
GRANT NUMBER E198-TO

Financing Agreement

**(Tonga First Fiscal, Disaster, and Climate Resilience Development Policy
Operation)**

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER E198-TO

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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).

WHEREAS (A) the Recipient, to enhance its preparedness for and resilience to disasters, has requested the Association to provide a financing with a catastrophe-deferred drawdown option in an amount equivalent to fourteen million nine hundred thousand Special Drawing Rights (SDR 14,900,000) (IDA Grant Number E199-TO) to the Recipient for the purpose of providing financing in support of the Program, pursuant to the financing agreement between the Recipient and the Association of the same date as this Agreement for the Tonga First Fiscal, Disaster, and Climate Resilience Development Policy Operation with a Catastrophe Deferred Drawdown Option, as such agreement may be amended from time to time; and

(B) The Association has decided to provide this financing on the basis, *inter alia*, of: (i) 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 (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework.

NOW, THEREFORE, 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) apply to and form 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 a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to three million eight hundred thousand Special Drawing Rights (SDR 3,800,000) (“Financing”).

- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Payment Dates are July 15 and January 15 in each year.
- 2.04. The Payment Currency is Dollar.
- 2.05. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
 - (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:
 - (a) 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:
- (a) 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 Signature Date.
- 5.03. For purposes of Section 10.05 (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 (20) years after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the minister at the time responsible for finance.
- 6.02. For purposes of Section 11.01 of the General Conditions:

- (a) The Recipient's address is:

Ministry of Finance
PO Box 87
Nuku'alofa
Kingdom of Tonga; and

- (b) the Recipient's Electronic Address is:

Facsimile:

E-mail:

+676 26011

minister@finance.gov.to

- 6.03. For purposes of Section 11.01 of the General Conditions:

- (a) The Association's address is:

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

(b) the Association's Electronic Address is:

Facsimile:

1-202-477-6391

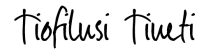
E-mail:

cdpngpacific@worldbank.org

AGREED as of the Signature Date.

KINGDOM OF TONGA

By



Authorized Representative

Name: Tiofilusi Tiueti

Title: Minister for Finance

Date: 12-Feb-2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Stephen N. Ndegwa

Title: Country Director, PNG & Pacific Islands

Date: 01-Feb-2024

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken under the Program. The actions taken by the Recipient under the Program include the following:

1. To strengthen domestic revenue mobilization, the Recipient has published in the Gazette the Revenue Services Administration (Electronic Sales Register System) Regulations 2022, which establish an electronic sales register system to analyze and transmit fiscal data to the Ministry of Revenue and Customs, as evidenced by: (i) the Revenue Services Administration (Electronic Sales Register System) Regulations 2022; and (ii) the Tonga Government Gazette Supplement dated June 8, 2022.
2. To improve the effectiveness of public debt management and achieve a sustainable fiscal policy, the Recipient, through its Cabinet, has approved for submission to Parliament the Public Finance Management Bill 2023, which among other provisions, outlines key fiscal responsibility principles and sets a numerical limit on the stock of government-guaranteed debt, as evidenced by: (i) the Public Finance Management Bill 2023; and (ii) Memorandum for Cabinet Decision No. 1018, dated November 2, 2023, from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to Public Finance Management Bill 2023.
3. To enhance climate and disaster resilience of disaster-affected communities, the Recipient, through its Cabinet, has approved the Disaster Risk Management Policy Framework 2023-2030, which clarifies roles and responsibilities for stakeholders at the national and sub-national level, as evidenced by: (i) the Disaster Risk Management Policy Framework 2023-2030 (dated April, 2023); (ii) Memorandum No. 304, dated March 31, 2023, from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to the National Disaster Risk Management (DRM) Policy Framework 2023-2030; and (iii) Memorandum No. 389, dated April 21, 2023, from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to the National Disaster Risk Management (DRM) Policy Framework 2023-2030.
4. To enhance disaster preparedness and response, the Recipient, through its Ministry of Finance, has issued Treasury Instructions with the Guideline for the National Emergency Fund (NEF) to govern the use of resources and implementation progress reporting of the NEF, as evidenced by the

Guideline for the National Emergency Fund (NEF) attached to the Treasury Instructions dated March 31, 2023, Reference TI_1_NEF_2022-23, which are enclosed with the Treasury Circular, dated March 31, 2023, from Minister for Finance to all Chief Executive Officers, Reference No. 15/23/288.

5. To strengthen the social protection system and support a timely and efficient disaster response, the Recipient, through its Cabinet, has approved a National Social Protection Policy that defines guiding principles and policy priority areas to design, implement and monitor current and future social protection programs, as evidenced by: (i) the National Social Protection Policy dated May 2023; (ii) Memorandum No. 315, dated April 6, 2023, from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to the National Social Protection Policy; and (iii) Memorandum No. 408, dated May 4, 2023, from the Acting Chief Secretary and Acting Secretary to Cabinet to the Prime Minister, among others, with reference to the Amendments to the National Social Protection Policy.

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 proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (Expressed in SDR)
(1) Single Withdrawal Tranche	3,800,000
TOTAL AMOUNT	3,800,000

C. Withdrawal Tranche Release Conditions.

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. Deposit of Financing Amounts.

1. Notwithstanding the provisions of Section 2.03 of the General Conditions:
 - (a) the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain on terms and conditions satisfactory to the Association a dedicated account in Dollars (“Foreign Currency Dedicated Account”) which forms part of the Recipient’s foreign exchange reserves; and
 - (b) all withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Dedicated Account. Upon each deposit of an amount of the Financing into the Foreign Currency Dedicated Account, the Recipient shall ensure that an equivalent amount in Tongan Pa’anga is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.
2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the Foreign Currency Dedicated Account; (b) the details of the account to which the Tongan Pa’anga equivalent of the Financing proceeds will be credited; and (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems.

E. Audit.

Upon the Association’s request, the Recipient shall:

1. have the Foreign Currency Dedicated 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 Dedicated Account and its audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is December 31, 2026.

APPENDIX

Definitions

1. “Cabinet” means the Recipient’s cabinet constituted in accordance with the Constitution.
2. “Constitution” means the Constitution of Tonga (CAP.1.01, 2020 Revised Edition).
3. “Foreign Currency Dedicated Account” means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.
4. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020, April 1, 2021, and January 1, 2022).
5. “Legislative Assembly” or “Parliament” means the Recipient’s legislative assembly constituted in accordance with the Constitution.
6. “Minister for Finance” means the Recipient’s minister responsible for finance.
7. “Ministry of Finance” means the Recipient’s ministry responsible for finance, or any successor thereto.
8. “Ministry of Revenue and Customs” means the Recipient’s ministry responsible for revenue and customs, or any successor thereto.
9. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated November 7, 2023 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 and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the Program’s objectives.
10. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
11. “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.

12. "Tongan Pa'anga" means the official currency of the Recipient.