PPP agreements in the remaining CSPs.

9. KVIC shall have monitored and assessed the effectiveness of the implementation of the benefit chart.

10. In consultation with the marketing organization, KVIC shall have continued the phasing out of production incentives on other categories of products and assess the impact on sales as a result of this.

11. KVIC shall have continued the phasing out of ISEC on other categories of products in line with production incentives phase out.

12. KVIC shall continue to implement the producer company model and the entrepreneurial model for new ventures in Khadi.

IV. Institutional Reforms

13. KVIC shall have examined and reviewed the role and relevance of the central certification committee in the certification process of the Khadi institutions.

14. KVIC shall have ensured that the additional two hundred fifty (250) eligible Khadi institutions shall have implemented the comprehensive reforms plan.

15. KVIC shall have evaluated the performance of the three hundred (300) eligible Khadi institutions.

16. KVIC shall have continued the implementation of the comprehensive capacity building plan.

17. KVIC shall have monitored the performance of the clusters.

SCHEDULE 4

Procurement

1. Except as ADB may otherwise agree, the procedures referred to in the following paragraphs of this Schedule shall apply in the procurement of Eligible Items to be financed out of the proceeds of the Loan.

2. (a) Except as provided in paragraph 2(b) below, each contract for Eligible Items shall be awarded on the basis of either the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.

(b) Each supply contract for Eligible Items which are commonly traded commodities shall be awarded on the basis of procedures appropriate to the trade and acceptable to ADB.

SCHEDULE 5

Program Implementation and Other Matters

Program Management

1. MMSME shall be the Program Executing Agency and be responsible for the overall implementation of the Program. MMSME shall set up a RIMC to be chaired by the Secretary of MMSME. The members of the RIMC shall consist of representatives from the DEA, the Ministry of Textiles, and KVIC as well as a marketing expert from the Confederation of Indian Industry and a financial expert from the banking sector. The RIMC shall assume the function of the Program steering committee and undertake the following tasks: (a) provide policy and technical guidance to the RID; (b) review the progress of Program implementation; (c) monitor the performance of the RID, and RMUs; and (d) ensure effective Program coordination. The RIMC shall meet at least on quarterly basis.

2. KVIC shall be the Implementing Agency and be responsible for the implementation of many of the policy actions set out under the Program. KVIC shall establish the RID to be headed by a director of KVIC with sufficient knowledge and experience in the KVI-related program initiated by KVIC. The RID director shall report to the chief executive officer of KVIC. The RID shall have four subdivisions: (a) promotion and marketing; (b) the raw material procurement and production; (c) institutional reform; and (d) Program coordination and administration. KVIC shall assign thirteen (13) officers and seven (7) administrative staff members to RID.

3. Within one (1) month of the Effective Date, KVIC shall establish Reform Management Units (RMUs) at the state/divisional office of KVIC to manage and monitor the Program implementation at the Khadi institution level. KVIC shall ensure that each RMU shall be headed by someone at an assistant director level within KVIC and at least one (1) KVIC officer shall be assigned to support the RMU heads. KVIC shall ensure that the RMUs coordinate with the Khadi institutions and facilitate monitoring and implementation of the reforms.

Program Implementation

4. The Borrower through the Program Executing Agency shall, and shall cause KVIC to: (a) promptly adopt and implement the policies and the actions included in the Program as specified in the Policy Letter and the Policy Matrix; and (b) ensure that such policies and actions continue in effect during and subsequent to the period of the Program.

5. The Borrower through the Program Executing Agency shall, and shall cause KVIC to fulfill the agreed policies and actions under the Program in accordance with the agreed implementation schedule, to ensure that the loan tranches are released in a timely manner.

6. The Borrower through the Program Executing Agency shall, and shall cause KVIC to ensure that all activities, documents, and enactments required under the Program shall be prepared in consultation with the relevant stakeholders and their feedback shall be incorporated, as appropriate.

7. In case of natural calamities and unforeseen circumstances that affect the equity and liquidity of KVIC, the Borrower through the Program Executing Agency shall immediately consult ADB and prepare a remedial action plan for the Program to be mutually agreed between ADB and the Borrower.

Khadi Policy Reforms

8. The Borrower through the Program Executing Agency shall, and shall cause KVIC to ensure that the reforms under the Program, including institutional, legal and financial reforms under the Khadi Reform Package are formulated, finalized, and implemented to the satisfaction of ADB.

9. The Borrower through the Program Executing Agency shall, and shall cause KVIC to ensure that (a) the marketing organization to be established for the purpose of facilitating product development and the marketing of Khadi products shall be incorporated through a joint venture between KVIC and private entity(ies) with KVIC having no more than forty nine (49) percent shares in the marketing organization; and (b) at least fifty (50) percent of the board members of the marketing organization should consist of independent directors who are renowned specialists in their respective field.

10. Prior to the completion of the Program, the Borrower through the Program Executing Agency shall cause KVIC to reorganize all artisans into self help groups and KVIC shall proactively provide required training support to the group to enable the groups to constructively serve the purpose of the artisans.

11. Prior to the completion of the Program, the Borrower through the Program Executing Agency shall cause KVIC to ensure that (a) at least fifty (50) percent of the governing board of the Khadi institution shall be representatives of the artisans; and (b) the criteria for the selection of the other members of the governing board shall be based on good governance practices.

Marketing organization

12. KVIC shall agree not to issue any discriminatory instructions or guidelines that may affect the access of the marketing organization to (a) any Khadi institutions and their sales outlets; and (b) the DSOs, for the purpose of their promotional or marketing ties, procurement arrangements, wholesale, and export activities.

13. KVIC shall agree not to influence, directly or indirectly, the business decisions of the Khadi institutions, DSOs or other agencies with regard to their business activities with the marketing organization.

14. KVIC shall provide the marketing organization with access to the promotion of the Khadi Mark and other trade marks registered under its name.

15. KVIC shall provide support and facilitation as required and requested by the marketing organization during the Program implementation period.

16. KVIC shall agree for the marketing organization to implement the marketing related reforms under the Program for the Khadi institutions.

17. KVIC shall ensure that all new DSOs shall be established by the marketing organizations.

18. Upon the operationalization of the marketing organization, KVIC shall utilize the bulk of its marketing budget for promotional and developmental activities in a phased manner during the Program implementation period.

Counterpart funds

19. (a) Immediately after the Effective Date, the Borrower through the Program Executing Agency shall establish, in a manner satisfactory to ADB, a Special Account at a commercial bank acceptable to ADB for the specific purpose of depositing and utilizing the Counterpart Funds.

(b) Whenever the Borrower through the Program Executing Agency withdraws proceeds of the Loan from the Loan Account, the Borrower shall promptly deposit into the Special Account the Rupees amounts equivalent to the amount of the proceeds so withdrawn.

(c) Separate accounts and records in respect of the Special Account shall be maintained in accordance with consistently maintained sound accounting principles and shall be audited annually by independent auditors acceptable to ADB in accordance with sound auditing standards. Certified copies of such audited accounts and records shall be furnished to ADB promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, or not later than six (6) months after the date of the closing of the Loan Account, as the case may be.

20. The Borrower through the Program Executing Agency shall ensure that the Counterpart Funds shall be used for the adjustment costs associated with the reforms introduced under the Program for KVIC and Khadi institutions and shall be allocated for the purpose of the (a) adjustment costs related to policy and institutional reforms, including Khadi Mark and synergy with village industries in the amount of forty eight million Dollars (\$48,000,000); (b) adjustment costs related to marketing reforms in the amount of twenty seven million Dollars (\$27,000,000); and (c) adjustment costs related to the strengthening of Khadi Institutions in the amount of seventy five million Dollars (\$75,000,000), and as further set out in the table in supplementary appendix M of the RRP.

Information Sharing

21. The Borrower through the Program Executing Agency shall, and shall cause KVIC to regularly exchange views and information with ADB on any problems and constraints encountered during Program implementation and seek proper resolution to address these problems and constraints.

Technical Assistance

22. The Borrower through the Program Executing Agency shall, and shall cause KVIC to ensure that in the carrying out of the policy measures and the activities included under the Program, the recommendations made under the Technical Assistance are duly considered for appropriate adoption in a timely manner and in consultation with ADB.

Environment and social safeguards

23. The Borrower shall, and shall cause KVIC to ensure that all activities under the Program shall be carried out in accordance with all applicable environmental laws and regulations of the Borrower and ADB's *Environmental Policy* (2002).

24. The Borrower shall, and shall cause KVIC to ensure that under the Program no persons shall be (a) adversely affected in terms of ADB's *Involuntary Resettlement Policy* (1995), and applicable laws and regulations of the Borrower related to resettlement and rehabilitation; and (b) affected in terms of ADB's *Policy on Indigenous Peoples* (1998) and related laws and regulations of the Borrower.

Accounting, Auditing, and Reporting

25. KVIC through RID shall prepare quarterly progress reports and submit them to ADB within twenty (20) days of the end of the applicable period. The reports shall be prepared in a format acceptable to ADB and include (a) the status of institutional development activities; (b) delays and problems encountered and actions taken to resolve them; (c) compliance with loan covenants; and (d) expected progress during the next three (3) months. Within three (3) months of the completion of the Program, KVIC shall prepare and submit to ADB through the Program Executing Agency, a Program completion report.

Program Performance Monitoring and Evaluation

26. KVIC through the RID shall establish and maintain the Program performance management system to include a database on the progress status of the policy measures and other Program indicators.

Program Review

27. ADB and the Borrower shall conduct semiannual reviews throughout the implementation of the program to identify further actions required for the continued development of the Khadi sector. Within eighteen (18) months of the Effective Date, ADB and the Borrower shall undertake the midterm review for the Program to (a) review compliance status of the third tranche conditions; (b) status and implementation of policies; (c) status and implementation of reforms; (d) initial lessons learned; and (e) note the progress in achieving the indicators in the design and monitoring framework.