

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4754-IN

Financing Agreement

(Scaling Up Sustainable and Responsible Microfinance Project)

between

INDIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 9, 2010

Public Disclosure Authorized



CREDIT NUMBER 4754-IN

FINANCING AGREEMENT

AGREEMENT dated July 9, 2010, entered into between INDIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

Whereas Small Industries Development Bank of India (“SIDBI”) has also requested the International Bank for Reconstruction and Development (“Bank”) to provide additional assistance towards the financing of the project (“Project”) described in Schedule 1 to this Agreement, and by an agreement of even date herewith between the Bank and SIDBI (“Loan Agreement”), the Bank is agreeing to provide such assistance in an aggregate principal amount equal to two hundred million Dollars (\$200,000,000) (“Loan”).

The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 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 — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to sixty five million nine hundred thousand Special Drawing Rights (SDR 65,900,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

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

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, that the SIDBI Act has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SIDBI to perform any of its obligations under this Agreement.
- 4.02. The Additional Event of Acceleration consists of the following, namely, that the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely the Subsidiary Agreement has been executed on behalf of the Recipient and SIDBI, and all conditions precedent to its effectiveness (other than the effectiveness of this Agreement and the Loan Agreement) have been fulfilled.

- 5.02. The Additional Legal Matter consists of the following, namely the Subsidiary Agreement is legally binding upon the Recipient and the Borrower in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Secretary, Additional Secretary, Joint Secretary, Director, Deputy Secretary or Under Secretary of the Department of Economic Affairs in the Ministry of Finance of the Recipient.

- 6.02. The Recipient's Address is:

Department of Economic Affairs
Ministry of Finance, Government of India
North Block
New Delhi 110001, India

Facsimile:

91-11-23092039

- 6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI)

1-202-477-6391

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

INDIA

By /s/ Anup K. Pujari
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ N. Roberto Zaghera
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to scale up access to sustainable microfinance services to the financially excluded, particularly in the under-served areas of India, through, among other things, introduction of innovative financial products and fostering transparency and responsible finance.

The Project consists of the following components:

I. Scaling Up Funding Support for Beneficiary MFIs

Provision of Eligible Investments by SIDBI to Beneficiary MFIs.

II. Strengthening Responsible Finance

Development of a common information platform for India microfinance institutions for collection and dissemination of data related to microfinance, support and institutionalization of a lenders' forum to promote transparency and good governance by India microfinance institutions, and development and piloting of a code of conduct assessment, to serve as a potential tool to measure adherence by the India microfinance institutions to the code of conduct.

III. Capacity Building and Monitoring

Strengthening SIDBI's institutional capacity to implement, coordinate, monitor and evaluate the Project, including conducting third-party assessments and audits and communications activities.

SCHEDULE 2**Project Execution****Section I. Implementation, Institutional, and Other Undertakings****A. Subsidiary Agreement**

1. To facilitate the carrying out of the Project, the Recipient, through the Department of Financial Services, Ministry of Finance, shall make the proceeds of the Financing available to SIDBI under a subsidiary agreement between the Recipient and SIDBI, under terms and conditions acceptable to the Association (“Subsidiary Agreement”).
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not materially assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Institutional Arrangements

The Recipient shall ensure that throughout Project implementation, SIDBI maintains adequate Project implementation structures, including a dedicated microfinance department within SIDBI, with functions, powers, staff and resources necessary and appropriate for Project implementation.

C. Implementation

1. The Recipient shall ensure that SIDBI implements the Project in accordance with the Schedule to the Project Agreement and the Loan Agreement, including the provisions of the Anti-Corruption Guidelines.
2. The Recipient shall protect the interests of the Recipient and the Association to accomplish the purposes of the Financing.

D. Eligible Investments

The Recipient shall ensure that SIDBI shall carry out Component I of the Project in accordance with the provisions of Section I.C of the Schedule to the Project Agreement.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. The Recipient shall cause SIDBI to monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of two (2) consecutive Financial Year quarters, and shall be furnished to the Association not later than sixty (60) days after the end of the period covered by such report.
2. By November 30, 2012, the Recipient shall cause SIDBI to carry out a comprehensive mid-term Project review under terms of reference satisfactory to the Association, and by December 31, 2012, the Recipient shall cause SIDBI to prepare and furnish to the Association a mid-term Project progress report, satisfactory to the Association.
3. For purposes of Section 4.08(c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than December 31, 2015.

B. Financial Management, Financial Reports and Audits

1. Without limitation upon the provisions of Section 4.09(a) of the General Conditions, the Recipient shall cause SIDBI to maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations and financial conditions of SIDBI, including the operations, resources, and expenditures related to the Project.
2. The Recipient shall cause SIDBI to prepare and furnish to the Association not later than sixty (60) days after the end of each Financial Year quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. Without limitation upon the provisions of Section 4.09(b) of the General Conditions, the Recipient shall cause SIDBI to have its financial statements referred to in paragraph 1 above audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association. Each audit of such financial statements shall, for the first two (2) years of Project implementation, commencing on the date of this Agreement, cover the period of April through September, and October through March, and the audit report and audited financial statements shall be furnished to the Association not later than three (3) months after the end of such period. Thereafter, each audit shall cover the period of one (1) Financial Year and the

audit report and audited financial statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding, and the additional provisions agreed between the Recipient and the Association
(b) Shopping
(c) Direct Contracting

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Selection under Fixed Budget
(b) Least Cost Selection
(c) Selection Based on the Consultants’ Qualifications
(d) Single-Source Selection
(e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants
(f) Sole Source Procedures for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

E. Procurement under Component I

All procurement to be carried out by microfinance beneficiaries and to be financed out of the proceeds of the Sub-loans may be carried out under Paragraph 3.12 of the Procurement Guidelines in accordance with established private sector or commercial practices acceptable to the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient

(including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures 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 Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Eligible Investments under Component I of the Project: Sub-Loans	59,300,000	90% of amounts disbursed under the Sub-loan Agreements
(2) Goods, works, consultants’ services, Incremental Operating Costs, and Training under Components II and III of the Project	6,600,000	100%
TOTAL AMOUNT	65,900,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$45,000,000 equivalent under the Credit may be made for payments made prior to this date but on or after July 1, 2009, for Eligible Expenditures under Categories (1) and (2).
2. The Closing Date is June 30, 2015.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing June 15, 2020 to and including December 15, 2029	1.25%
Commencing June 15, 2030 to and including December 15, 2044	2.5%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

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 MFI” means a microfinance institution registered and operating in accordance with the applicable laws and regulations of India, and selected by SIDBI in accordance with the applicable provisions of the Operations Manual and Part C of Section I of the Schedule of the Project Agreement, in which the SIDBI proposes or has made an Eligible Investment, and “Beneficiary MFIs” means two or more Beneficiary MFIs.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “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.
5. “ELA” means the list of activities and expenditures excluded from being eligible for Credit financing, described in Section 1 of the Operations Manual.
6. “Eligible Investments” means the Sub-Loans and/or Equity Investments.
7. “Equity Investment” means an investment made or proposed to be made by SIDBI in a share capital or preferred shares or other forms of investment convertible to share capital including in the form of quasi-equity instruments, of a Beneficiary MFI for the purpose of supporting the MFI operations and in accordance with the applicable provisions of the Operations Manual and Part D of Section I of Schedule 2 to this Agreement, and “Equity Investments” means two or more Equity Investments.
8. “Equity Subscription Agreement” means an agreement between the SIDBI and the Beneficiary MFI related to the Equity Investment.
9. “Financial Year” means the Recipient’s financial year, beginning on April 1 of a calendar year and ending on March 31 of the following calendar year.
10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended

through October 15, 2006), with the modifications set forth in Section II of this Appendix.

11. “Incremental Operating Costs” means incremental operating costs incurred by SIDBI on account of Project implementation, management and monitoring, including salaries of non-civil service positions and consultancy costs, dissemination of Project related information, office and equipment purchase, maintenance and repair, vehicle maintenance and repair, travel, security, communication, bank charges, and other costs directly associated with and necessary under the Project.
12. “Operations Manual” means the Operations Manual of SIDBI dated April 23, 2010, setting forth the policies, terms, conditions and procedures related to Project implementation as such manual may be amended from time to time in accordance with the Schedule, Section I, Part B of the Project Agreement.
13. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, and revised in October 2006.
14. “Procurement Plan” means SIDBI’s procurement plan for the Project, dated December 23, 2009, and referred to in paragraph 1.16 of the Procurement Guidelines, and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
15. “SIDBI” means Small Industries Development Bank of India, a statutory corporation established under Section 3 of the SIDBI Act, or any successor or successors thereto.
16. “SIDBI Act” means Small Industries Development Bank of India Act, 1989, as such act may be amended from time to time.
17. “Sub-loan” means a loan made or proposed to be made by SIDBI to the Beneficiary MFI, for the purpose of on-lending to microfinance beneficiaries, in accordance with the applicable provisions of the Operations Manual and Part D of Section I of Schedule 2 to this Agreement, out of the proceeds of the Credit allocated from time to time to Category (1) of the table set forth in paragraph 2 of Part A of Section IV of Schedule 2 to this Agreement, and “Sub-loans” means two or more Sub-loans.
18. “Sub-loan Agreement” means an agreement between SIDBI and the Beneficiary MFI related to the Sub-loan.
19. “Training” means reasonable and necessary costs of training related to Project implementation, including the fees of educational or other institutions that

provide training, costs related to attendance or organization of conferences, seminars, study tours and workshops, and the trainees' cost of travel, boarding, lodging and per diem allowances.

Section II. Modifications to the General Conditions

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

Paragraph (i) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (1) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of a determination by the Association or the Bank that 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 Association or the Bank.”