



SAARC Development Fund

**SDF CREDIT POLICY
FOR
ECONOMIC
&
INFRASTRUCTURE
WINDOWS**

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ABBREVIATIONS USED IN THE DOCUMENT

S.No.	Abbreviation	EXPANSION
1	CA	Current Asset
2	CIR	Credit Information Report
3	DER	Debt-Equity Ratio
4	DSCR	Debt Service Coverage Ratio
5	KYC	Know Your Customer
6	SDF	SAARC Development Fund
7	CEO	Chief Executive Officer

SDF OPERATIONAL CREDIT POLICY

1. PURPOSE AND SCOPE:

1.1 Purpose: To foster sustainable economic development, enhancing cooperation/partnership and improve connectivity in SAARC Region by investing in productive sectors to address development challenges being faced by the member states of the region. The purpose of this Credit Policy also includes operationalization of Economic and Infrastructure Windows of SAARC Development Fund (SDF) to finance the projects/as mandated by its Charter under Articles 4 and 5.

1.2 Scope: This Credit Policy applies to projects and programs finance under the Economic and the Infrastructure Windows.

2. DEFINITIONS

2.1. As used in this Policy, the following terms have the meanings set forth below.

- a) **Articles** mean the articles of Charter of SDF.
- b) **Economic & Infrastructure Windows** – Defined in the Article 4 of SDF Charter.
- c) **Direct Benefit** means the benefit directly going to the participant SAARC Member States.
- d) **Fund** means the SAARC Development Fund.
- e) **Board** means the SDF Board of Directors.
- f) **Financing** means financing of Projects/Programs under the Economic & Infrastructure Windows of SDF.
- g) **Government** means the government of a SAARC Member State.
- h) **Guarantee** means a guarantee extended by the Fund as per Section 11 of SDF Bye Laws.
- i) **Legal Agreements** means the legal agreements for a Project/Program to which the Fund is a party.
- j) **Loan** means a loan made by the Fund as per Section 11 of SDF Bye Laws.
- k) **Member** means SAARC Member States.
- l) **CEO** means the Chief Executive Officer of the SAARC Development Fund.
- m) **Project** means the specific set of activities for which the Financing is made.
- n) **US Dollars, USD** and **\$** each means the lawful currency of the United States of America.
- o) **Local Currency** means the local currency prevailing in the respective SAARC Member States.

3. OBJECTIVE OF POLICY

3.1 Objectives : The objectives of this Credit Policy are to:

- a) To set principles and clear guidelines for funding the projects under Economic and Infrastructure Windows of SDF.
- b) To initiate developing a technically and commercially viable diversified credit portfolio in SDF;
- c) To generate an acceptable yield/ income for SDF;
- d) To adopt sound risk management system;

The credit policy and policy guidelines for E&I Windows covered important credit related issues such as funding under the Economic & Infrastructure Windows, products, process, pricing of SDF's investment products, broad financial parameters and exposure norms for Credit Risk Management.

3.2 Operating Principles. The guiding principles to conduct its operations with regard to E&I Windows will *inter alia*, include the following:

- a) SDF shall make all possible efforts to ensure that its funds are employed in the best interest of Member States;
- b) In selecting projects the Fund shall be guided by Article 5 of the Charter at all the times;
- c) SDF shall be guided by sound Funding principles in its investment decisions, with transparency and accountability;
- d) Credit function shall be done in accordance with rules and regulations approved by the Board;
- e) The Fund shall take all measures to mitigate the risks in its lending operations by having clear exposure caps for various sectors.
- f) No project which is not in conformity with environmental laws of the Member States shall be funded. The Fund shall actively promote environment friendly technologies and fund such projects. Environment Impact Assessment, and Environment & Social Aspects shall be important constituents of the funding process.
- g) SDF shall employ Public Private Partnership (PPP) model, wherever required/possible, for catalyzing investment in the SAARC region.
- h) As per Section 10 (2) (iii) of the SDF Bye Laws, the Fund shall not finance any undertaking in the territory of a SAARC Member States, if that country objects to such financing.
- i) SDF will focus on the areas/projects which are not financed by Multilateral Development financial institutions/banks. However syndication for financing may be considered.

4. ELIGIBILITY FOR FINANCING:

4.1 Eligible Borrowers :

The loans under the two windows could be extended to general government and public sector corporate bodies, SPVs and private sector. Thus, no assistance is envisaged to sole proprietorships and partnership firms (even Limited Liability Partnerships) in the initial phase.

4.2 Eligible Projects: As per Article 5 of Charter, the resources and facilities may be utilized for funding:

- a) Projects/programs involving any one or more than one SAARC Member State with the direct benefit going to more than one Member State.
- b) Projects located in one SAARC Member States of significant economic interest for two or more SAARC Member States; and
- c) Projects with significant focus on poverty alleviation as envisaged under the Economic & Infrastructure Windows in any SAARC Member State having thematic linkage with more than two SAARC Member States as part of sub – regional project.

4.3 Priority Areas: The SDF shall assign priority to those projects which:

- a) Have high potential for positive regional economic impact by benefiting at least two SAARC Member States .
- b) Promote cooperation among Member States.
- c) Have strong potential for facilitating mobilization of domestic and foreign capital.
- d) Are commercially viable, and operationally sustainable;
- e) Source and utilize raw materials, equipment and other productive inputs within the SAARC region.
- f) Create and promote intra -SAARC trade.
- g) Promote backward, forward and spatial linkages in economies of SAARC Member States.
- h) Develop and promote indigenous and appropriate technologies and skills.
- i) Promote majority ownership and management by SAARC nationals.
- j) Promote the role of women in trade and overall development.
- k) Comply with international acceptable environmental protection standards.
- l) Create and expand employment opportunities and other social benefits.
- m) Are export-oriented, local resources based and regional in nature.

5. FINANCING PROCESS:

5.1 Appraisal / Assessment of Projects for Financing

Projects assessment under the E&I Windows of SDF will inter alia include:

- a) **Business or Economic Assessment**
To analyze the business operations and thus economic development impact on the respective SAARC Member States.
- b) **Technical Assessment**
To analyze the technology used in the project and its impact on the economy of the respective SAARC Member States.
- c) **Financial Assessment**
To analyze the financial/ credit strength and loan repayment capacity of the borrower. It includes the analysis of Financial Statements, Financial Ratios, Bank Statements, CMA Data etc.
- d) **Environmental and Social Assessment**
To understand that whether the project is compiling all the necessary Environmental Laws etc of the respective SAARC Member States.
- e) **Legal Assessment**
To understand the project proposal w.r.t legal framework of the respective SAARC Member States.

f) Risk Assessment

To understand the various risks associated with the project proposal, that includes Country Risk, Economic Risk, Legal Risk, Currency Risk, Exposure Risk, Business Risk, Political Risk, Interest Rate Risk, Market Risk, Operation Risk, Default Risk, Liquidity Risk, Sustainability Risk etc.

The funding mechanism under the Economic & Infrastructure windows will be 100% Loan.

5.2 Financing Terms and Conditions.

Following Terms and Conditions will inter alia apply for financing a project -

- (a) The amount of any equity investment shall not exceed such percentage of the equity capital of the entity or enterprise concerned as permitted under policies approved by the Board of Directors.
- (b) Following disbursement procedure will be applied as per the approved Disbursement Procedures of SDF:
 - i. Reimbursement
 - ii. Reimbursement Guarantee
 - iii. Special (Designated) Account and
 - iv. Direct payment
 - v. Depending on project requirements a combination of aforesaid methods may be used for disbursement with the approval of the Board.
- (c) Disbursements will be made as per agreement.
- (d) Borrowers shall be required to open such Special (Designated) accounts for SDF funding exclusively.
- (e) For term loans sanctioned to projects under joint finance / consortium arrangement, the terms and conditions, including interest rate, stipulated by the lead institution / other banks will normally be followed. However under Co-Financing, the project or any terms and conditions related to the project financing shall not violate any of the terms and conditions as laid down by the SDF Charter and Bye Laws.
- (f) The borrower will have to give undertakings relating to :-
 - i. Environmental and social impact aspects of the Project,
 - ii. Procurement of goods and services required for the Project (if applicable),
 - iii. Integrity will be governed by SDF Charter & Bye Laws.
- (g) Signing of the Legal Agreements will take place: (a) after the Financing has been approved; and (b) all required signing authorizations are received.
- (h) For each proposed Project, the Fund requires that the Project meet the following conditions:
 - i. The Project has clearly defined development objectives consistent with SDF Charter and bye laws and permit appropriate evaluation of the Project's impact.
 - ii. The Project should have specific productive activities necessary to meet development objectives of SDF.
- (i) Benchmark Financial Norms will be applicable as mentioned in the Economic & Infrastructure Policy of SDF.
- (j) Computation of Interest Charged: The interest charge shall be computed on the basis of 360-days a year having Twelve Months of 30 days each.
- (k) Repayment and Prepayment:
 - i. The Borrower shall pay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule to the Loan Agreement.

- ii. After giving not less than 30 days' written notice to SDF, the Borrower shall have the right to repay in advance of maturity, as of a date acceptable to SDF (provided, that the Borrower shall have paid all amounts due under the Loan Agreement as of such date).
- (l) For any matter related to financing the various projects, provision of legal agreement will be applicable.
- (m) For better Monitoring and Evaluation purpose, the Fund may, engage reputed financial experts, preferably Chartered Accountant firms in the Member States and the borrower shall have to furnish progress reports on the projects to the firms/SDF, wherever required.
- (n) No Connected Lending will be permitted.

6 PRICING OF PRODUCTS AND FEES

Pricing of the loan under the Economic & Infrastructure Windows shall be 6 months LIBOR plus 2% fixed spread plus applicable fees as mentioned in the EI& Policy guidelines .This pricing is applicable for all SAARC Member States or the SAARC Member States participating in the Project Proposal.

7 FAIR PRACTICES CODE:

SDF shall adopt transparent approach with respect to eligible projects, appraisal, sanction/disbursement, monitoring and supervision, interest rates, pre-payment clauses, grievance-redressal, costs to be borne by borrowers, and such other policy and operational matters.

8 CREDIT RISK MANAGEMENT:

Every investment decision carries some risk. SDF need to carefully analyze all the risk factors for a project and mitigating factors thereof.

A proper Credit Assessment & Due Diligence including Risk assessment related to Country Risk (which includes Political Risk, Economic Risk, Legal Risk & Business Risk), Borrower profile, Management profile, Financial analysis, Industry profile, Borrower's internal and external rating, Environmental study, Legal opinion, Security details and the other assessments, related to the project funding, needs to be carried out before recommending the project proposal to the Board for the necessary approvals.

SDF needs to employ them to ensure that the deal is transparent and fair to all the parties concerned:

Projects from politically connected groups: Such groups are often viewed as having special access or privileges and present reputational risks. Even if that is not the case, they may become targets for subsequent political regimes if they are regarded as part of the old regime. And, if they do have the access and influence, it may be difficult or impossible to enforce any legal agreements with them if the project should encounter difficulties.

Ensure that special concessions or licenses required by a project are awarded in a transparent way, such as by competitive bidding.

Politically sensitive projects require extreme caution. An example would be a nationally important resource-based project, or some other project in which the government will necessarily have a strong interest. This does not mean an embargo on such investments. Rather, agreements relating to such projects must, first and foremost, establish the role of the government, and they must be commercially fair to all parties

Avoid special privileges, benefits or incentives in a particular project. These should be generally available to any investors that would undertake the investment. (Privileges

and benefits that are arbitrarily given can be arbitrarily withdrawn. Sponsors with relevant background and experience are essential for projects in countries with difficult political or business environments. Preferably, their experience should relate to the same country or involve local groups of investors from the project country. Country risk issues require the analyst's close attention because some of them have the potential to wipe out the value of SDF's investment. Perhaps the greatest country risk in most projects arises from the macroeconomic environment in which the project operates. In this regard, the most critical threats to an investment are deep economic recession, a hugely overvalued exchange rate, sudden large devaluations, and the ensuing economic chaos. All need to be considered in the appraisal of a project's viability.

A SWOT or Opportunity and Threats analysis may also be carried out for the project.

Where required, SDF will employ select external appraising agencies for appraisal till such time SDF has developed its own capabilities and credit team. Risk Management practices including Risk Identification, Risk Measurement, Risk Controlling etc should be carried out at all the times in the project financing.

As per Section 8 of Bye-laws, the total amount of outstanding loans and guarantees made by the Fund shall not at any time exceed the total amount of its unimpaired subscribed capital, reserves and surpluses included in the monies of the Fund.

9 MATERIAL CHANGES TO THE PROJECT OR FINANCING:

Following approval of the Financing, as well as during implementation of the Project, the Fund will normally not agree to make any material change in the Project or its financing agreement. However, in exceptional circumstances, the request of borrower may be considered by the SDF Board to respond to changed circumstances of the various SAARC Member States but any material change should not change the scope and focus of the project.

10 PROJECT ROADMAP.

Under the Economic & Infrastructure windows, the roadmap for the various projects covers the below stages with their respective time frames-

- a) identification of the eligible projects,
- b) conducting a robust credit appraisal within two weeks,
- c) signing of the Project Finance Agreement (PFA) after approval from the Board within four weeks,
- d) after signing of PFA, execution of the various security documents, within two weeks and
- e) after completion of signing of all legal documents, disbursement of the loan within 1 week, as per the sanctioned terms and conditions.

Proper Risk Management practices to be adopted for the close monitoring and proper utilization of the SDF funds. A sound legal framework to be established to ensure the dispute resolution (if any).

11 SECURITY ASPECTS.

The details on the Security Aspects are broadly covered in the Credit Manual Book-1 under Point # 69 on Page # 53.

12 LOAN RESCHEDULING.

The details on the Loan Rescheduling are broadly covered in the Credit Manual Book-4 under Point # 20 on Page # 17.

13 ADDITIONAL FUNDING

Any additional funding under the same project will be provided only after the repayment of Principle and Interest of the initial loan and upon successful completion of the project.

14 LOAN CANCELLATION/ SUSPENSION/ ANTI-CORRUPTION/TERMINATION.

If a Loan is fully cancelled prior to the Effective Date, no front-end fee is charged. If the Loan is partially cancelled prior to the Effective Date, the amount of the front-end fee payable will be reduced on a pro-rata basis, and the adjusted front-end fee is payable to SDF upon the Effective Date. If the Loan is partially or fully cancelled on or after the Effective Date, no refund of the front-end fee will be made.

If an event of default arises under any of the Legal Agreements entered into in connection with a Financing, the SDF considers whether to waive such default (which waiver can be temporary or final) or to exercise the Fund's contractual remedies under the relevant Legal Agreement. In respect of a Loan, remedies typically include:

- a. suspension of withdrawals, or cancellation, or anti-corruption, or termination, of un-withdrawn amounts;
- b. where the tenor of the overdue loan (Principle/Interest) is continuously increasing;
- c. exercise of the Fund's rights, if any, vis-à-vis the sponsor or any other third party (e.g., under a loan/or guarantee);
- d. enforcement of security, if any (e.g., mortgage, charge over assets); and
- e. initiation of bankruptcy proceedings, if available.

In respect of an equity investment, remedies typically include:

- a) cancellation of a subscription; and
- exercise of the Fund's rights, if any, vis-à-vis the Sponsor or any other third party (e.g., under a put option agreement).

15 COMPLETION REPORT.

Upon completion of the Project, the Fund will evaluate and prepare a report on the results of the Project and its Financing, as well as performance under the Project. The report also seeks to include an evaluation of the Project by the other parties to the Legal Agreements. If a Project's Legal Agreements are not signed or do not become effective by a specified date, or if the Financing is canceled before significant Project implementation is initiated, the CEO will inform the Board of this fact as part of periodic reporting on Projects.

16 RELIANCE ON THIRD PARTY ASSESSMENTS.

In certain cases, for instance where the project is to be co-financed by another financier, the Fund may rely on such assessment carried out by a third party, provided the Fund is satisfied with the assessment capacity and process adopted by the third party.

17 APPLICABLE GOVERNING LAW

Funding under the Economic & Infrastructure Windows is governed by and shall be construed in accordance with the laws of the Member State within whose territorial jurisdiction the Project (mentioned under the Project Finance Agreement) is implemented.

18 DISPUTE RESOLUTION.

In the event of any disputes that arise between the lender (SDF) and the borrower, the parties to the loan / guarantee will attempt in good faith to resolve such dispute. In case the dispute cannot be otherwise resolved, the parties shall consider settling dispute through SAARC Arbitration Council and the decision of such arbitration shall be final and binding to all concerned parties

19. FUNDS RECOVERY.

In the event of any default, possible ways for the recovery of funds are as below:

- a. Settling outstanding overdue loan by selling-off the collateral at the prevailing market rates in the respective SAARC Member States.
- b. Initiate the debit freeze and debit the borrower's Escrow Account/Special Designated Account, opened for remitting the project cashflows.
- c. In case if the equity shares of the borrower are pledged with SDF, then in the event of default by the borrower, the borrower's shares (pledged with SDF) will be sold by SDF in the open market, to recover the outstanding loan/ overdue loan.
- d. Exercise any other method as directed by the Board of Directors undertaken as the legal course of action.
- e. Unutilized Fund: to be returned to SDF along with interest earned.