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**GRANT NUMBER E2520-KI**

# **Financing Agreement**

**(First Resilient Growth Development Policy Operation)**

**between**

**REPUBLIC OF KIRIBATI**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**GRANT NUMBER E2520-KI**

**FINANCING AGREEMENT**

AGREEMENT dated as of the Signature Date between REPUBLIC OF KIRIBATI (“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, and the Association has agreed, to provide a financing with a catastrophe-deferred drawdown option in an amount equivalent to one million six hundred thousand Special Drawing Rights (SDR 1,600,000) (IDA Grant Number E2530-KI) 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 First Resilient Growth 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 the foregoing and: (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; upon the terms and conditions set forth in this Agreement.

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) 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 six million one hundred thousand Special Drawing Rights (SDR 6,100,000) (“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 December 15 and June 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 is 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 is 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 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 and Economic Development  
P.O. Box 67  
Bairiki,  
Tarawa  
Republic of Kiribati; and
  - (b) the Recipient's Electronic Address is:  
  
E-mail:  
  
hon.vicepresident@mfep.gov.ki
- 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:

Telex:	Facsimile:	E-mail:
248423 (MCI)	1-202-477-6391	cdpngpacific@worldbank.org

AGREED as of the Signature Date.

REPUBLIC OF KIRIBATI

By



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

Name: Hon. Dr Teuea Toatu

Title: Vice President & Minister of Finance

Date: 06-Dec-2023

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



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

Name: Stephen N. Ndegwa

Title: Country Director, PNG & Pacific Islands

Date: 04-Dec-2023

## 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 improve fiscal transparency, the Recipient, through its Cabinet, has approved and published a Fiscal Reporting Policy, which sets out new standards for regular public reporting on revenues, expenditure, state-owned enterprises, Revenue Equalization Reserve Fund performance and public debt, as evidenced by: (i) the Fiscal Reporting Policy; and (ii) letter from the Secretary to the Cabinet dated February 2, 2023 (file ref: 10/67) confirming Cabinet approval of the Fiscal Reporting Policy through Cabinet Minutes No. 78/22.
  2. To increase tax revenues, the Recipient, through its Cabinet, has approved measures to: (a) introduce an international transportation income tax (Part II, Section 13 of the Income Tax Act bill (“ITB”)); (b) provide a simplified system for calculating income tax for small businesses (Part III, Division 6, Section 36 of the ITB); (c) provide for the income tax regime applicable to different categories of legal person (Part IV of the ITB); and (d) provide a general anti-avoidance rule (Part IX, Section 102 of the ITB), as evidenced by: (i) Part II, III, IV and IX of the ITB; and (ii) a letter from the Secretary to the Cabinet dated February 2, 2023 (file ref: 10/67) confirming Cabinet approval of the ITB through Cabinet Minutes No. 3/23.
  3. To improve state-owned enterprises (SOE) management, the Recipient: (a) through its Ministry of Finance and Economic Development, has: (i) confirmed a one-off payment through the 2023 Recurrent Budget to clear all pre-2022 arrears of line ministries to PUB; and (ii) approved a new standardized SOE monitoring system based on reporting templates; and (b) authorized the Ministry of Infrastructure and Sustainable Energy to require all suppliers of petroleum products to provide such information as required in determining and setting prices and tariffs through Section 67(6) of the Energy Act 2022, as evidenced by: (i) a letter from the Secretary of the Ministry of Finance & Economic Development dated January 31, 2023 (file ref: 1/70); (ii) the 2023 Recurrent Budget dated December 2022; (iii) the Statement of Intent for the 3-year Period FY2021 to FY2023; (iv) a letter from the Secretary of the Ministry of Finance & Economic Development dated January 27, 2023 (file ref: 1/70); and (v) Section 67(6) of the Energy Act 2022, assented to on April 16, 2023.
  4. To improve financial supervision and promote financial inclusion, the Recipient has enacted: (a) the Financial Supervisory Authority of Kiribati Act 2021, which

covers the establishment, powers, governance, and operation of a supervisory authority; and (b) the Kiribati Financial Institutions Act 2021, which covers how financial institutions will be licensed and supervised, as evidenced by: (i) Financial Supervisory Authority of Kiribati Act 2021 (No. 17 of 2021), assented to on December 21, 2021; and (ii) Kiribati Financial Institutions Act 2021 (No. 21 of 2021), assented to on December 21, 2021.

5. To promote climate-resilient development, the Recipient has enacted the Environment Act 2021, which introduces measures to reduce waste and pollution, and strengthens conservation of terrestrial and marine environments, as evidenced by the Environment Act 2021 (No. 18 of 2021), assented to on May 6, 2022.
6. To strengthen planning for climate adaptation and mitigation, the Recipient, through its President, has promulgated the Disaster Risk Management and Climate Change Regulations 2020, which prescribe the governance arrangements, funding arrangements, climate change and disaster risk reduction, and disaster preparedness and response arrangements for the implementation of the Disaster Risk Management and Climate Change Act 2019, as evidenced by the Disaster Risk Management and Climate Change Regulations 2020 (No. 2 of 2022), made and published on March 1, 2023.

**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:

<b>Allocations</b>	<b>Amount of the Financing Allocated (Expressed in SDR)</b>
(1) Single Withdrawal Tranche	6,100,000
<b>TOTAL AMOUNT</b>	<b>6,100,000</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. 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 a deposit account in Australian Dollars ("Local Currency Dedicated Account"); and
  - (b) all withdrawals from the Financing Account shall be deposited by the Association into the Local Currency Dedicated Account. Upon each deposit of an amount of the Financing into the Local Currency Dedicated Account, the Recipient shall ensure that an equivalent amount is accounted for in the Recipient's budget management system, in a manner and substance 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 Local Currency Dedicated Account; (b) the details of the account to which the Australian Dollar equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient's budget management systems; and (d) the statement of receipts and disbursement of the Local Currency Dedicated Account.

**E. Audit.** Upon the Association's request, the Recipient shall:

1. have the Local 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 end of the Recipient's fiscal year, 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 Local Currency Dedicated Account and their audit as the Association shall reasonably request.

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

## APPENDIX

### Definitions

1. “Australian Dollars” means the lawful currency of the Recipient.
2. “Cabinet” means the Cabinet of Ministers of the Recipient, established in accordance with Chapter IV, Part III of the Constitution of Kiribati 1979.
3. “Fiscal Reporting Policy” means the Recipient's Fiscal Reporting Policy 2022, as published on the Ministry of Finance & Economic Development’s website at <<https://www.mfed.gov.ki/publications/fiscal-reporting-policy-2022>> (accessed on February 15, 2023).
4. General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (last revised on July 15, 2023).
5. “Local Currency Dedicated Account” means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.
6. “Ministry of Finance & Economic Development” means the Recipient’s Ministry responsible for finance and economic development, or any successor thereto.
7. “Ministry of Infrastructure and Sustainable Energy” means the Recipient’s Ministry responsible for infrastructure and energy, or any successor thereto.
8. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated October 24, 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.
9. “PUB” means the Recipient’s Public Utility Board, established and operating pursuant to the Public Utilities Ordinance (CAP 83) and the State-Owned Enterprises Act 2013, as such Acts may be amended from time to time.
10. “Revenue Equalization Reserve Fund” means the Recipient’s fund established pursuant to the Public Finance (Control and Audit) Ordinance 1977.
11. “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.

12. “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.