

---

LOAN NUMBER 2617-IND

LOAN AGREEMENT  
(Ordinary Operations)

(Micro, Small and Medium Enterprise Development Project)

between

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

and

ASIAN DEVELOPMENT BANK

DATED 19 MARCH 2010

---

LAL:IND 43158

**LOAN AGREEMENT  
(Ordinary Operations)**

LOAN AGREEMENT dated 19 March 2010 between ASIAN DEVELOPMENT BANK (ADB) and SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (the Borrower).

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Section 3.01 of this Loan Agreement;

(B) India (the Guarantor) has agreed to guarantee the loan under the terms of a Guarantee Agreement of even date herewith; and

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

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 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.

(b) 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.

(c) 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.

- (d) Section 6.03 is deleted and the following is substituted therefor: **Application for Withdrawal.** When the Borrower shall desire to withdraw any amount from the Loan Account or to request ADB to issue commitment letters pursuant to Section 6.02, the Borrower shall deliver to ADB an application in such form and containing such statements and agreements, as ADB shall reasonably request. Except as ADB and the Borrower shall otherwise agree, applications for withdrawal, with the necessary documentation as hereinafter in this Article provided, shall be made promptly in relation to expenditures for the Qualified Subprojects.
- (e) Section 7.07(c) is deleted.

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) "Capital Adequacy Ratio" means at any time, the ratio by which a PFI's own capital bears to its risk-weighted assets as such terms are interpreted in accordance with and subject to regulations and guidelines issued from time to time by RBI;

(b) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;

(c) "ESMS" means the environmental and social management system prepared in accordance with ADB's *Environmental Policy (2002)*, *Involuntary Resettlement Policy (1995)*, *Policy on Indigenous Peoples (1998)*, the Guarantor's policies, laws and regulations, safeguard policies of other development partners, and set out in Appendix 7 to the RRP, as amended from time to time;

(d) "Goods" means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(e) "Gross Non-Performing Loans" means total non-performing loans of a PFI as determined pursuant to RBI regulations and guidelines applicable to the PFI from time to time;

(f) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2007, as amended from time to time);

(g) "MFI" means a micro finance institution which satisfies the relevant criteria set out in paragraph 7 of Schedule 3 to this Loan Agreement;

(h) "MSME" means micro, small and medium size enterprises as defined in the MSME Act 2006 of the Guarantor;

(i) "MSME Act" means the Micro, Small and Medium Enterprises Act 2006 of the Guarantor, as amended from time to time;

(j) "NBFC" means a non-banking finance company registered as such with RBI;

(k) "Net Owned Funds" means, in respect of a PFI, at any time, the aggregate of:

(i) the amount of its stated capital; and

(ii) the amount standing to the credit of its capital and revenue reserves, based on the latest published audited balance sheet, but adjusted by:

(a) adding any amount standing to the credit of its profit and loss account for the period ending on the date of the latest balance sheet to the extent not already included;

(b) deducting any dividend or other distribution declared, recommended or made by the PFI;

(c) deducting any amount standing to the debit of its profit and loss account for the period ending on the date of the latest balance sheet;

(d) deducting any amount attributable to goodwill or any other intangible asset;

(e) reflecting any variation in the amount of its stated capital after the date of the latest balance sheet;

(f) reflecting any variation in the interest of the PFI in any other member of its group since the date of the latest balance sheet;

(g) excluding any amount attributable to deferred taxation; and

(h) excluding any amount attributable to minority interests;

(l) "Participation Agreement" means the agreement between the Borrower and each PFI pursuant to which the PFI shall onlend the proceeds of the Loan as a Subloan to a Qualified Enterprise for a Qualified Subproject;

(m) "PFI" means a participating financial institution which may be a Scheduled Bank, a NBFC or a MFI and which, in each case, satisfies the relevant eligibility criteria set out in paragraph 7 of Schedule 3 to the Loan Agreement;

(n) "PMD" means the Project Management Division of the Borrower referred to in paragraph 2 of Schedule 3 to this Loan Agreement;

(o) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;

(p) "Project" means the project described in Section 3.01 of this Loan Agreement;

(q) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Borrower;

(r) "Qualified Enterprise" means an enterprise, which satisfies the selection criteria set out in paragraph 8 of Schedule 3 to this Loan Agreement, to which the Borrower proposes to make or has made a Subloan;

(s) "Qualified Subproject" means a specific project which satisfies the selection criteria set out in paragraph 9 of Schedule 3 to this Loan Agreement, to be carried out by a Qualified Enterprise utilizing the proceeds of a Subloan;

(t) "RBI" means the Reserve Bank of India;

(u) "RRP" means ADB's Report and Recommendation of the President to the Board of Directors for this Project;

(v) "Rupees" or "Rs" means the currency of the Guarantor;

(w) "Scheduled Banks" means banks that are included in the Second Schedule of the Reserve Bank of India Act 1934 of the Guarantor, from time to time and at any time;

(x) "SIDBI Act" means The Small Industries Development Bank of India Act 1989 of the Guarantor, as amended from time to time;

(y) "Subloan" means a loan made or proposed to be made by the Borrower, directly or through a PFI, out of the proceeds of the Loan to a Qualified Enterprise for a Qualified Subproject;

(z) "Targeted States" means the states of Andhra Pradesh, Assam, Bihar, Jharkhand, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Rajasthan, Tamil Nadu, Uttar Pradesh and West Bengal, of the Guarantor; and

(aa) "Works" means construction or civil works to be financed out of the proceeds of the Loan, and including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## ARTICLE II

### The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of fifty million Dollars (\$50,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.07 of this Loan Agreement.

(b) The Loan has a principal repayment period of 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 1 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 provided 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 a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date this Loan Agreement is executed.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 15 July and 15 January 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 1 to this Loan Agreement.

Section 2.06. Except as ADB may otherwise agree, if a Subloan or any part thereof shall be repaid to the Borrower in advance of maturity, or if a Subloan or any part thereof shall be sold, transferred, assigned or otherwise disposed of by the Borrower, the Borrower may utilize the proceeds thereof for making further Subloans to Qualified Enterprises for Qualified Subprojects under the terms of this Loan Agreement.

Section 2.07. (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**

#### **Description of Project; Use of Proceeds of the Loan**

Section 3.01. (a) The Project for which the Loan is made is the financing by the Borrower of specific MSME subprojects by making, directly or through PFIs, Subloans to Qualified Enterprises for Qualified Subprojects in the Targeted States, all in accordance with the SIDBI Act, the MSME Act and this Loan Agreement.

(b) In the event of any change in the Guarantor, the Borrower, and ADB will assess the potential impact on the Project and evaluate any change in scope, amendment, or continuation, as appropriate, of the Project.

Section 3.02. (a) The Borrower shall apply at least 30% of the proceeds of the Loan, in Rupee equivalent to making Subloans directly to Qualified Enterprises for Qualified Subprojects.

(b) The Borrower shall relend, in aggregate, up to 70% of the proceeds of the Loan, in Rupee equivalent to PFIs under Participation Agreements upon terms and conditions mutually acceptable to ADB and the Borrower, and cause the PFIs to apply the proceeds of the Loan to the financing of Subloans to Qualified Enterprises for Qualified Subproject, in accordance with the provisions of this Loan Agreement.

(c) Each Participation Agreement shall be in form and on terms and conditions mutually acceptable to ADB and the Borrower, and shall be without prejudice to, and without limitation on, the obligations of the Borrower under this Loan Agreement. Except as ADB may otherwise agree, the terms for relending the Rupee equivalent proceeds of the Loan to the PFIs shall include interest at market rates that reflect costs of funds plus a spread that covers transactional costs and risk adjusted returns, and a repayment period not exceeding 15 years.



Section 3.03. (a) Except as ADB may otherwise agree, the proceeds of the Loan shall be used only for making Subloans to Qualified Enterprises and shall be applied exclusively to the cost of Goods, Works and consulting services and other items of expenditure required to carry out the Qualified Subprojects in respect of which such part of the Loan was withdrawn.

(b) Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 3.04. Withdrawals from the Loan Account in respect of Goods, Works and consulting services shall be made only on account of expenditures relating to

(a) Goods which are produced in and supplied from and services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and

(b) Goods, Works and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.05. The closing date for withdrawals from the Loan Account for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2015 or such other date as may from time to time be agreed between ADB and the Borrower.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. (a) The Borrower shall and shall ensure that the PFIs shall, carry out the Project with due diligence and efficiency and in conformity with sound banking, administrative, financial, environmental, developmental and business practices.

(b) In the carrying out of the Project and in the conduct of its business, the Borrower shall perform, or cause to be performed, all the obligations set forth in Schedule 3 to this Loan Agreement.

Section 4.02. The Borrower shall at all times make adequate provision to protect itself against any loss resulting from changes in the rate of exchange between Rupees and the Dollar.

Section 4.03. The Borrower shall not, and shall ensure that no PFI shall, make a Subloan to any Qualified Enterprise unless such Qualified Enterprise has at its disposal, or has made appropriate arrangements to obtain as and when required, all local currency funds, including adequate working capital, and other resources which are required by such Qualified Enterprise for the carrying out of its Qualified Subproject in respect of which the Subloan is to be made.

Section 4.04. (a) The Borrower shall promptly take such actions as necessary to enable the PFIs to perform their obligations under the Participation Agreements. The Borrower shall not take or permit any action which would interfere with performance by the PFIs of such obligations.

(b) The Borrower shall exercise its rights under each Participation Agreement, in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(c) No rights or obligations under the Participation Agreements, that has an adverse impact on the Project or contravenes the provisions of this Section, shall be assigned, amended, or waived without the prior concurrence of ADB.

Section 4.05. The Borrower shall maintain records and accounts adequate to record the progress of each Qualified Subproject (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the Borrower, as part of the records and accounts referred to in Section 6.04 of the Loan Regulations.

Section 4.06. The Borrower shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Qualified Enterprises, the Qualified Subprojects and the Subloans; and (ii) the administration, operations and financial conditions of the PFIs, as part of the reports and information referred to in Section 7.04(a) of the Loan Regulations.

Section 4.07. (a) The Borrower shall have its accounts and financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and shall, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, furnish to ADB (i) certified copies of such audited accounts and financial statements and (ii) the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of this Loan Agreement), all in the English language. The Borrower shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Borrower shall enable ADB, upon ADB's request, to discuss the Borrower's financial statements and its financial affairs from time to time with the auditors appointed by the Borrower pursuant to Section 4.07(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Borrower.

Section 4.08. The Borrower shall enable ADB's representatives to review and examine any Qualified Enterprise, any Qualified Subproject, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents maintained by the Borrower.

Section 4.09. (a) The Borrower shall, and shall procure that each PFI shall, promptly as required, take all action within its powers to maintain its corporate or

institutional existence as applicable, to carry on its operations and to acquire, maintain and renew all rights, properties, powers, privileges and licenses which are necessary in the carrying out of the Project or in the conduct of its business.

(b) The Borrower shall at all times conduct its business in accordance with sound administrative, financial, environmental, developmental and business practices, and under the supervision of competent and experienced management and personnel.

Section 4.10. Withdrawals from the Loan Account may be made for reimbursement of reasonable expenditures incurred under the Project before the Effective Date, but not earlier than 6 months before the date of this Loan Agreement, subject to a maximum amount equivalent to 20 percent of the Loan amount; provided (i) such expenditures shall have been incurred in full compliance with the Procurement Guidelines, and safeguards policies, and (ii) suitable provisions shall be included in the existing Subloan agreements to reflect the relevant provisions of this Loan Agreement.

## **ARTICLE V**

### **Suspension; Acceleration of Maturity**

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower by prior notice to the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations: the SIDBI Act or the MSME Act, or any provision thereof, shall have been repealed, suspended, amended or modified in any manner that in the reasonable opinion of ADB will or may adversely affect the carrying out of this Loan Agreement.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any of the events specified in Section 6.01 of this Loan Agreement shall have occurred.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. A date 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 VII**

**Miscellaneous**

Section 7.01. The Chairman and Managing Director 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 ADB

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

Facsimile Numbers:

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

For the Borrower

Small Industries Development Bank of India  
MSME Development Centre  
Resources Management Department  
4th Floor, Plot No.C-11, 'G' Block,  
Bandra Kurla Complex Bandra (East),  
Mumbai - 400 051, India

Facsimile Number:

(0091)-22-67531282.

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.

ASIAN DEVELOPMENT BANK



By \_\_\_\_\_

HUN KIM  
Country Director

SMALL INDUSTRIES DEVELOPMENT BANK  
OF INDIA



By \_\_\_\_\_

R.M. MALLA  
Chairman and Managing Director

**SCHEDULE 1****Amortization Schedule****(Micro, Small and Medium Enterprise Development Project)**

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.

Sequence	Date Payment Due	Installment Share (Expressed as a % based straight line method)
1	15 Jul 2013	4.166667
2	15 Jan 2014	4.166667
3	15 Jul 2014	4.166667
4	15 Jan 2015	4.166667
5	15 Jul 2015	4.166667
6	15 Jan 2016	4.166667
7	15 Jul 2016	4.166667
8	15 Jan 2017	4.166667
9	15 Jul 2017	4.166667
10	15 Jan 2018	4.166667
11	15 Jul 2018	4.166667
12	15 Jan 2019	4.166667
13	15 Jul 2019	4.166667
14	15 Jan 2020	4.166667
15	15 Jul 2020	4.166667
16	15 Jan 2021	4.166667
17	15 Jul 2021	4.166667
18	15 Jan 2022	4.166667
19	15 Jul 2022	4.166667
20	15 Jan 2023	4.166667
21	15 Jul 2023	4.166667
22	15 Jan 2024	4.166667
23	15 Jul 2024	4.166667
24	15 Jan 2025	4.166659
	Total	100.000000

Schedule 1

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 2 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: (a) 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 (b) 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 2****Procurement of Goods and Works, and Consulting Services****A. General**

1. All Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively as applicable to financial intermediaries.
2. All terms used and not otherwise defined in this Schedule 2 to this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

**B. Procurement for Goods and Works; Selection of Consulting Services**

3. The Borrower shall cause, and ensure that the PFIs shall cause, Qualified Enterprises to: (a) ensure that the Goods and Works to be financed by Subloans shall be purchased at a reasonable price, due account also being taken of relevant factors such as economy and efficiency, time of delivery, efficiency and reliability of the goods, and their suitability for the Qualified Subproject and, in the case of consulting services, of their quality and the competence of the parties rendering them, and (b) adopt, to the extent possible, internationally competitive bidding procedures when the amount of the investment is unusually large and economy and efficiency can be gained by following such procedures.

**C. Industrial or Intellectual Property Rights**

4. (a) To the extent applicable, the Borrower shall cause Qualified Enterprises to ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.  
  
(b) To the extent applicable, the Borrower shall cause Qualified Enterprises to ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.



### SCHEDULE 3

#### Execution of Project; Financial Matters

##### Implementation Arrangements

1. The Borrower as the Project Executing Agency shall be responsible for overall execution, coordination, and supervision of the Project. The board of directors of the Borrower shall provide policy direction and strategic oversight for the Project.
2. The Borrower shall ensure that its PMD shall be responsible for the duration of the Project for the day to day Project implementation and the monitoring and supervision of the Project activities. The PMD shall have dedicated experienced and qualified staff and the necessary resources to properly and timely carry out its functions as required under this Loan Agreement.
3. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.
4. The statement of expenditures procedure may be used for reimbursement of eligible expenditures in accordance with Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be reimbursed or liquidated under the statement of expenditure procedure shall not exceed the equivalent of \$100,000.
5. No withdrawals shall be made from the Loan Account unless and until the Borrower has ensured compliance with the eligibility criteria for the PFIs, Qualified Enterprises, and Qualified Subprojects as set out in the Loan Agreement. ADB reserves the right to disallow withdrawals from the Loan Account in respect of any subloan which does not comply with eligibility criteria in respect of Subloans, Qualified Enterprises or Qualified Subprojects as set out in this Loan Agreement.
6. Repayments from Qualified Enterprises in respect of Subloans shall be re-lent to MSMEs so as to ensure that the outstanding amount of MSME lending by the Borrower at any time and from time to time shall be higher than the amount then outstanding in respect of the Loan.

##### PFI Eligibility

7.
  - A. PFIs that are Scheduled Banks shall comply with the following requirements:
    - (a) Each Scheduled Bank must have (i) lending policies and strategy related to MSMEs, and (ii) a track record of performance in MSME sector/micro finance lending.

(b) Each Scheduled Bank shall be in compliance with all applicable prudential regulations and guidelines of RBI, including but not limited to: (i) minimum Capital Adequacy Ratio as stipulated by RBI from time to time; (ii) have earned profits during the last three years; (iii) Net Owned Funds of at least Rs.500 million; (iv) eligibility of loan amount equivalent to outstanding MSME portfolio against which no financial support has been sought from any other institution or refinance from the Borrower; (v) Gross Non-Performing Loans shall not exceed 6%; and (iv) acceptable anti money-laundering procedures in place. In addition, in case a financial instrument has been issued by the Scheduled Bank then it must at least have a domestic credit rating of A or equivalent, issued by a credit rating agency acceptable to ADB, which is to be maintained for the duration of the Project.

(c) Each Scheduled Bank shall demonstrate compliance with RBI's measures for corporate governance of banks and financial institutions, which includes (i) corporate governance structures that promote effective identification, monitoring, and management of all material business risks; (ii) systems for ensuring compliance with all statutory and regulatory requirements; (iii) implementation of financial disclosure requirements for market participants and observers; and (iv) setting of corporate governance objectives, strategies, and techniques.

(d) Each Scheduled Bank shall demonstrate capability for proper risk management with adequate processes and/or procedures (e.g., credit risk manual) that cover the necessary (i) credit risk, (ii) asset liability risk, and (iii) operational risk. Each Scheduled Bank shall have a control structure and capacity to systematically evaluate/conduct credit risk appraisal, asset-liability management, internal control and compliance, as well as market risks (e.g., interest rate risk and foreign exchange risk).

(e) Each Scheduled Bank shall agree to have an environmental and social safeguards management system within an appropriate timeframe, designed to identify, remedy, and monitor subprojects' compliance according to national laws and ADB's environmental and social safeguard policies.

B. (a) PFIs that are NBFCs shall be registered with RBI for a minimum period of 3 years and shall have (i) Net Owned Funds of at least Rs.50 million; (ii) Capital Adequacy Ratio minimum of 12% (or as prescribed by RBI from time to time); and (iii) Gross Non-Performing Loans not exceeding 6%. In addition, the Borrower's internal rating tools should rate the NBFC as minimum CR4.

(b) PFIs that are MFIs shall have (i) been established for at least 5 years and/or have a demonstrated track record of running a successful micro-credit programme at least 3 years; (ii) achieved a minimum outreach of 3,000 poor members or has demonstrated the capability to reach this scale within a period of next 12 months; (iii) a satisfactory and transparent accounting, management information and internal audit systems or is willing to adopt such practices with the Borrower's assistance; and (iv) their accounts audited by an external auditor annually or agree to do so immediately after receipt of the Borrower's advance.

(c) Any new NBFC or MFI that wishes to initiate a micro credit programme may also be considered as a PFI by the Borrower, if such NBFC or MFI has been promoted and/or managed by experienced professionals with experience of at least 3 years in micro credit and/or banking or social and/or financial intermediation. With the exception of MFIs, all such NBFCs will have to have been duly registered with RBI and rated by the Borrower's internal rating tools as minimum CR4. .

#### Qualified Enterprise

8. Each Qualified Enterprise shall either be a start-up MSME or an existing MSME undertaking expansion, modernization or diversification.

#### Qualified Subproject

9. A Qualified Subproject shall:
- (i) be economically and financially viable;
  - (ii) be for start-up, expansion, modernization or diversification activities in any of the eligible subsectors as agreed between the Borrower and ADB;
  - (iii) comply with the Borrower's and ADB's environmental and social safeguard policies;
  - (iv) not involve financing of items or activities on ADB's list of Prohibited Investment Activities List, as set out in Supplementary Appendix C to the RRP; and
  - (v) be in one of the Targeted States.

#### Subloan

10. The Borrower shall ensure that any Subloan shall not finance more than 90% of the cost of the Qualified Subproject.

11. Subject to the provisions of paragraph 10 of this Schedule 3 to the Loan Agreement, the Borrower shall not approve any Subloan which is below Rs. 50,000 or more than Rs. 1,000,000 for a single borrower, or has a term exceeding 7 years.

12. The Borrower shall ensure that it shall apply all relevant appraisal systems in respect of any proposed subloan to be financed from the proceeds of the Loan, which will utilize an internal rating system, credit appraisal and rating tool for smaller Subloans and a rating appraisal model for larger Subloans. Such appraisal system shall include a qualitative assessment of the Qualified Enterprises' credentials and background and quality of management. The Borrower shall, and shall procure that the PFIs shall, ensure that it charges interest on Subloans at rates that reflect their cost of funds plus a spread that covers transaction costs and risk adjusted returns.

13. The Borrower shall ensure and shall procure that the PFIs shall ensure that qualified female entrepreneurs are given preference in accessing financing under the Project. In addition, the Borrower shall ensure that in respect of its direct lending under the Project, a minimum of 30% of its Subloans shall be provided to women entrepreneurs.

14. The Borrower shall ensure a wide geographical and sectoral dispersion of the Subloans within the Targeted States and give preference to underdeveloped areas and priority sectors as agreed with ADB.

#### Safeguards

15. The Borrower shall ensure and shall cause that each PFI shall ensure, that no Qualified Subproject is financed that could have a significant adverse environmental impact, and which can be classified as a Category A subproject pursuant to ADB's *Environment Policy* (2002), or which could have any resettlement impact under ADB's *Involuntary Resettlement Policy* (1995), or affect indigenous peoples under ADB's *Policy on Indigenous Peoples* (1998).

16. The Borrower shall ensure, and shall cause that each PFI shall ensure, that prior to its approval of any Subloan it has (i) established or updated its environmental and social safeguards system to comply with the ESMS; (ii) identify and train an environmental safeguard specialist as staff or consultant; and (iii) train and deploy adequate number of its staff to conduct environmental due diligence, review, monitoring, and reporting in accordance with the ESMS in respect of Qualified Subprojects.

17. The Borrower shall, and shall cause that the PFIs shall, monitor compliance with the ESMS and submit annual environmental compliance monitoring reports in respect of the Project to ADB within agreed time periods.

#### Gender Action Plan

18. In so far as it relates to the Project, the Borrower shall ensure that (i) the gender action plan for the Project attached as Appendix 8 to the RRP, prepared in consultation with the Borrower and approved by ADB, is implemented in accordance with its terms; (ii) adequate resources are allocated for the implementation of such gender action plan; and (iii) key gender outcome and output targets are monitored regularly and achieved.

#### Financial and Operational Matters

19. The Borrower shall promptly inform ADB of any major proposals or decisions such as mergers and acquisition, changes in key management officers or any other material event that may have a significant adverse impact of its organization and operations.

20. For the duration of the Project, the Borrower shall be in compliance with all applicable prudential rules, regulations and guidelines of the RBI applicable to it, including but not limited to all mandatory financial ratios.

21. The Borrower shall ensure that, the independent auditors appointed in pursuance of Section 4.06 of the Loan Agreement, shall prepare and certify to ADB on an annual basis and in a format acceptable to ADB, that at the end of any relevant financial

year, the Borrower is in compliance with all applicable prudential rules and regulations and guidelines of the RBI and detail all relevant financial ratios and thresholds in such certificate.

22. The Borrower shall ensure that accountability and transparency are maintained in its operations throughout the duration of the Project, and internal procedures and controls are instituted, maintained, and complied with to prevent any corrupt, fraudulent, collusive, or coercive practices and to ensure conformity with ADB's *Anticorruption Policy* (1998 as amended to date). The Borrower shall ensure that all contracts financed by ADB in connection with the Qualified Subprojects specify the right of ADB to review and examine the records and accounts of the PFIs, subborrowers, suppliers, and contractors as they relate to the Project. Consistent with its commitment to good governance, accountability, and transparency, ADB reserves the right to examine and review any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Project.

#### Project Performance Monitoring and Evaluation

23. Within 3 months of the Effective Date, the Borrower shall (i) develop a Project performance monitoring and evaluation system acceptable to ADB and the Borrower; (ii) adopt key performance indicators based on the design and monitoring framework for the Project; (iii) establish a baseline for each indicator; and (iv) prepare and submit to ADB Project progress reports which will cover key progress including progress on indications as referred to in subparagraph (ii) above and recommendation for improving performance.

#### Reporting

24. The Borrower will provide ADB (i) a quarterly report on the operational and financial performance of the Borrower and Project implementation within one month after the end of each quarter; (ii) a projected annual disbursement schedule broken down by quarters by 15 December of each year; and (iii) updated 12-month financial projections of the Borrower by 31 March of each year.

25. Within 3 months of the completion of the Project, the Borrower shall furnish to ADB a Project completion report containing a detailed evaluation of Project design, costs, social and economic impacts, and other details as may be requested by ADB.

#### Project Review

26. The Borrower and ADB shall undertake review missions in accordance with the Project implementation schedule mutually agreed upon, which shall include annual performance reviews, and a comprehensive midterm review approximately 30 months after the Effective Date. The midterm review shall evaluate the scope, design, and implementation arrangements; assess implementation performance against Project indicators; review compliance with Loan covenants; and identify problems and constraints and, if necessary, recommend changes in the design or implementation arrangements.