
GRANT NUMBER D743-TO

Financing Agreement

(Supporting Recovery after Dual Shocks Development Policy Financing)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER D743-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). 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. 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 twenty-one million three hundred thousand Special Drawing Rights (SDR 21,300,000) (“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 February 15 and August 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.

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
PO Box 87
Nuku'alofa
Kingdom of Tonga

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:

E-mail:

1-202-477-6391

cdpngpacific@worldbank.org

AGREED as of the Signature Date.

KINGDOM OF TONGA

By

DocuSigned by:

Tevita Lavemaau

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Authorized Representative

Name: Tevita Lavemaau

Title: Minister of finance

Date: 14-Dec-2020

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Michel Kerf

Authorized Representative

Name: Michel Kerf

Title: Country Director

Date: 10-Dec-2020

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

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

1. To support livelihoods and household investments in human capital, the Recipient, through its Cabinet, has approved an economic and social stimulus package which provides school fee relief and targeted crisis-responsive social protection payments drawing on newly developed social registries and using new electronic payment methods, as evidenced by: (i) Memorandum No. 316 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Proposed Economic and Social Stimulus Package”, dated March 27, 2020; (ii) Submission to Cabinet “Proposed Economic and Social Stimulus Package” dated March 26, 2020; (iii) Memorandum No. 814 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Review of the Stimulus Package and Way Forward”, dated July 17, 2020; (iv) Submission to Cabinet, “Review of the Stimulus Package and Way Forward”, dated July 16, 2020; (v) Memorandum No. 388 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Request approval to pay only 50% of school fees under Ministry of Education Covid-19 Relief Fund to all secondary schools in term 2”, dated May 1, 2020; and (vi) the letter from the Chief Executive Officer of the Ministry of Finance of the Recipient No. 69G/1218, dated October 29, 2020.
2. To support firms to retain workers at risk of unemployment or furlough, the Recipient, through its Cabinet, has approved an economic and social stimulus package which establishes an institutional mechanism for the payment of wage subsidies to workers affected by the crisis, as evidenced by: (i) Memorandum No. 316 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Proposed Economic and Social Stimulus Package”, dated March 27, 2020; (ii) Submission to Cabinet “Proposed Economic and Social Stimulus Package” dated March 26, 2020; (iii) Memorandum No. 814 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Review of the Stimulus Package and Way Forward”, dated July 17, 2020; (iv) Submission to Cabinet, “Review of the Stimulus Package and Way Forward”, dated July 16, 2020; and (v) the letter from the Chief Executive Officer of the Ministry of Finance of the Recipient No. 69G/1218, dated October 29, 2020.
3. To assist firms to maintain business continuity, the Recipient, through its Cabinet, has approved an economic and social stimulus package which establishes an institutional mechanism for the provision of financial assistance to formal and

informal businesses affected by the crisis, as evidenced by: (i) Memorandum No. 316 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Proposed Economic and Social Stimulus Package”, dated March 27, 2020; (ii) Submission to Cabinet “Proposed Economic and Social Stimulus Package” dated March 26, 2020; (iii) Memorandum No. 814 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Review of the Stimulus Package and Way Forward”, dated July 17, 2020; (iv) Submission to Cabinet, “Review of the Stimulus Package and Way Forward”, dated July 16, 2020; (v) the document titled “Policy Guidelines for the Management of the COVID-19 Business Economic Emergency Relief Fund”; and (vi) the letter from the Chief Executive Officer of the Ministry of Finance of the Recipient No. 69G/1218, dated October 29, 2020.

4. To facilitate increased access to microcredit for micro, small and medium enterprises, the Recipient has expanded and extended the Government Development Loan Scheme, as evidenced by: (i) Memorandum No. 381 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Proposed Government Development Loans II”, dated May 1, 2020; and (ii) Implementation Agreement between the Government of Tonga and the Tonga Development Bank in Relation to the Administration of the Government Development Loans, dated October 1, 2020.
5. To provide greater certainty to foreign investors, the Recipient, through its Cabinet, has approved the International Arbitration Bill, for submission to the Recipient’s Parliament, as evidenced by Memorandum No. 1099 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: International Arbitration Bill”, dated October 23, 2020.
6. To support climate and disaster-resilient housing management and recovery, the Recipient, through its Cabinet, has approved: (a) the establishment of the Housing sector Resilience Office within its Ministry of Infrastructure; and (b) an event-specific Housing Recovery Strategy Post-Tropical Cyclone Harold, as evidenced by: (i) Memorandum No. 500 from the Chief Secretary and Secretary to Cabinet to the Recipient’s Prime Minister, among others, with reference to “Re: Tropical Cyclone Gita Housing Reconstruction”, dated May 22, 2020; and (ii) Memorandum No. 1186 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Tropical Cyclone Harold Housing Recovery Strategy”, dated October 30, 2020.

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	21,300,000
TOTAL AMOUNT	21,300,000

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 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; (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 Foreign Currency Dedicated Account.

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, 2022.

APPENDIX

Section I. Definitions

1. “Cabinet” means the Recipient’s cabinet constituted in accordance with the Constitution.
2. “Constitution” means the *Constitution of Tonga* established under the *Act of Constitution of Tonga 1875*, as amended.
3. “Foreign Currency Dedicated Account” has the meaning given in Section II.D.1(a) 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).
5. “Government Development Loan Scheme” means a scheme of loans developed by the Recipient for the purposes of facilitating growth in key sectors and industries in the Recipient’s territory and to be implemented by the Tonga Development Bank in accordance with implementation agreements between the Recipient and the Tonga Development Bank.
6. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated October 29, 2020 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.
7. “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.
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.