

CONFORMED COPY

LOAN NUMBER 7263 IN

Loan Agreement

**(SMALL AND MEDIUM ENTERPRISES
FINANCING AND DEVELOPMENT PROJECT)**

between

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

and

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

Dated January 14, 2005

LOAN NUMBER 7263 IN

LOAN AGREEMENT

AGREEMENT, dated January 14, 2005 between INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (the Bank) and SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (the Borrower).

WHEREAS (A) India, acting by its President (the Guarantor) and the Borrower, having been satisfied as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, have requested the Bank to assist in the financing of the Project;

(B) the Borrower intends to contract from the United Kingdom Department for International Development (DFID) a Grant (the DFID Grant) to assist in financing Part C of the Project on the terms and conditions set forth in an Agreement to be entered into between the Borrower and DFID (the DFID Grant Agreement); and

(C) by an agreement (the Guarantee Agreement) of even date herewith between the Guarantor and the Bank, the Guarantor has agreed to guarantee the obligations of the Borrower in respect of the loan provided for in Article II of this Agreement (the Loan) and to undertake such other obligations as set forth in the Guarantee Agreement;

WHEREAS the Bank has agreed, on the basis, inter alia, of the foregoing, to extend the Loan to the Borrower upon the terms and conditions set forth in this Loan Agreement (this Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Loan and Guarantee Agreements for Fixed Spread Loans" of the Bank, dated September 1, 1999, as amended through May 1, 2004, and with the modification set out below (the General Conditions), constitute an integral part of this Agreement.

(a) The words "the Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Loan shall be cancelled" set forth at the end of Section 6.03 are deleted and the following is substituted therefor:

“or (g) by the date specified in paragraph 4 of Schedule 6 to the Loan Agreement, the Bank shall, in respect of any portion of the Loan: (i) have received no applications or requests; or (ii) have denied any such applications or requests. The Bank may, by notice to the Borrower and the Guarantor, terminate the right of the Borrower to submit such applications or requests or to make withdrawals from the Loan Account, as the case may be, with respect to such amount or portion of the Loan. Upon the giving of such notice, such amount or portion of the Loan shall be cancelled.”

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary Enterprise” means an SME satisfying the appropriate criteria as set forth in paragraph 5 of Schedule 6 to this Agreement to which the Borrower or a PFI (as defined hereinafter) proposes to make or has made a Sub-loan;

(b) “Covered Risk” means the risk of loss in the event of default in payment of any loan extended to an Eligible Enterprise (as defined hereinafter) by a Risk Sharing Financial Institution (as defined hereinafter), which risk is covered under a Guarantee Certificate issued by the Risk Sharing Guarantee Company to such Risk Sharing Financial Institution for a loan portfolio selected in accordance with criteria set out in Schedule 7 to this Agreement;

(c) “Eligible Categories” means Categories 1 and 2 set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(d) “Eligible Expenditures” means the expenditures referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Loan allocated from time to time to Eligible Categories;

(e) “Eligible Investments” means, investments made by the Risk Sharing Guarantee Company using the proceeds of the Loan made available by the Borrower under the Financing Agreement (as defined hereinafter) and deposited into the Guarantee Reserve Account (as defined hereinafter), from time to time in accordance with the provisions of this Agreement, which investments shall: (i) in terms of tenor as well as liquidity, be structured in a manner to optimize the return on investments to the Risk Sharing Guarantee Company and to enable the Risk Sharing Guarantee Company to meet claims, if any, made under Guarantee Certificates; (ii) not be speculative in nature; and (iii) be held in a segregated account, all in accordance with the relevant provisions of the Risk Sharing Guarantee Facility Operational Manual;

(f) “Eligible Enterprise” means, individually, an SME established and operating within the Guarantor’s territory, and engaged in transactions that are covered

by an irrevocable documentary credit which is confirmed in the Guarantor's territory by a Risk Sharing Financial Institution party to a Guarantee Framework Agreement, all in compliance with the eligibility and selection criteria set forth in the Operational Manual, and the term "Eligible Enterprises" means, collectively, more than one Eligible Enterprise;

(g) "Financing" means the provision of debt or equity financing by the Borrower in the Risk Sharing Guarantee Company (as defined hereinafter) and financed out of the proceeds of the Loan for the purpose of, inter-alia, operating the Risk Sharing Guarantee Facility(as defined hereinafter);

(h) "Financing Agreement" means the Agreement to be entered into between the Borrower and the Risk Sharing Guarantee Company (as defined hereinafter), providing for the Financing and containing terms and conditions satisfactory to the Bank for the management and operation of the Risk Sharing Guarantee Facility;

(i) "Financial Monitoring Report" means the report prepared in accordance with Section 4.02 of this Agreement;

(j) "Fiscal Year" means, the Fiscal Year of the Borrower, a PFI, the Risk Sharing Guarantee Company or a Risk Sharing Financial Institution commencing on April 1 of a calendar year and ending on March 31 of the following calendar year;

(k) "Guarantee" means, individually, the obligation undertaken by the Risk Sharing Company to make Payment (as defined hereinafter) to a Guarantee Holder (as defined hereinafter) in respect of a Covered Risk under a Guarantee Certificate issued by the Risk Sharing Guarantee Company to such Guarantee Holder, and the term "Guarantees" means, collectively, more than one Guarantee; provided, that Guarantees shall not include any obligation, whatsoever, for payment of loss, if any, suffered by a Guarantee Holder as a result of a default by a SME in payment of loans due to (i) occurrence of war, revolution, riot or natural disaster in the territory of the Guarantor; or (ii) the occurrence of loss of or damage to the production equipment of a SME;

(l) "Guarantee Certificate" means, any contract entered into by the Risk Sharing Guarantee Company with Guarantee Holders, providing Guarantees against the Covered Risk in respect of a portfolio of loan that has been selected by the Risk Sharing Guarantee Company in accordance with the criteria set out in Schedule 7 to this Agreement and containing satisfactory terms and conditions including those set out in such Schedule 7;

(m) "Guarantee Framework Agreement" means an agreement entered into by the Risk Sharing Guarantee Company with Risk Sharing Financial Institution setting out the overall framework within which Guarantee Certificates may be issued to such Risk Sharing Financial Institution, including the procedures and terms and conditions referred

to in Schedule 7 to this Agreement and the Risk Sharing Guarantee Facility Operational Manual;

(n) “Guarantee Holder” means a Risk Sharing Financial Institution which, having entered into a Guarantee Framework Agreement and having granted loans to an Eligible Enterprise, has been issued a Guarantee Certificate by the Risk Sharing Guarantee Company, in accordance with the provisions of this Agreement;

(o) “Guarantee Reserve Account” means the account opened by the Risk Sharing Guarantee Company, on terms and conditions satisfactory to the Bank, at a commercial Bank in the Guarantor’s territory acceptable to the Bank, for the purpose of depositing amounts withdrawn by the Borrower on account of the Financing made from time to time from the proceeds of the Loan and to be utilized in accordance with the provisions of this Agreement;

(p) “IAD” means the Internal Audit Department of the Borrower;

(q) “Loss” means the amount denominated in Rupees, payable by the Risk Sharing Guarantee Company to a Guarantee Holder upon the occurrence of a Covered Risk, determined in accordance with the terms and conditions of the Guarantee Framework Agreement and Guarantee Certificate issued to such Guarantee Holder;

(r) “Management Group” means the group of personnel to be appointed and/or engaged and thereafter maintained, all on terms and conditions satisfactory to the Bank and the Borrower, by the Risk Sharing Guarantee Company which group will bear responsibilities as set forth in Schedule 7 to this Agreement and the Risk Sharing Guarantee Facility Operational Manual;

(s) “Memorandum and Articles of Association” means the Memorandum and Articles of Association of the Risk Sharing Guarantee Company (as defined hereinafter);

(t) “Operational Manual” means the manual of the Borrower dated October 27, 2004 as such Manual maybe amended from time to time;

(u) “PMD” means the Project Management Department of the Borrower established for the purpose of assisting the Borrower in managing the implementation, monitoring, and supervision of the Project;

(v) “Participating Financial Institution” or “PFI” means any Scheduled Commercial Bank (as defined hereinafter) or development bank registered according to the applicable laws and regulations of the Guarantor, and selected by the Borrower pursuant to criteria set forth in paragraph B.1 of Schedule 5 to this Agreement;

(w) “Participation Agreement” means any agreement entered or to be entered into between the Borrower and a PFI pursuant to paragraph B.2 of Schedule 5 to this

Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Participation Agreement;

(x) “Payment” means any payment made to a Guarantee Holder on account of a Loss;

(y) “Project Review Committee” means the committee consisting of representatives of all partners in the Project (of which the Bank is a key member) established to review and provide policy guidance for implementing the Project;

(z) “Reserve Bank of India” or “RBI” means the Bank constituted under the provisions of Section 3 of the Reserve Bank of India Act, 1934, as amended;

(aa) “Risk Sharing Guarantee Company” means the company to be established by the Borrower under Part B of the Project for purposes of, inter-alia, establishing and operating the Risk Sharing Guarantee Facility (as defined hereinafter), in accordance with the provisions of this Agreement;

(bb) “Risk Sharing Guarantee Facility” means the Facility established by the Risk Sharing Guarantee Company for purposes, inter-alia, of providing Guarantees utilizing the proceeds of the Loan and other financing that may be made available to it, such Guarantees to be issued in accordance with the provisions of Schedule 7 of this Agreement, the Risk Sharing Guarantee Facility Operational Manual, the Financing Agreement and the Memorandum and Articles of Association;

(cc) “Risk Sharing Financial Institution” means, any Scheduled Commercial Bank (as defined hereinafter) selected by the Risk Sharing Guarantee Company pursuant to criteria set forth in paragraphs 2(a) and 3 of Schedule 7 to this Agreement;

(dd) “Risk Sharing Guarantee Facility Operational Manual” means the Manual that shall be adopted by the Risk Sharing Guarantee Facility in accordance with the provisions of this Agreement;

(ee) “Rupees” and “Rs” mean the lawful currency of India;

(ff) “Scheduled Commercial Bank” means any bank included in the Second Schedule to the Reserve Bank of India Act, 1934, as may be amended from time to time;

(gg) “SECO” means the State Secretariat for Economic Affairs of the Government of Switzerland;

(hh) “Social and Environmental Framework” means the Framework established and approved by the Borrower for the purpose of managing the social and environmental risks of the Project; as set out in the Operational Manual;

(ii) “SIDBI” means a Statutory Corporation established under Section 3 of the Small Industries Development Bank of India Act, 1989;

(jj) “SIDBI Act” means Small Industries Development Bank of India Act, 1989, as amended;

(kk) “SITC” means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

(ll) “SME” means a small or medium scale enterprise, business or service firm with investments in plant and machinery of up to Rs. 100 million;

(mm) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(nn) “Sub-loan” means a loan made or proposed to be made by the Borrower or a PFI, out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in Part A.1 of Schedule 1 to this Agreement, for purposes of financing all or a portion of the expenditures incurred by a Beneficiary Enterprise for goods and works under a Sub-Project or for financing working capital requirements of a Beneficiary Enterprise for carrying out a Sub-Project;

(oo) “Sub-loan Agreement” means an agreement entered into by the Borrower or a PFI with a Beneficiary Enterprise for the purpose of providing a Sub-loan and referred to in paragraph 8 of Schedule 6 to this Agreement;

(pp) “Sub-Project” means a specific project, selected in accordance with paragraph 7 of Schedule 6 to this Agreement, which is proposed to be carried out by a Beneficiary Enterprise, in whole or in part through the utilization of the proceeds of a Sub-loan; and

(qq) “Subsidiary Loan” means any loan made pursuant to a Participation Agreement.

ARTICLE II

The Loan

Section 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, an amount equal to one hundred twenty million Dollars (\$120,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.09 of this Agreement.

Section 2.02. The amount of the Loan may be withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Agreement:

- (i) for amounts paid (or, if the Bank shall so agree, to be paid) by the Borrower or a PFI on account of withdrawals made by a Beneficiary Enterprise under a Sub-loan Agreement to meet the reasonable cost of goods, works and working capital required for a Sub-project, under Part A of the Project in respect of which the withdrawal from the Loan Account is requested;
- (ii) for amounts paid (or, if the Bank shall so agree, to be paid) on account of the Financing to operate the Risk Sharing Guarantee Facility under Part B of the Project; and
- (iii) in respect of the fee referred to in Section 2.04 of this Agreement.

Section 2.03. The Closing Date shall be June 30, 2008, or such later date as the Bank shall establish. The Bank shall promptly notify the Borrower and the Guarantor of such later date.

Section 2.04. The Borrower shall pay to the Bank a front-end fee in an amount equal to one percent (1%) of the amount of the Loan, subject to any waiver of a portion of such fee as may be determined by the Bank from time to time. On or promptly after the Effective Date, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and pay to itself the amount of said fee.

Section 2.05. The Borrower shall pay to the Bank a commitment charge on the principal amount of the Loan not withdrawn from time to time, at a rate equal to: (i) eighty five one-hundredths of one per cent (0.85%) per annum from the date on which such charge commences to accrue in accordance with the provisions of Section 3.02 of the General Conditions to but not including the fourth anniversary of such date; and (ii) seventy five one-hundredths of one per cent (0.75%) per annum thereafter.

Section 2.06. The Borrower shall pay interest on the principal amount of the Loan withdrawn and outstanding from time to time, in respect of each Interest Period at the Variable Rate; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the Borrower shall, during the Conversion Period, pay interest on such amount in accordance with the relevant provisions of Article IV of the General Conditions.

Section 2.07. Interest and other charges shall be payable semi-annually in arrears on May 15 and November 15 in each year.

Section 2.08. The Borrower shall repay the principal amount of the Loan in accordance with the provisions of Schedule 3 to this Agreement.

Section 2.09. (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, withdrawn 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 from a Variable Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Variable 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 Variable Rate.

(b) Any conversion requested pursuant to paragraph (a) of this Section that is accepted by the Bank shall be considered a “Conversion”, as defined in Section 2.01(7) of the General Conditions, and shall be effected in accordance with the provisions of Article IV of the General Conditions and of the Conversion Guidelines.

ARTICLE III

Execution of the Project; Management and

Operations of the Borrower

Section 3.01(a). The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and conduct its operations and affairs in accordance with sound financial, economic, and administrative standards with qualified management and personnel, and in accordance with the SIDBI Act.

(b) The Borrower shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project, and shall take or cause to be taken all action necessary or appropriate to enable the PFIs to perform their respective obligations under the Participation Agreements and the Sub-loan Agreements, and to enable the Risk Sharing Guarantee Company to perform its obligations under the Financing Agreement, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

Section 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Bank and the Borrower shall otherwise agree, the Borrower shall implement the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.03. (a) The Borrower shall, in respect of Part A of the Project, make a portion of the proceeds of the Loan available to a PFI under a Participation Agreement to be entered into between the Borrower and such PFI under terms and conditions satisfactory to the Bank and which shall include those set out in Schedule 5 to this Agreement.

(b) The Borrower shall exercise its rights under each Participation Agreement in such manner as to protect the interest of the Borrower and the Bank and to accomplish the purposes of the Project, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, or waive such Participation Agreement or any provision thereof.

Section 3.04. (a) The Borrower undertakes, and shall cause the PFIs to undertake, as the case may be, that, unless the Bank shall otherwise agree, Sub-loans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement.

(b) The Borrower shall, and shall cause each PFI to, exercise its rights in relation to each Sub-project in such manner as to: (i) protect the interests of the Bank and the Borrower; (ii) comply with its obligations under this Agreement; and (iii) achieve the purposes of the Project.

Section 3.05. (a) The Borrower shall, in respect of Part B of the Project, make a portion of the proceeds of the Loan available to the Risk Sharing Guarantee Company under a Financing Agreement to be entered into between the Borrower and such Company, under terms and conditions which shall have been approved by the Bank and which shall include those referred to in Schedule 7 of this Agreement. The Borrower shall transfer such proceeds of the Loan to the Risk Sharing Guarantee Company within a period of seven (7) days from the withdrawal of the proceeds by the Borrower under Category 2 of the table in Part A.1 of Schedule 1 to this Agreement.

(b) The Borrower shall exercise its rights under the Financing Agreement in such manner as to protect the interest of the Borrower and the Bank and to accomplish the purposes of the Project, and except as the Bank shall otherwise agree, the Borrower shall not assign, amend, abrogate, or waive such Financing Agreement or any provision thereof.

Section 3.06. (a) The Borrower undertakes that, unless the Bank shall otherwise agree, it shall cause the Risk Sharing Guarantee Company to (i) enter into Guarantee Framework Agreements; and (ii) issue Guarantees; all in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 7 to this Agreement, the Financing Agreement, the Risk Sharing Guarantee Facility Operational Manual and the Memorandum and Articles of Association.

(b) The Borrower shall at all times take all measures necessary on its part to ensure that the Risk Sharing Guarantee Company shall exercise its rights in relation to each Guarantee Framework Agreement and each Guarantee Certificate in such manner as to: (i) protect the interests of the Bank, the Borrower, and the Risk Sharing Guarantee Company; (ii) comply with its obligations under this Agreement and the Financing Agreement; and (iii) achieve the purposes of the Project.

Section 3.07. The Borrower shall, and shall cause the Risk Sharing Guarantee Company, to review with the Bank no later than June 30, 2007, the operation of the Risk Sharing Guarantee Facility for the purposes of determining a framework for the future operation and/or winding down of the Risk Sharing Guarantee Facility in accordance with procedures and under a time frame satisfactory to the Bank. Except as the Bank may otherwise agree, (i) the proceeds of the Loan made available by the Borrower under the Financing Agreement to the Risk Sharing Guarantee Company for operating the Risk Sharing Guarantee Facility and with respect to which Guarantees have not been issued by the Risk Sharing Guarantee Company shall be refunded by the Borrower to the Bank and be cancelled or be credited to the Loan Account for subsequent withdrawal and utilization in accordance with procedures and terms and conditions as the Bank may stipulate; and (ii) the proceeds of the Loan made available by the Borrower to the Risk Sharing Guarantee Company for operating the Risk Sharing Guarantee Facility and with respect to which Guarantees have been issued shall be refunded by the Risk Sharing Guarantee Company to the Borrower, after the expiry of all outstanding Guarantees, for subsequent utilization by the Borrower in accordance with procedures and terms and conditions as the Bank may stipulate.

Section 3.08. Except as the Bank shall otherwise agree, procurement of the goods, works and services required for the carrying out the Project and to be financed out of the proceeds of the Loan shall be governed by the provisions of Schedule 8 to this Agreement.

Section 3.09. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Bank, and furnish to the Bank not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Bank and the Borrower, a plan for the future operation of the Project; and

(b) afford the Bank a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect the operations and financial condition and to register separately the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) referred to in paragraph (a) above and the records and accounts for the Special Account for each fiscal year audited, in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank;
- (ii) furnish to the Bank, as soon as available but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year, as so audited, and (B) an opinion on such statements and a report of such audit by said auditors, of such scope and in such detail as the Bank shall have reasonably requested; and
- (iii) furnish to the Bank such other information concerning the said such records, accounts and financial statements, and the audit thereof, by said auditors, and concerning such auditors, as the Bank may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Loan Account were made on the basis of Financial Monitoring Reports the Borrower shall:

- (i) maintain or cause to be maintained in accordance with paragraph (a) of this Section 4.01, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Bank has received the audit report for the fiscal year in which the last withdrawal from the Loan Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Bank's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Financial Monitoring Reports submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraphs 8 and 9 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Bank a financial monitoring report, in form and substance satisfactory to the Bank, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Loan and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation;
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report; and
- (iv) sets forth the projected cash requirements for the period covered by the report and calendar quarter following the period covered by the report.

(b) The first financial monitoring report shall be furnished to the Bank not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Bank not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. Without limitation to the Borrower's obligations set out in Section 4.01, the Borrower shall:

- (i) maintain a financial management system, records and accounts and prepare financial statements, all in accordance with

consistently applied accounting standards acceptable to the Bank, adequate to reflect its operations and financial condition;

- (ii) have the records and accounts audited for each Fiscal Year in accordance with the provisions of the SIDBI Act;
- (iii) furnish to the Bank, as soon as available but in any case not later than six (6) months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (i) of this Section, for such year, as so audited, and (B) a report of such audit by said auditors;
- (iv) furnish to the Bank such other information concerning the said such records, accounts and financial statements, and the audit thereof, by said auditors, as the Bank shall from time to time reasonably request.
- (v) carry out the internal audits in accordance with the Operational Manual; and
- (vi) furnish to the Bank the reports of various internal audits and such other information concerning such audits, as the Bank shall from time to time reasonably request.

Section 4.04. The Borrower shall take such steps satisfactory to the Bank as shall be necessary to protect itself against risk of loss resulting from changes in the rates of exchange between the currencies (including the currency of the Guarantor) used in its operations.

ARTICLE V

Remedies of the Bank

Section 5.01. Pursuant to Section 6.02 (p) of the General Conditions, the following additional events are specified:

(a) the Operational Manual or the Risk Sharing Guarantee Facility Operational Manual or the Social and Environmental Framework shall have been amended, abrogated, repealed or otherwise modified so as to affect materially and adversely the ability of the Borrower to carry out the Project or to perform any of its obligations under this Agreement;

(b) the SIDBI Act shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or the financial condition of the Borrower or its ability to carry out the Project or to perform any of its obligations under this Agreement;

(c) the Memorandum and Articles of Association shall have been amended, suspended, abrogated, repealed or waived so as to effect materially and adversely the operation or the financial condition of the Risk Sharing Guarantee Company to carry out the Project or to perform any of its obligations under the Financing Agreement;

(d) any action shall have been taken for the dissolution, disestablishment or suspension of operations of the Borrower or the Risk Sharing Guarantee Company;

(e) the Borrower or a PFI shall have failed to perform any of their respective obligations under the Participation Agreement;

(f) the Borrower or the Risk Sharing Guarantee Company shall have failed to perform any of their respective obligations under the Financing Agreement;

(g) The Risk Sharing Guarantee Company or a Risk Sharing Financial Institution shall have failed to perform any of their respective obligations under the Guarantee Framework Agreement;

(h) any provision of a Participation Agreement, the Financing Agreement or a Guarantee Framework Agreement shall have been amended, suspended, abrogated or waived so as to affect materially and adversely the operations or the financial condition of a PFI or the Risk Sharing Guarantee Facility Company, as the case may be, or its ability to carry out the Project or to perform any of its obligations under such Agreement;

(i) The DFID Grant Agreement shall have failed to become effective by April 30, 2005, or such later date as the Bank may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement; and

(j) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the DFID Grant made to the Borrower for the financing of Part C of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms and conditions of the Grant Agreement providing thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Bank that: (A) such suspension, cancellation, or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and

conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (k) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraph (e), (f), (g) or (h) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Bank to the Borrower;

(b) the event specified in paragraphs (a), (b), (c) or (d) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (j)(i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (j)(ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Loan Agreement within the meaning of Section 12.01 (c) of the General Conditions, namely, that the Borrower shall have entered into an agreement with the Guarantor, satisfactory to the Bank, for: (i) indemnifying the Guarantor in the event that it is called upon to pay the principal of, and interest and other charges on, the Loan or any portion thereof pursuant to the provisions of the Guarantee Agreement; and (ii) paying to the Guarantor on the principal amount of the Loan withdrawn and outstanding from time to time a guarantee fee as agreed between the Borrower and the Guarantor.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Chairman and Managing Director of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Bank:

International Bank for Reconstruction
and Development
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:	Telex:	Facsimile:
INTBAFRAD Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

For the Borrower:

Small Industries Development Bank Of India
No.15, Ashok Marg
Lucknow – 226 001
India

Telex:	Facsimile:
LAGHUVIKAS	(0522) 2288494

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in New Delhi, India, as of the day and year first above written.

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ Michael Carter

Country Director, India

SMALL INDUSTRIES DEVELOPMENT BANK OF
INDIA

By /s/ N. Balasubramanian

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Loan

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Loan, the allocation of the amounts of the Loan to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Loan Allocated (Expressed in Dollars)</u>	<u>% of Expenditures to be Financed</u>
1. Sub-loans under Part A of the Project	99,500,000	90% of amounts disbursed under Sub-loan Agreements
2. Financing to operate Risk Sharing Guarantee Facility under Part B of the Project	5,000,000	100% of Financing provided by SIDBI to the Risk Sharing Guarantee Company
3. Fee	600,000	Amounts due under Section 2.04 of this Agreement
4. Unallocated	<u>14,900,000</u>	
TOTAL	<u>120,000,000</u>	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made:

(a) in respect of expenditures prior to the date of this Agreement; and

(b) under Category (2) unless (i) financing from SECO is made available for implementing Part B of the Project and agreement(s) relating thereto have been executed and made effective; (ii) the Risk Sharing Guarantee Company has been established in a manner satisfactory to the Bank; (iii) the Risk Sharing Guarantee Facility Operational Manual, has been adopted by the Risk Sharing Guarantee Company to the satisfaction of the Bank (iv) the Financing Agreement has been executed on behalf of the Borrower and the Risk Sharing Guarantee Company; (v) the Risk Sharing Guarantee Company has established a satisfactory financial management system ; (vi) the Management Group has

become fully functional and operational in a manner satisfactory to the Bank; and (vii) an opinion satisfactory to the Bank of counsel acceptable to the Bank has been furnished by the Risk Sharing Guarantee Company to the Bank setting out that: (A) the Company has been duly established in accordance with the laws of the Guarantor for the purposes of implementing the Risk Sharing Guarantee Facility; (B) the Financing Agreement has been duly executed on behalf of the Borrower and the Risk Sharing Guarantee Company and is legally valid and binding on the parties thereto in accordance with its terms; and (C) such other matters as shall be reasonably requested by the Bank in connection therewith.

3. The Borrower may request withdrawals from the Loan Account to be made on the basis of reports to be submitted to the Bank in form and substance satisfactory to the Bank, such reports to include the Financial Monitoring Report and any other relevant information as the Bank may specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Bank before any withdrawal has been made from the Loan Account, the Borrower shall submit to the Bank only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. Except as the Bank shall otherwise agree, the Borrower shall open and maintain in Dollars a special deposit account in a commercial bank, on terms and conditions satisfactory to the Bank, including appropriate protection against set-off, seizure and attachment.

2. After the Bank has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Loan Account of amounts to be deposited into the Special Account shall be made in accordance with the provisions of the Annex to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Bank shall reasonably request, furnish to the Bank such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Bank shall not be required to make further deposits into the Special Account:

(a) if the Bank determines at any time that any Financial Monitoring Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Bank determines at any time that all further withdrawals should be made by the Borrower directly from the Loan Account; or

(c) if the Borrower shall have failed to furnish to the Bank within the period of time specified in Section 4.01 (b)(ii) and (c)(ii) of this Agreement, any of the audit reports required to be furnished to the Bank pursuant to said Section in respect of the audit of (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Financial Monitoring Reports.

5. The Bank shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Bank shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Loan Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Bank shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Bank determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Bank, the Borrower shall, promptly upon notice from the Bank, provide such additional evidence as the Bank may request, or deposit into the Special Account (or, if the Bank shall so request, refund to the Bank) an amount equal to the amount of such payment. Unless the Bank shall otherwise agree, no further deposit by the Bank into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Bank determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Bank, refund to the Bank such outstanding amount.

(c) The Borrower may, upon notice to the Bank, refund to the Bank all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Bank made pursuant to sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Loan Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Loan Agreement.

**Annex
to**

SCHEDULE 1

**Operation of Special Account When Withdrawals Are Made
On the Basis of Financial Monitoring Reports (FMRs)**

1. Except as the Bank may otherwise specify by notice to the Borrower, all withdrawals from the Loan Account shall be deposited by the Bank into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Bank from the Loan Account under one or more of the Special Account's Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Loan, the Bank shall, on behalf of the Borrower, withdraw from the Loan Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Bank has determined, based on the reports referred to in Part A.3 of this Schedule applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report.

SCHEDULE 2

Description of the Project

The objective of the Project is to improve Small and Medium Enterprise (SME) access to finance (including term finance) and business development services, thereby fostering SME growth, competitiveness and employment creation.

The Project consists of the following Parts, subject to such modifications thereof as the Bank and the Borrower may agree upon from time to time to achieve such objectives:

Part A: Credit Facility

The establishment and operation of a credit facility for the provision of Sub-loans by the Borrower and PFIs to Beneficiary Enterprises for the purpose of financing Sub-projects.

Part B: Risk Sharing Guarantee Facility

Provision of Financing by the Borrower to the Risk Sharing Guarantee Company for the purpose of operating a Risk Sharing Guarantee Facility in order to provide partial credit Guarantees to Scheduled Commercial Banks in respect of their lending to Eligible Enterprises.

Part C: Policy and Institutional Development Technical Assistance

Implementing a Program of technical assistance for policy and institutional development consisting, inter alia, of: (a) strengthening the policy, legal and regulatory framework for establishing an efficient environment for SME financing, through, inter alia, developing an improved loan restructuring and recovery framework and creating a conducive environment for developing financial products for SMEs; (b) improving credit information on SMEs through inter alia assistance to PFIs to collect data on SMEs, strengthening the operation of the Credit Information Bureau of India, establishing a dedicated rating agency for SMEs, developing a regulatory framework for credit rating, and developing related data requirements (c) building institutional capacity within the participating financial institutions to reduce transaction costs and manage risks related to SME lending through inter alia establishing and implementing credit scoring systems and cluster approaches, training, studies, and a knowledge transfer program; (d) strengthening the access of SMEs to business development services through inter alia building the capacity of service providers, facilitating networking, developing linkage programs between large corporations and SMEs, training, and better access to technology; and (e) strengthening the institutional capacity of the Borrower for implementing and monitoring the Project through the PMD.

* * *

The Project is expected to be completed by December 31, 2007.

SCHEDULE 3

Amortization Schedule

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 the Bank 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.

<u>Payment Date</u>	<u>Installment Share (Expressed as a %)</u>
On each May 15 and November 15 Beginning May 15, 2010 through November 15, 2019	5%

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 the Bank 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. (a) 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.

(b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph 3, if at any time the Bank shall adopt a due date billing system under which invoices are issued on or after the respective Principal Payment Date, the provisions of such sub-paragraph shall no longer apply to any withdrawals made after the adoption of such billing system.

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 the Bank 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 the Bank under the Currency Hedge Transaction relating to said Conversion; or (ii) if the Bank 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 4

Implementation Program

1. The Borrower shall maintain the Operational Manual and the Social and Environmental Framework in form and content satisfactory to the Bank, shall duly perform all its obligations under such Manual and the Framework and shall not amend, abrogate or waive any such Manual or the Framework so as to affect materially and adversely the ability of the Borrower, PFIs and the Risk Sharing Guarantee Company to implement the Project or to achieve the objectives of the Project.
2. The Borrower shall:
 - (a) maintain the PMD with adequate powers, functions, staff and resources;
and
 - (b) maintain the IAD with adequate powers, functions, staff and resources.
3. For the purposes of carrying out of Part A of the Project, the Borrower shall:
 - (a) select PFIs that meet the eligibility criteria set forth in paragraph B.1 of Schedule 5 to this Agreement and provide to the Bank a copy of the appraisal report in respect of each selected PFI;
 - (b) relend to the PFIs, selected in accordance with sub-paragraph (a) above, a portion of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under Participation Agreements to be entered into between the Borrower and each such PFI for the purpose of making Sub-loans, in accordance with procedures, and under terms and conditions which shall have been approved by the Bank, and which shall include without limitation, those set forth in Schedule 5 to this Agreement;
 - (c) during the period of Project implementation furnish to the Bank annually a certificate in the agreed format showing that each PFI continues to meet the eligibility criteria set forth in paragraph B.1 of Schedule 5 to this Agreement;
 - (d) make Sub-loans to Beneficiary Enterprises on the terms and conditions set forth in the Operational Manual and the Social and Environmental Framework including, without limitation, the terms and conditions set forth in Schedule 6 to this Agreement;
 - (e) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Bank, comply with its obligations under its respective Sub-loan Agreement and achieve the purposes of the Project;

(f) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior approval of the Bank;

(g) appraise PFIs and Sub-projects, and supervise, monitor and report on the carrying out by the Beneficiary Enterprises of Sub-projects, in accordance with the Operational Manual and the Social and Environmental Framework.

(h) (i) exchange views with and furnish all such information to the Bank, as may be reasonably requested by the Bank with regard to the progress of its activities under the Project, the performance of its obligations under Participation Agreements and Sub-loan Agreements, and other matters relating to the purposes of the Project;

(ii) prepare and submit to the Bank semi-annual reports on Subsidiary Loan and Sub-loan disbursements until completion of disbursements under Part A of the Project and annual reports on repayments with respect to Subsidiary Loans and Sub-loans made by the Borrower until the completion of the Project; and

(iii) promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its activities under its respective Sub-loan Agreement;

(i) (i) maintain records and accounts adequate to reflect, in accordance with sound accounting practices, its operations and financial condition;

(ii) furnish the Bank and the Project Review Committee annual project financial statements of scope and detail satisfactory to the Bank as set out in the Operational Manual; and

(iii) such information concerning said records and accounts as the Bank shall from time to time reasonably request;

(j) assume the credit risk of each Subsidiary Loan and Sub-loan;

(k) monitor the overall execution of the Project and the carrying out by the PFIs of their obligations under their respective Participation Agreements in accordance with arrangements and procedures satisfactory to the Bank;

(l) take or cause to be taken all action necessary or appropriate on its part to enable the PFIs to perform in accordance with the provisions of their respective Participation Agreements all the obligations of the PFIs therein set forth, and not take or permit to be taken any action which would prevent or interfere with such performance; and

(m) exercise its rights under the Participation Agreements in such manner as to protect the interests of the Bank and to accomplish the purposes of the Project, and, except as the Bank shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof.

4. The Borrower shall implement Part B of the Project provided that it secures financing for such purpose from SECO. For the purposes of carrying out of Part B of the Project utilizing the proceeds of the Loan, the Borrower shall:

(a) establish the Risk Sharing Guarantee Company in accordance with the provisions of this Agreement;

(b) make available to the Risk Sharing Guarantee Company a portion of the proceeds of the Loan allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under a Financing Agreement to be entered into between the Borrower and such Company for the purpose of operating the Risk Sharing Guarantee Facility in order to provide, inter-alia, Guarantees in accordance with procedures, and under terms and conditions which shall have been approved by the Bank, and which shall include without limitation, those set forth in the following clauses of this paragraph;

(c) through the Memorandum and Articles of Association and the Financing Agreement, require the Risk Sharing Guarantee Company:

- (i) to carry out the activities under Part B of the Project and conduct its operations and affairs in accordance with consistently applied appropriate financial standards and practices, adequate to reflect the operations and financial condition and to register separately the operations, resources and expenditures related to Part B of the Project;
- (ii) to open and maintain the Guarantee Reserve Account in a commercial bank, on terms and conditions satisfactory to the Borrower and the Bank, which account shall be appropriately protected against set-off, seizure and attachment;
- (iii) to deposit the proceeds of the Loan received from the Borrower under the Financing Agreement into the Guarantee Reserve Account;
- (iv) to utilize the proceeds of the Loan deposited into the Guarantee Reserve Account exclusively for Eligible Investments and Payment and other purposes; all in accordance with the terms and conditions of this Agreement, the Risk Sharing Guarantee Facility Operational Manual and the Financing Agreement;

- (v) to furnish to the Bank, at such time as the Bank shall reasonably request, such documents and other evidence showing that the proceeds of the Loan received under the Financing Agreement were utilized exclusively for Eligible Investments and Payment and other purposes in accordance with the terms and conditions of this Agreement, the Financing Agreement and the Risk Sharing Guarantee Facility Operational Manual;
- (vi) to enter into Guarantee Framework Agreements with Risk Sharing Financial Institutions in accordance with the terms of this Agreement including, without limitation, the relevant provisions of this paragraph 4 of this Schedule and the terms and conditions set forth in Schedule 7 to this Agreement;
- (vii) during the period of Project implementation furnish to the Borrower annually a certificate in the agreed format showing that each Risk Sharing Financial Institution continues to meet the eligibility criteria set forth in this Agreement;
- (viii) to provide Guarantees, through Guarantee Certificates, to Risk Sharing Financial Institutions on the terms and conditions set forth in the Risk Sharing Guarantee Facility Operational Manual and the Social and Environmental Framework including, without limitation, the relevant provisions of this paragraph 4 of this Schedule and the terms and conditions set forth in Schedule 7 to this Agreement;
- (ix) to appraise prospective participating banks and the loan portfolio of Risk Sharing Financial Institutions for the purpose of issuing Guarantees and supervise, monitor and report on the carrying out of Part B of the Project, in accordance with the Risk Sharing Guarantee Facility Operational Manual and the Social and Environmental Framework;
- (x) to exchange views with and furnish all such information to the Borrower and the Bank, as may be reasonably requested with regard to the progress of its activities under Part B of the Project, the performance of its obligations under the Financing Agreement, and other matters relating to the purposes of the Project;
- (xi) to prepare and submit to the Borrower and the Bank quarterly reports on the implementation of Part B of the Project, including on the quantum of guarantees provided to Risk Sharing Financing Institutions in respect of their portfolio of lending of

SMEs in different sectors and geographic regions, the size and profile of such Institutions and SMEs;

- (xii) to promptly inform the Bank of any condition which interferes or threatens to interfere with the progress of its activities under its respective Sub-loan Agreement;
- (xiii)
 - (A) to cause the Risk Sharing Guarantee Company to establish and maintain a financial management system, records and accounts and to prepare financial statements, all in accordance with accounting standards acceptable to the Bank, consistently applied, adequate to reflect, its operations and financial condition;
 - (B) to have the records and accounts and financial statements referred to in sub-paragraph (A) above and the records and accounts of the Guarantee Reserve Account referred to in paragraph (ii) above for each Fiscal Year audited in accordance with consistently applied auditing standards acceptable to the Bank, by independent auditors acceptable to the Bank; and
 - (C) furnish to the Borrower and the Bank, certified copies of such audit reports not later than six months after the end of each Fiscal Year including such information concerning said audit records and accounts as the Bank or the Borrower shall from time to time reasonably request;
- (xiv) to review with the Bank and the Borrower, no later than June 30, 2007, the operation of the Risk Sharing Guarantee Company for the purposes of determining a framework for the future operation and/or winding down of the Risk Sharing Guarantee Company in accordance with procedures and under a time frame satisfactory to the Bank; and, except as the Bank may otherwise agree, to refund to the Borrower the proceeds of the Loan received from the Borrower under the Financing Agreement, in accordance with procedures and terms and conditions as the Bank may stipulate;
- (xv) to refund to the Bank any withdrawals or payments from the Guarantee Reserve Account, including any investment income generated therefrom, at the option of the Bank, if:

- (A) the Bank shall have determined at any time that any payment made from the Guarantee Reserve Account (or from the investment income generated therefrom) was used for any Guarantee or investment or any purpose not consistent with the provisions of this Agreement;
 - (B) the Bank shall have determined at any time that the Borrower or the Risk Sharing Guarantee Company shall have failed to perform any of their respective obligations under the Financing Agreement or any Guarantee Framework Agreement, as the case may be; and
 - (C) payments from the Guarantee Reserve Account (or from the income generated therefrom) were made under a contract in respect of which the Bank determines that corrupt or fraudulent practices were engaged in by the representatives of the Borrower or the Risk Sharing Guarantee Company during the procurement or execution of such contract, without the Borrower or the Risk Sharing Guarantee Company having taken appropriate action satisfactory to the Bank to remedy the situation;
- (xvi) to monitor the overall execution of Part B of the Project;
 - (xvii) to exercise its rights under the Financing Agreement in such manner as to protect the interests of the Borrower and the Bank and to accomplish the purposes of the Loan, and, except as the Borrower and the Bank shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof;
 - (xviii) to maintain a Management Group with composition, powers, function, staff and resources for the purpose of operating and managing the Risk Sharing Guarantee Company, and to refrain from making any changes thereto without the prior approval of the Bank and the Borrower; and
 - (xix) to participate in the mid-term review and other reviews of as the Project referred to in paragraph 9 of this Schedule, and to prepare and provide the related reports referred to therein.

5. The Borrower shall furnish to the Bank the certificates received from the Risk Sharing Guarantee Company as referred to in paragraph 4(b)(vii) of this Schedule 4.

6. The Borrower shall no later than June 30, 2005 or such later date as the Bank may agree, adopt a plan of action to implement activities under Part C of the Project, satisfactory to the Project Review Committee, and shall implement said plan of action in a manner satisfactory to the Project Review Committee and in accordance with the timeframe set forth therein.

7. All goods and services (including consultants' services) required for the purpose of carrying out Part C of the Project shall be procured in accordance with procedures agreed to with the Bank and set out in the Operational Manual.

8. The Borrower shall:

(a) take measures to comply with the eligibility criteria applicable to PFIs as set out in Part B of Schedule 5 to this Agreement; and

(b) provide semi-annual reports to the Bank setting out the progress in carrying out the Project including reports on: (i) the quantum of financing and guarantees to SMEs in different sectors and geographic regions; (ii) the size and profile of such SMEs; and (iii) continued compliance by the Borrower and the PFIs with the eligibility criteria referred to in clause (a) of this paragraph.

9. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators agreed upon between the Borrower and the Bank, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Bank, and furnish to the Bank on a semi-annual basis, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Bank and the Guarantor by June 30, 2006, or such later date as the Bank shall request, the report referred to in subparagraph (b) of this paragraph and the progress achieved in carrying out of the Project, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Bank's views on the matters.

10. The Borrower shall provide to the Project Review Committee all reports and information that are required to be furnished to the Bank under this Agreement and that the Borrower receives from the Risk Sharing Guarantee Company.

SCHEDULE 5

Principal Terms and Conditions of the Participation Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph 3 (b) of Schedule 4 to this Agreement.

A. Terms

1. The principal amount of Subsidiary Loans to be relented out of the proceeds of the Loan to a PFI under its respective Participation Agreement shall be denominated in Dollars or Rupees and be the equivalent of the aggregate amount of the principal of all Sub-loans made out of the proceeds thereof.

2. The duration and interest and other charges on Subsidiary Loans shall be determined in accordance with procedures set out in the Operational Manual.

3. The right of a PFI to use the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such PFI to perform any of its obligations under its respective Participation Agreement or to continue to be in compliance with all legal and regulatory requirements applicable to its operations or to continue to be in compliance with the eligibility criteria set out in Part B.1 of this Schedule 5; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of sixty (60) days.

B. Conditions

1. Eligibility Criteria of PFIs: A Participation Agreement may be entered into with a PFI, which the Borrower shall have determined, that such PFI:

(a) has been appraised in a satisfactory manner in accordance with the criteria set out in the Operational Manual;

(b) is in compliance with prudential norms of the Reserve Bank of India related to capital adequacy, asset quality, exposure, earnings and liquidity;

(c) has formulated a satisfactory plan of action to implement relevant activities under Part C of the Project;

(d) has agreed to submit to the Borrower, during the duration of its Participation Agreement with the Borrower and not later than 6 (six) months after the end of each fiscal year, beginning with the fiscal year during which the Participation Agreement is entered into, an audit report which: (i) covers two (2) full years of its operations; (ii) is prepared by an independent auditors acceptable to the Bank; and

(iii) does not contain any observation or qualification which may have a materially adverse impact on the operations of the PFI; and

(e) has established, and has agreed to maintain during the duration of its Participation Agreement with the Borrower, a financial management system, that adequately reflects the PFIs resources, expenditures and operations.

2. Principal Provisions Each respective Participation Agreement shall contain provisions pursuant to which each respective PFI shall undertake to:

(a) carry out activities under Part A of the Project and under the plan of action to implement activities under Part C of the Project, and conduct its operations and affairs in accordance with appropriate financial standards and practices, with qualified management and staff in adequate numbers, and in conformity with the investment and lending policies and procedures referred to in the Operational Manual and in the Social and Environmental Framework, and provide, promptly as needed, the funds, facilities, services and other resources required for the purpose;

(b) (i) make Sub-loans to Beneficiary Enterprises on the terms and conditions set forth in the Operational Manual including, without limitation, the terms and conditions set forth in Schedule 6 to this Agreement;

(ii) exercise its rights in relation to each such Sub-loan in such manner as to protect its interests and the interests of the Borrower and the Bank, comply with its obligations under its respective Participation Agreement and achieve the purposes of the Project;

(iii) not assign, amend, abrogate or waive any of its agreements providing for Sub-loans, or any provision thereof, without the prior approval of the Borrower and the Bank; and

(iv) appraise Sub-projects and supervise, monitor and report on the carrying out by the Beneficiary Enterprises of Sub-projects, in accordance with the Operational Manual and the Social and Environmental Framework.

(c) (i) exchange views with and furnish all such information to the Bank or the Borrower, as may be reasonably requested by the Bank and the Borrower, with regard to the progress of its activities under the Project, the performance of its obligations under its respective Participation Agreement, and other matters relating to the purposes of the Project;

- (ii) prepare and submit to the Borrower semi-annual reports on Sub-loan disbursements and repayments until the currency of the Participation Agreement; and
 - (iii) promptly inform the Bank and the Borrower of any condition which interferes or threatens to interfere with the progress of its activities under its respective Participation Agreement; and
- (d) assume the credit risk of each Sub-loan.

SCHEDULE 6

Procedures and Terms and Conditions of Sub-loans

The provisions of this Schedule shall be for the purposes of paragraphs 3(d) of Schedule 4 and paragraph 2 (b)(i) of Part B of Schedule 5 to this Agreement.

1. The principal amount of each Sub-loan made out of the proceeds of the Loan allocated from time to time to Category (1) of the table set forth in paragraph A.1 of Schedule 1 to this Agreement shall be denominated in Rupees or Dollars, and be the equivalent, in Rupees or Dollars (determined as of the date or respective dates of withdrawal from the Loan Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the goods and works financed out of the proceeds of the Sub-loan for the Sub-project. Sub-loans shall be denominated in dollars only in respect of Beneficiary Enterprises which are engaged in export business.

2. Each Sub-loan shall be charged interest, on the principal amount thereof withdrawn and outstanding from time to time, at such a rate as may be determined by the Borrower or respective PFI on the basis of its assessment of market conditions and risk management.

3. No expenditures for a Sub-project shall be eligible for financing out of the proceeds of the Loan unless such expenditures shall have been made not earlier than one hundred twenty (120) days prior to the date on which the Borrower shall have received the application and information required under paragraph 4 of this Schedule in respect of such Sub-loan.

4. Requests for withdrawals of the proceeds of the Loan for financing expenditures under a Sub-project shall be presented to the Bank six months prior to the Closing Date.

5. Sub-loans shall be made to a Beneficiary Enterprise which shall have established to the satisfaction of the Borrower or the PFI, as the case may be, that it has a satisfactory financial structure and the organization, management, staff and financial and other resources required for the efficient carrying out of its operations, including the carrying out of the Sub-project.

6. The Sub-loans shall be made for Sub-projects appraised on the basis of procedures set out in the Operational Manual and which are determined to:

(a) be technically feasible and economically, financially and commercially viable; and maintain an adequate financial management system, records and accounts to reflect its operational and financial condition;

(b) be in compliance with all requirements pertaining to environmental and social protection applicable under the laws and regulations of the Guarantor and the

review procedures set forth in the Operational Manual and the Social and Environmental Framework;

(c) it serves a productive purpose by facilitating the financing of transactions conducted by Beneficiary Enterprises;

(d) not involve Input Goods which are intended for a military or paramilitary purpose or for luxury consumption or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the PFIs and the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112		Alcoholic beverages
121		Tobacco, unmanufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated material
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, 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, non-monetary (excluding gold ores and concentrates)

(e) not involve Output Goods which are intended for a military or paramilitary purpose or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower and PFIs:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112		Alcoholic beverages
121		Tobacco, unmanufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
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), non-irradiated, 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, non-monetary (excluding gold ores and concentrates)

7. Sub-loans shall be made on terms whereby the Borrower or the PFI, as the case may be, shall obtain, by written contract with the Beneficiary Enterprise a (Sub-loan Agreement), rights adequate to protect its interests and those of the Bank, the Borrower, and the PFI, including the right to:

(a) require the Beneficiary Enterprise to carry out and operate the facilities financed under the Sub-project with due diligence and efficiency and in accordance with sound technical, financial and managerial standards and to maintain adequate records;

(b) require: (i) that the goods and works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 8 to this Agreement; and (ii) that such goods and works shall be used exclusively in the carrying out of the Sub-project;

(c) inspect, by itself or jointly with representatives of the Bank, if the Bank shall so request, such goods and the sites, works, plants and construction included in the Sub-project, the operation thereof, and any relevant records and documents;

(d) require that: (i) the Beneficiary Enterprise shall take out and maintain with responsible insurers such insurance, against such risks and in such amounts, as shall be consistent with sound business practice; and (ii) without any limitation upon the foregoing, such insurance shall cover hazards incident to the acquisition, transportation and delivery of goods financed out of the proceeds of the Sub-loan to the place of use or installation, any indemnity thereunder to be made payable in a currency freely usable by the Beneficiary Enterprise to replace or repair such goods;

(e) obtain all such information as the Bank or the Borrower shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary Enterprise and to the benefits to be derived from the Sub-project; and

(f) suspend or terminate the right of the Beneficiary Enterprise to the use of the proceeds of the Sub-loan upon failure by such Enterprise to perform its obligations under the Sub-loan Agreement with the Borrower or the PFI.

8. The Borrower or the PFI, as the case may be, shall exercise its rights in relation to each Sub-loan in such manner as to: (i) protect the interests of the Bank, the Borrower and the PFI; (ii) comply with its obligations under this Agreement and the Sub-loan Agreement; and (iii) achieve the purposes of the Project.

SCHEDULE 7

Risk Sharing Guarantee Facility

Procedures and Terms and Conditions

Without any limitation or restriction upon any other provision of this Agreement or of the Operational Manual, and for the purposes of Section 3.02 of this Agreement and paragraph 4 (c)(vi) of Schedule 4 to this Agreement, the Implementation Program for Part B of the Project and the procedures and terms and conditions for the provision of Guarantees shall consist of the following provisions:

1. Responsibility for setting Risk Sharing Guarantee Facility premiums shall be vested in the Management Group, and the responsibility for assessing financial risks and to supervise the Risk Sharing Guarantee Company's compliance with the requirements and procedures of the Risk Sharing Guarantee Facility shall be vested in the Borrower.

2. Except as the Bank may otherwise agree, for the purpose of administering and operating the Risk Sharing Guarantee Facility, the Borrower shall cause the Risk Sharing Guarantee Company to:

(a) review applications for Guarantee Certificates by Risk Sharing Financial Institutions to verify that each transaction proposed to be covered by a Guarantee Certificate meets the following criteria:

- (i) it comprises a portfolio of loans to Eligible Enterprises by a Risk Sharing Financial Institution meeting the eligibility criteria set out in paragraph 3 of this Schedule;
- (ii) such portfolio comprises loans which are all denominated in Rupees;
- (iii) it does not involve Input Goods which are intended for a military or paramilitary purpose or for luxury consumption or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Risk Sharing Guarantee Company and the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112		Alcoholic beverages
121		Tobacco, unmanufactured, tobacco refuse

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated material
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, 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, non-monetary (excluding gold ores and concentrates)

(iv) it does not involve Output Goods which are intended for a military or paramilitary purpose or are included in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Bank by notice to the Borrower and RSGF:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112		Alcoholic beverages
121		Tobacco, unmanufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
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), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
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, non-monetary (excluding gold ores and concentrates)

- (v) it complies with environmental standards satisfactory to the Bank, and which are as set forth in the Operations Manual and the Social and Environmental Framework;
- (vi) it serves a productive purpose by facilitating the financing of transactions conducted by Eligible Enterprises; and
- (vii) its value does not exceed the equivalent of 25% of the capital of the Risk Sharing Guarantee Company

(b) enter into Guarantee Certificates with Guarantee Holders, providing Guarantees against the Covered Risk and containing terms and conditions satisfactory to the Borrower and the Bank including, inter alia, the following:

- (i) a guarantee fee determined on the basis of the asset quality and/or the spread earned on the relevant portfolio or such other method as deemed appropriate by the Management Group;
- (ii) the upfront fee shall be such percentage as may be agreed upon with the Management Group of the Risk Sharing Guarantee Facility;
- (iii) an availability period of the Guarantee determined on the basis of the maximum remaining maturity period of the loan or cluster of loans included in the portfolio provided that such period does not exceed five years in respect of term loans;
- (iv) the amount of the covered Risk determined on the basis of the review and evaluation referred to in paragraph 2 (b) of this Schedule, provided that such amount does not exceed 50% of the

outstanding principal balance of the portfolio any point in time;
and

(v) other terms and conditions set out in the following paragraphs;

(c) utilize the amounts deposited in the Guarantee Reserve Account in accordance with the provisions of this Schedule exclusively to make Eligible Investments, Payments, or to provide new Guarantee Certificates;

(d) if a Guarantee Certificate terminates or expires without the Risk Sharing Guarantee Company being required to make a Payment thereunder, maintain in the Guarantee Reserve Account an amount equivalent to the full amount of such Guarantee Certificate, which amount shall be available, on a revolving basis, for the purpose of new Guarantee Certificates to be issued by the Risk Sharing Guarantee Company in accordance with the Operations Manual;

(e) if a Loss covered by a Guarantee Certificate occurs, make a Payment in respect thereof to the relevant Guarantee Holder in accordance with the provisions of such Guarantee Certificate and the Operations Manual by making a withdrawal from the Guarantee Reserve Account. Where such Loss is only partial, then the Risk Sharing Guarantee Company shall maintain in the Guarantee Reserve Account an amount equivalent to the difference between the original amount of such Guarantee Certificate and the relevant Payment, which amount shall be available, on a revolving basis, for the purpose of new Guarantee Certificates to be issued by the Risk Sharing Guarantee Company in accordance with the Risk Sharing Guarantee Facility Operational Manual;

(f) notwithstanding Sub-paragraph (c) above of this Schedule, and until required for purposes of making Payments pursuant to Sub-paragraph (e) above, the Borrower may use the sums on deposit in the Guarantee Reserve Account to make Eligible Investments from time to time;

(g) maintain on deposit in the Guarantee Reserve Account all interest earned on the amounts deposited in the Guarantee Reserve Account, as well as all profits, dividends, distributions, capital gains and other income derived from or related to any Eligible Investments, and use said income exclusively for the purposes specified in Sub-paragraph (c) of this Paragraph;

(h) maintain copies of all Guarantee Certificates issued, and all records relating thereto, for at least one (1) year after: (i) receipt by the Bank of the relevant audit report provided for under Section 4.01(b)(ii) of this Agreement, or (ii) the termination or expiration of the relevant Guarantee Certificate, whichever is the later; and

(i) without prejudice to the provisions of Section 4.02 of this Agreement, provide the Borrower and the Bank on a semi-annual basis, commencing three (3) months after the Effective Date, with a written report specifying for the preceding calendar

quarter: (A) the Guarantee Certificates issued and their respective Guarantee Holders; (B) the amount of each such Guarantee Certificate and its expiry date; (C) a listing of the amounts withdrawn by it from the Loan Account, including the dates of such withdrawal, as well as the aggregate amount so withdrawn since the Effective Date; (D) a listing of the amounts deposited by it into the Guarantee Reserve Account, including the dates of such deposit, as well as the aggregate amount so deposited since the Effective Date; (E) the amount of each Payment made, including the date thereof, together with confirmation of the relevant Guarantee Certificate to which such Payment relates, as well as a listing of the amounts withdrawn by it from the Guarantee Reserve Account, including the dates of such withdrawal, for the purposes of making such Payments, and the aggregate amount of such Payments since the Effective Date; (F) a listing of each Eligible Investment made by it, including the date upon which same was made, as well as reasonable details as to the amount and nature thereof, and a listing of the amounts withdrawn by it from the Guarantee Reserve Account, including the dates of such withdrawal, for the purposes of making such Eligible Investments; and (G) a listing of the Guarantee Certificates which expired or were subject to early termination.

3. The criteria in accordance with which Risk Sharing Financial Institutions shall be eligible to be covered by Guarantee Certificates in respect of their portfolio of loans to Eligible Enterprises shall include the following:

- (a) the experience and capacities of such Institutions in delivering financial services to the SME market;
- (b) marketing plans and capabilities to develop new SME loans using the Risk Sharing Guarantee Facility;
- (c) the criteria relating to capital adequacy and profitability as applicable for PFIs and set out in Risk Sharing Guarantee Facility Operational Manual;
- (d) satisfactory asset quality on the SME portfolio with a ratio of net non-performing loans of no more than 6%;
- (e) the risk profile of the selected portfolio of loans of a Risk Sharing Financial Institution is not worse than the average SME portfolio of the Institution; and
- (f) the portfolio does not include any loan with an outstanding balance greater than 25% of the corpus of the Risk Sharing Guarantee Company.

4. The Borrower shall cause the Risk Sharing Guarantee Company to ensure that Guarantees issued by the Company does not cover risk of loss for more than 50% of the amount payable by Eligible Enterprises to a Risk Sharing Financial Institution in respect of its selected portfolio of loans (Covered Risk). Subject to the availability of additional funds from other donors to be utilized for the purpose of providing second loss guarantee

coverage through the Company, the amount of the proceeds of the Loan to be utilized for the purpose of providing Guarantees shall not exceed coverage for an amount which when added to the coverage provided by other donors exceed 50% of the amount referred to in the first sentence of this paragraph.

SCHEDULE 8

Procurement

Section I. Method of Procurement of Goods, Works and Services (other than consultants' services)

Commercial Practices. Goods and works to be financed under Sub-loans made for Sub-projects under Part A of the Project, may be procured in accordance with commercial practices of the Eligible Enterprises.

Section II. Methods of Procurement of Consultants' Services

Commercial Practices. Services to be financed under Sub-loans made for Sub-projects under Part A of the Project, may be procured in accordance with commercial practices of the Eligible Enterprises.