

Public Disclosure Authorized

CONFORMED COPY

LOAN NUMBER 7694-IN

Loan Agreement

(Additional Financing for Small and Medium Enterprises
Financing and Development Project)

between

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

and

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

Dated June 5, 2009

LOAN AGREEMENT

AGREEMENT dated June 5, 2009, between SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (“Borrower”) and INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT (“Bank”) for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Borrower and the Bank hereby agree as follows:

ARTICLE I – DEFINITIONS; GENERAL CONDITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II – LOAN

- 2.01. The Bank agrees to lend to the Borrower, on the terms and conditions set forth or referred to in this Agreement, the amount of four hundred million Dollars (\$400,000,000) 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 Agreement (“Loan”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Borrower may withdraw the proceeds of the Loan in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Front-end Fee payable by the Borrower shall be equal to one quarter of one percent (0.25%) of the Loan amount.
- 2.04. The interest payable by the Borrower for each Interest Period shall be at a rate equal to LIBOR for the Loan Currency plus the Variable Spread; provided, that upon a Conversion of all or any portion of the principal amount of the Loan, the interest payable by the Borrower during the Conversion Period on such amount shall be determined in accordance with the relevant provisions of Article IV of the General Conditions. Notwithstanding the foregoing, if any amount of the Withdrawn Loan Balance remains unpaid when due and such non-payment continues for a period of thirty (30) days, then the interest payable by the Borrower shall instead be calculated as provided in Section 3.02(d) of the General Conditions.

- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Loan shall be repaid in accordance with the provisions of Schedule 6 to this Agreement.
- 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, 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 withdrawn and outstanding 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 the 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 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 – PROJECT

- 3.01. The Borrower declares its commitment to the objectives of the Project. To this end, the Borrower shall carry out the Project in accordance with the provisions of Article V of the General Conditions and this Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Borrower and the Bank shall otherwise agree, the Borrower shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV – REMEDIES OF THE BANK

- 4.01. The Additional Events of Suspension consist of the following:
- (a) the Operational Manual, 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 Declaration of Trust 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; and
- (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.

4.02. The Additional Events of Acceleration consist of the following:

- (a) Any event specified in paragraphs (e), (f), (g), or (h) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Bank to the Borrower.
- (b) Any event specified in paragraphs (a), (b), (c), or (d) of Section 4.01 of this Agreement occurs.

ARTICLE V – TERMINATION

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI – REPRESENTATIVE; ADDRESSES

- 6.01. The Borrower's Representative is the Chairman and Managing Director.

- 6.02. The Borrower's Address is:

Small Industries Development Bank of India
SME Development Center
C-11, G Block
Bandra-Kurla Complex
Bandra, Mumbai-400-051
India

Telex:	Facsimile:
LAGHUVIKAS	(022) 2654 1124

- 6.03. The Bank's Address is:

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)	1-202-477-6391

AGREED at New Delhi, India, as of the day and year first above written.

SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA

By /s/ R. M. Malla
Authorized Representative

INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT

By /s/ N. Roberto Zagha
Authorized Representative

SCHEDULE 1

Project Description

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:

Part A: Credit Facility

The operation of a credit facility for the purpose of providing Sub-loans by the Borrower and/or PFIs to Beneficiary Enterprises.

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 Risk Sharing Financial Institutions in respect of their lending to Eligible Enterprises.

Part C: Policy and Institutional Development Technical Assistance

Implementing a program, through an ongoing parallel technical assistance (Co-financing) for policy and institutional development (which program can be supplemented with additional funding from other donor agencies) consisting, *inter alia*, of: (a) strengthening the policy, legal and regulatory framework for establishing an efficient environment for SME financing; (b) improving credit information on SMEs; (c) building institutional capacity within the participating financial institutions to reduce transactions costs and manage risks related to SME lending; (d) strengthening the access of SMEs to business development services; and (e) strengthening the institutional capacity of the Borrower for implementing and monitoring the Project.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Project Undertakings**

1. The Borrower shall maintain the Operational Manual, the GAAP, and the Social and Environmental Framework in form and content satisfactory to the Bank, shall duly perform all its obligations under said Manual, GAAP and Framework and shall not amend, abrogate or waive the Manual, GAAP, or 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) 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 4 to this Agreement;
 - (b) 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;
 - (c) 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;
 - (d) select PFIs that meet the eligibility criteria set forth in paragraph B.1 of Schedule 3 to this Agreement and provide to the Bank a copy of the Borrower's assessment of each selected PFI;
 - (e) 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 A.2 of Section IV of this Schedule 2 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 3 to this Agreement;

- (f) 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 3 to this Agreement;
- (g) appraise PFIs and activities to be financed out of the proceeds of a Sub-loan, and supervise, monitor and report on the carrying out by the Beneficiary Enterprises of said Sub-loan activities in accordance with the Operational Manual, the GAAP, 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. For the purposes of carrying out of Part B of the Project utilizing the proceeds of the Loan, the Borrower shall:
 - (a) 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 A.2 of Section IV of this Schedule 2 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;
 - (b) through 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 5 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 5 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 monitor the overall execution of Part B of the Project;

- (xv) 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;
 - (xvi) 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
 - (xvii) to participate in the mid-term review as provided for in the Risk Sharing Guarantee Operations Manual, and other reviews of the Project as so requested by the Bank, and to prepare and provide to the Bank promptly all related reports for said reviews in form and substance satisfactory to the Bank.
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 Section I of this Schedule 2.
6. The Borrower shall:
- (a) take measures to comply with the eligibility criteria applicable to PFIs as set out in Part B of Schedule 3 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.
7. 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.
8. 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.
9. 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.

10. (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 3 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.
11. (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 4 to this Agreement.
- (b) The Borrower shall, and shall cause each PFI to, exercise its rights in relation to the activities financed out of the proceeds of a Sub-loan 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.
12. (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 5 of 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.
13. (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 5 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.
14. Except as the Bank may otherwise agree, 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 by the Closing Date 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.
15. 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.

B. Anti-Corruption

The Borrower shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The Borrower shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 5.08 of the General Conditions and on the basis of indicators agreed with the Bank. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Bank not later than one month after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Borrower shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 5.09 of the General Conditions.
2. The Borrower shall prepare and furnish to the Bank as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Bank.
3. The Borrower shall have its Financial Statements audited in accordance with the provisions of Section 5.09(b) of the General Conditions. Each audit of the Financial Statements shall, for the first two (2) years of Project implementation, commencing on the Effective Date cover the following periods: April through September and October through March for such years, for which the audited Financial Statements for each such period shall be furnished to the Bank not later than three (3) months after the end of such period. Commencing with the third year of Project implementation, the Borrower shall, on an annual basis, have its Financial Statements audited by an independent auditor acceptable to the Bank, in accordance with consistently applied auditing standards acceptable to the Bank. Each annual audit of said Financial Statements shall cover the period of one Fiscal Year of the Borrower and shall be furnished to the Bank not later than six (6) months after the end of the period.

Section III. Procurement**A. General**

1. **Goods.** All goods required for the Project and to be financed out of the proceeds of the Loan shall be procured in accordance with the requirements set forth or referred to in the Procurement Guidelines and the provisions of this Schedule.
2. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods refer to the corresponding method described in the Procurement Guidelines.

B. Particular Methods of Procurement of Goods

Commercial Practices. Goods to be financed out of the proceeds of a Sub-loan made pursuant to a Sub-loan Agreement under Part A of the Project, may be procured in accordance with Commercial Practices acceptable to the Bank.

Section IV. Withdrawal of Loan Proceeds

A. General

1. The Borrower may withdraw the proceeds of the Loan in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Bank may specify by notice to the Borrower (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenses as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Loan (“Category”), the allocation of the amounts of the Loan to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category.

Category	Amount of the Loan Allocated (expressed in USD)	Percentage of Expenditures to be financed
(1) Sub-loans under Part A of the Project	380,000,000	90% of amounts disbursed under Sub-loan Agreements
(2) Financing to operate Risk Sharing Guarantee Facility under Part B of the Project	10,000,000	100% of Financing provided by SIDBI to the Risk Sharing Guarantee Company
(3) Front-end Fee	1,000,000	
(4) Unallocated	9,000,000	
TOTAL AMOUNT	400,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made in respect of expenditures prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$80,000,000 equivalent may be made for payments made prior to this date but on or after June 1, 2008 for Eligible Expenditures under Categories (1) and (2).
2. The Closing Date is June 30, 2012.

SCHEDULE 3**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 A.3(b) of Section I of Schedule 2 to this Agreement.

A. Terms

1. The principal amount of Subsidiary Loans to on-lend 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 paragraph 1 of Part B of this Schedule 3; 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 six (6) 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 auditor; 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 PFI's 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 Original Project, and conduct its operations and affairs in accordance with the provisions set forth in the Anti-Corruption Guidelines, 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 4 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 activities to be financed out of the proceeds of a Sub-loan, and supervise, monitor and report on the carrying out of said activities by the Beneficiary Enterprises, 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 4**Procedures and Terms and Conditions of Sub-loans**

The provisions of this Schedule shall be for the purposes of paragraph A.3(a) of Section I of Schedule 2 and paragraph B.2(b)(i) of Schedule 3 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.2 of Section IV of Schedule 2 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 designated account opened and maintained by the Borrower in accordance with the provisions of Section 2.04 of the General Conditions) of the value of the currency or currencies so withdrawn or paid out on account of the goods financed out of the proceeds of the Sub-loan made pursuant to a Sub-loan Agreement.
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 activities financed out of the proceeds of a Sub-loan 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. 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 activities financed out of the proceeds of a Sub-loan.
5. The Sub-loans shall be made for activities to be financed under a Sub-loan Agreement, 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) serve a productive purpose by facilitating the financing of transactions conducted by Beneficiary Enterprises;
- (d) not involve goods, or goods used as inputs in the production of such 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)

- 6. 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 out of the proceeds of a Sub-loan 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 to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Section III of Schedule 2 to this Agreement; and (ii) that such goods shall be used

exclusively in the carrying out of the activities financed out of the proceeds of the relevant Sub-Loan;

- (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 activities financed out of the proceeds of a Sub-loan, 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 hereunder 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 activities financed out of the proceeds of a Sub-loan; 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.

7. The Borrower or the PFI, as the case may be, shall exercise its rights in relation to each Sub-loan in accordance with the provisions of the Anti-Corruption Guidelines and 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 5

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 A.4(b)(vi) of Section I of Schedule 2 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 loans to Eligible Enterprises by a Risk Sharing Financial Institution meeting the eligibility criteria set out in paragraph 3 of this Schedule;
 - (ii) it does not involve goods, or goods used or intended to be used as inputs in the production of such 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
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated material

667		Pearls, precious and semiprecious stones, unworked or worked
<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
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)

- (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 annual service 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; and
 - (iv) the amount of the covered Risk determined on the basis of the review and evaluation referred to in paragraph 2(a) of this Schedule, provided that such amount does not exceed 50% of the outstanding principal balance of the portfolio any point in time;
- (c) if a Guarantee Certificate terminates or expires without the Risk Sharing Guarantee Company being required to make a Payment hereunder, 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 Operational Manual;

- (d) 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;
- (e) maintain on deposit in the Guarantee Reserve Account all interest earned on the amounts deposited in the Guarantee Reserve Account, as well as all net 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 this Agreement;
- (f) 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 required in accordance with the provisions set forth in the Risk Sharing Guarantee Facility Operational Manual and the Operational Manual, or (ii) the termination or expiration of the relevant Guarantee Certificate, whichever is the later; and
- (g) without prejudice to any of the provisions of the Risk Sharing Guarantee Operational Manual and the Operational Manual, 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; and (F) 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 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 6**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 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) Withdrawn Loan Balance as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayable amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

Principal Payment Date	Installment Share
June 15, 2014	33.25%
June 15, 2019	33.25%
June 15, 2024	33.50%

2. If the proceeds of the Loan have not 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 have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the Withdrawn Loan Balance as of such date in accordance with paragraph 1 of this Schedule.
- (b) Any amount withdrawn 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 is the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (“Original Installment Share”) and the denominator of which is the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such amounts repayable 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) Amounts of the Loan withdrawn within two (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.

- (b) Notwithstanding the provisions of sub-paragraph (a) of this paragraph, if at any time the Bank adopts 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 Loan Balance to an Approved Currency, the amount so converted in the Approved Currency that is 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 the Conversion by either: (i) the exchange rate that reflects the amounts of principal in the Approved Currency payable by the Bank under the Currency Hedge Transaction relating to the Conversion; or (ii) if the Bank so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

APPENDIX**Section I. Definitions**

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Beneficiary Enterprise” means an SME satisfying the appropriate criteria as set forth in paragraph 4 of Schedule 4 to this Agreement to which the Borrower or a PFI (as defined hereinafter) proposes to make or has made a Sub-loan.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Co-financing” means a grant provided, or to be provided, by the United Kingdom of Great Britain and Northern Ireland, acting through its Department for International Development, referred to in paragraph 15 of the Appendix to the General Conditions, to assist in the financing of Part C of the Project (which Part can be supplemented with additional funding from other donor agencies).
5. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
6. “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 loans selected in accordance with criteria set out in Schedule 5 to this Agreement.
7. “Declaration of Trust” means the Trust Deed dated July 27, 2000, executed under the Bombay Public Trusts Act, 1950 and registered by the Sub-Registrar of Mumbai by Document No. BBE3649/2000 on July 27, 2000, or any successor or successors thereto, which established the Credit Guarantee Fund Trust for Micro and Small Enterprises.
8. “Eligible Categories” means Categories 1, 2 and 3 set forth in the table in paragraph A.2 of Section IV of Schedule 2 to this Agreement.
9. “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; and (ii) not be speculative in nature; and be held in a segregated account, all in accordance with the relevant provisions of the Risk Sharing Guarantee Facility Operational Manual.

10. “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.
11. “Financing” means the financial contribution made 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).
12. “Financing Agreement” means the Agreement 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.
13. “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.
14. “GAAP” means the Governance and Accountability Action Plan, dated March 21, 2009, adopted by the Borrower, for the purpose of setting forth the actions that are built into the Project design, implementation and supervision arrangements to mitigate any risks related to governance, fraud and corruption, and to ensure sustainability of Project outcomes and impact, as such Plan may be revised from time to time with the prior concurrence of the Bank.
15. “General Conditions” means the “International Bank for Reconstruction and Development General Conditions for Loans”, dated July 1, 2005 (as amended through February 12, 2008), with the modifications set forth in Section II of this Appendix.
16. “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.

17. “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 loans that have been selected by the Risk Sharing Guarantee Company in accordance with the criteria set out in Schedule 5 to this Agreement and containing satisfactory terms and conditions including those set out in such Schedule 5.
18. “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 5 to this Agreement and the Risk Sharing Guarantee Facility Operational Manual.
19. “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.
20. “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 acceptable to the Bank in the Guarantor’s territory, 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.
21. “IAD” means the Internal Audit Department of the Borrower.
22. “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.
23. “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 5 to this Agreement and the Risk Sharing Guarantee Facility Operational Manual.

24. “Operational Manual” means the manual of the Borrower dated October 27, 2004, and amended on March 21, 2009, as such Manual may be amended from time to time.
25. “Original Loan Agreement” means the loan agreement for the Small and Medium Enterprises and Development Project between the Bank and the Borrower, dated January 14, 2005, as amended to the date of this Agreement (Loan No. 7263-IN).
26. “Original Project” means the Project described in Schedule 2 of the Original Loan Agreement.
27. “PMD” means the dedicated team of the Borrower established for the purpose of assisting the Borrower in managing the implementation, monitoring, and supervision of the Project.
28. “Participating Financial Institution” or “PFI” means any Scheduled Commercial Bank (as defined hereinafter) or financial institution selected by the Borrower pursuant to criteria set forth in paragraph B.1 of Schedule 3 to this Agreement.
29. “Participation Agreement” means any agreement entered or to be entered into between the Borrower and a PFI pursuant to paragraph B.2 of Schedule 3 to this Agreement, as the same may be amended from time to time, and such term includes all schedules supplemental to the Participation Agreement.
30. “Payment” means any payment made to a Guarantee Holder on account of a Loss.
31. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
32. “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.
33. “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.
34. “Risk Sharing Guarantee Company” means the Credit Guarantee Fund Trust for Micro and Small Enterprises, established by the government of India and the Borrower as an irrevocable Trust through the Declaration of Trust or any successor or successors thereto.
35. “Risk Sharing Guarantee Facility” means the Facility established by the Risk Sharing Guarantee Company for purposes 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 5 of this Agreement, the Risk Sharing Guarantee Facility Operational Manual, the Financing Agreement and the Declaration of Trust.

36. “Risk Sharing Financial Institution” means, any Scheduled Commercial Bank (as defined hereinafter) or any other financial institution selected by the Risk Sharing Guarantee Company pursuant to criteria set forth in Schedule 5 to this Agreement.
37. “Risk Sharing Guarantee Facility Operational Manual” means the Manual to be adopted by the Risk Sharing Guarantee Facility in accordance with the provisions of this Agreement; as such manual may be revised from time to time in accordance with this Agreement.
38. “Rupees” and “Rs” mean the lawful currency of India.
39. “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.
40. “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.
41. “SIDBI” means a Statutory Corporation established under Section 3 of the Small Industries Development Bank of India Act, 1989, as amended.
42. “SIDBI Act” means Small Industries Development Bank of India Act, 1989, as amended.
43. “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).
44. “SME” means a small or medium scale enterprise, business or service firm with investments in plant and machinery of up to Rs.100 million.
45. “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 paragraph A.2 of Section IV of Schedule 2 to this Agreement, for purposes of financing or refinancing all or a portion of the expenditures incurred by a Beneficiary Enterprise for goods, or for the financing of working capital requirements of a Beneficiary Enterprise carried out under a Sub-loan Agreement.

- 46. “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 Schedule 4 to this Agreement.
- 47. “Subsidiary Loan” means any loan made pursuant to a Participation Agreement.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows, namely, Paragraph (1) of Section 7.02 is modified to read as follows:

“Section 7.02. *Suspension by the Bank*

...

(1) *Ineligibility.* The Bank or the Association has declared the Borrower (other than the Member Country) or the Project Implementing Entity ineligible to receive proceeds of any financing made by the Bank or the Association or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Bank or the Association, as a result of a determination by the Bank or the Association that the Borrower or the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Bank or the Association.”