

CREDIT NUMBER 5554-TO  
GRANT NUMBER D002-TO

*Handwritten signature or initials*

# Financing Agreement

(Second Economic Reform Support Development Policy Financing)

between

THE KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 19, 2014



## **FINANCING AGREEMENT**

AGREEMENT dated November 19, 2014, entered into between KINGDOM OF TONGA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of Schedule 1 to this Agreement, and (b) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore 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 grant and a credit (collectively, “Financing”) in the following amounts:
  - (a) an amount equivalent to one million seven hundred thousand Special Drawing Rights (SDR 1,700,000) (“Grant”); and
  - (b) an amount equivalent to one million seven hundred thousand [Special Drawing Rights] (SDR 1,700,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%).
- 2.05. The Payment Dates are February 15 and August 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 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.

### **ARTICLE III — PROGRAM**

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:
  - (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
  - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely that, a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that, the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.

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

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is Minister for Finance and National Planning..

- 6.02. The Recipient's Address is:

Ministry of Finance and National Planning  
Vuna Road, Nuku 'alofa  
P.O. Box 87  
Kingdom of Tonga

Facsimile:

+676-26-011

- 6.03. The Association's Address is:

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

Cable address :

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423(MCI)

1-202-477-6391

AGREED at District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF TONGA

By



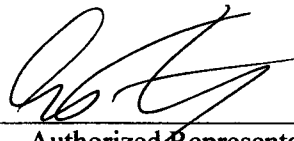
\_\_\_\_\_  
Authorized Representative

Name: Rionald Silaban

Title: Executive Director of the  
Kingdom of Tonga

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



\_\_\_\_\_  
Authorized Representative

Name: Axel van Trotsenburg

Title: Regional Vice President, East  
Asia and Pacific Region

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions Taken Under the Program.

The actions taken by the Recipient under the Program include the following:

1. The Recipient's Ministry of Finance and National Planning, has: (a) Restructured and fully staffed the Central Procurement Unit; and (b) issued Treasury Circular No. PP\_1\_NPT\_2014-15 to set a new threshold value at TOP 7,500 and above for all procurement to be handled by the Central Procurement Unit in order to improve compliance with procurement best practice standards.
2. (a) The Recipient's Legislative Assembly has passed the 2014/2015 Appropriation Act 2014 fiscal year, which includes standardization between budget sub-programs and organizational divisions in corporate plans; and  
(b) The Recipient's Ministry of Finance and National Planning, has issued Treasury Circular No. BG\_2\_VBI\_2014-15 which introduces new controls on transfers between sub-programs.
3. The Recipient's Cabinet has: (a) established a new Revenue Policy Committee tasked with reviewing and advising on all requests of discretionary tax exemptions; and (b) approved a framework for standardized and transparent investment incentives in order to support priority investment in a fiscally sustainable manner.
4. The Recipient's Ministry of Finance and National Planning has, through its 2014/2015 Budget Statement, made adjustments to the excise duty regime in line with the non-communicable diseases health policy.
5. The Recipient's Cabinet has approved a policy framework for foreign investment in order to open the fisheries and agriculture sectors to foreign investment, and launched public consultations.
6. The Recipient's Cabinet has approved the implementation of a sustainably financed electricity lifeline tariff under provisions of the Public Enterprise Act, targeted to support low-income households..

**Section II. Availability of Financing Proceeds**

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>
(1) Single Withdrawal Tranche	1,700,000	1,700,000
<b>TOTAL AMOUNT</b>	<b>1,700,000</b>	<b>1,700,000</b>

- C. Withdrawal Tranche Release Conditions**
  - 1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied (a) with the Program being carried out by the Recipient, and (b) with the adequacy of the Recipient’s macroeconomic policy framework.
- D. Deposits of Financing Amounts.** Except as the Association may otherwise agree:
  - 1. all withdrawals from the Financing Account shall be deposited by the Association into a deposit account in Dollar (“Foreign Currency Deposit Account”) designated by the Recipient and acceptable to the Association; and
  - 2. the Recipient shall ensure that upon the deposit of an amount of the Financing into the Foreign Currency Deposit Account, an equivalent amount in Tongan Pa’anga is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.
- E. Audit.** Upon the Association’s request, the Recipient shall:
  - 1. have Foreign Currency Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than six (6) months after the date of the Association's request for such audit, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and
  3. furnish to the Association such other information concerning the Foreign Currency Deposit Accounts and their audit as the Association shall reasonably request.
- F. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- G. Closing Date.** The Closing Date is December 31, 2015.



**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 15 and August 15:	
commencing February 15, 2025 to and including August 15, 2034	1%
commencing February 15, 2035 to and including August 15, 2054	2%

\* 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. "Central Procurement Unit" means the unit of the procurement division in the Ministry of Finance and National Planning.
2. "Excluded Expenditure" means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups of 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) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals

		(except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party);
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
3. "Foreign Currency Deposit Account" means the account referred to in Part D.1 (a) of Section II of Schedule I to this Agreement.
  4. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.
  5. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated September 25, 2014, from the Recipient to the Association declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
  6. "Public Enterprise Act" means the Public Enterprise Act no. 25 of 2002.
  7. "Revenue Policy Committee" means the committee established under Cabinet Decision No. 452 of June 26, 2014.

8. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
9. “Tongan Pa’anga” means the currency of the Recipient.

## **Section II. Modifications to the General Conditions**

The modifications to the General Conditions are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements. Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06 *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by

the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

(a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

(b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

(c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.