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GRANT NUMBER D914-TO

# **Financing Agreement**

**(Tonga Second Resilience Development Policy Financing with a Catastrophe  
Deferred Drawdown Option)**

between

**KINGDOM OF TONGA**

and

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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**GRANT NUMBER D914-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 has requested the Association to provide a financing in an amount equivalent to seven million nine hundred thousand Special Drawing Rights (SDR 7,900,000) (IDA Grant Number D913-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 Second Resilience Development Policy Financing, 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.

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 five million seven hundred thousand Special Drawing Rights (SDR 5,700,000) (“Financing”).

- 2.02. The Payment Currency is Dollar.
- 2.03. (a) If, prior to the Closing Date, the Recipient requests an extension of the Closing Date, the Association may provide such extension on such terms and conditions as agreed by the Association.
- (b) Notwithstanding the provisions of sub-paragraph (a) above, the Closing Date shall not be extended if at the time of Recipient's request, the events specified in sub-paragraph (b) (i) of Section 3.05 of the General Conditions have occurred.
- 2.04. 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; and

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

Facsimile:  
+676 26011

E-mail:  
[minister@finance.gov.to](mailto: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](mailto:cdpngpacific@worldbank.org)

AGREED as of the Signature Date.

KINGDOM OF TONGA

By **Tevita Lavemaau**  
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Authorized Representative  
Name: Tevita Lavemaau  
Title: Minister of finance  
Date: 08-Dec-2021

INTERNATIONAL DEVELOPMENT ASSOCIATION

By   
\_\_\_\_\_  
Authorized Representative  
Name: Stephen Ndegwa  
Title: Country Director, PNG & Pacific Islands  
Date: 02-Dec-2021

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions under the Program

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

1. To support enhanced debt management and fiscal sustainability, the Recipient: (a) through its Cabinet, has approved the Medium-Term Debt Strategy (MTDS) Fiscal Years 2021 – 2025 (“MTDS”) and a Government Guarantee Policy that establishes the criteria and guidelines for assessing and approving requests for government guarantees; and (b) through its Ministry of Finance, has made the MTDS and the Government Guarantee Policy publicly accessible on its website, as evidenced by: (i) the MTDS and its publication on the Ministry of Finance’s website at <<http://www.finance.gov.to/mtds2125>>, accessed on October 12, 2021; (ii) the Government Guarantee Policy and its publication on the Ministry of Finance’s website at <<http://www.finance.gov.to/node/370>>, accessed on October 12, 2021; (iii) the Submission to Cabinet from the Ministry of Finance, entitled “Medium-Term Debt Strategy (MTDS) 2021 – 2025”, dated May 7, 2021; (iv) the Submission to Cabinet from the Ministry of Finance, entitled “Government Guarantee Policy for Tonga”, dated May 7, 2021; (v) the Memorandum No. 360 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Medium-Term Debt Strategy (MTDS) 2021 – 2025”, dated May 7, 2021; and (vi) the Memorandum No. 380 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Government Guarantee Policy for Tonga. Ref CD No.359 of 7th May 2021”, dated May 12, 2021.
2. To strengthen public sector wage bill management, the Recipient, through its Cabinet, has endorsed an amendment to the Public Service Policy and Instructions 2010 that introduces a limit on overtime allowances in the public service sector, as evidenced by: (i) the Amendment to the Public Service Policy and Instructions; and (ii) the Memorandum No. 906 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Revised Overtime Policy Instructions”, dated October 4, 2021 and attaching the Amendment to the Public Service Policy and Instructions as ‘Annex “A”’.
3. To establish a more comprehensive, proactive and integrated model of disaster risk management, the Recipient, through its Cabinet, has approved a Disaster Risk Management Bill for submission to the Recipient’s Parliament, as evidenced by: (i) the Disaster Risk Management Bill; (ii) the Submission to Cabinet from the

Secretary to the Law Committee, entitled “Disaster Risk Management Bill 2021”, dated July 23, 2021; and (iii) the Memorandum No. 681 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Disaster Risk Management Bill 2021.”, dated August 6, 2021.

4. To strengthen financial resilience of the Recipient’s government, households, and businesses to disasters, the Recipient, through its Cabinet, has approved a national disaster risk financing strategy 2021-2025 that establishes a financial risk-layering policy to maximize disaster and climate risk financing, as evidenced by: (i) the Tonga Disaster Risk Financing Strategy 2021-2025; (ii) the Submission to Cabinet from the Minister for Finance, entitled “Disaster Risk Financing Strategy”, dated May 5, 2021; and (iii) the Memorandum No. 361 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Disaster Risk Financing Strategy”, dated May 7, 2021.
5. To protect the population from a public health emergency and support the economic recovery, the Recipient: (a) through its Cabinet, has approved the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023 that provides the guiding policy framework for the vaccine rollout and health system strengthening activities; and (b) through its Minister for Trade and Economic Development, has approved for implementation the special guidelines for expedited clearance of essential medical goods, including COVID-19 vaccines, as evidenced by: (i) the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023; (ii) the Submission to Cabinet from the Acting CEO for Health, entitled “Kingdom of Tonga National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023”, dated April 6, 2021; (iii) the Memorandum No. 264 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Presentation by the Ministry of Health on Kingdom of Tonga National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023”, dated April 7, 2021; (iv) the Import Procedures for Vaccines, Medicines and Medical Products; and (v) the Internal Memo (reference number TRA/6/4/14/6) from the Deputy CEO, Trade Negotiations and Policy Division to the Minister for Trade and Economic Development and CEO, Ministry of Trade and Economic Development, entitled “Subject: Final Guideline and Factsheets for Expedited Shipment of Medicines and Medical Supplies”, dated August 19, 2021.
6. To enhance the management of labor mobility supply, the Recipient, through its Cabinet, has established work ready pools, reformed procedures for recruitment, and enhanced pre-departure training, as evidenced by: (i) the Tonga Labour Mobility Operations Manual; (ii) the Submission to Cabinet from the Ministry of Internal Affairs, entitled “Key policy instruments to support Tonga’s management of labour mobility supply”, dated June 29, 2021; and (iii) the Memorandum No. 576 from the Chief Secretary and Secretary to Cabinet to the Prime Minister,



among others, with reference to “Re: Key policy instruments to support Tonga’s management of labour mobility supply”, dated June 30, 2021.

7. To strengthen financial sector stability, protect customers, and encourage an expansion in financial services, the Recipient, through its Cabinet, has approved a Credit Unions Bill for submission to the Recipient’s Parliament, as evidenced by: (i) the Credit Unions Bill; (ii) the Submission to Cabinet from the Secretary to the Law Committee, entitled “Credit Unions Bill 2021”, dated July 15, 2021; and (iii) the Memorandum No. 658 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Credit Unions Bill 2021”, dated July 16, 2021.
8. To foster an inclusive, respectful and safe work environment for the public service sector, the Recipient, through its Cabinet, has approved a sexual harassment policy, as evidenced by: (i) the Public Service Commission Sexual Harassment Policy; (ii) the Submission to Cabinet from the Chairman of the Public Service Commission, entitled “Sexual Harassment Policy” dated March 9, 2021; and (iii) the Memorandum No. 242 from the Chief Secretary and Secretary to Cabinet to the Prime Minister, among others, with reference to “Re: Sexual Harassment Policy”, dated March 24, 2021.

**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	5,700,000
<b>TOTAL AMOUNT</b>	<b>5,700,000</b>

**C Withdrawal of Financing Proceeds.**

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied, based on evidence satisfactory to it, that a state of emergency has been declared by the Recipient's Prime Minister or other authorized official, in accordance with the manner prescribed in Part IV Section 32 of the Recipient's Emergency Management Act 2007 or other applicable law which replaces such act, to respond to a Catastrophic Event.
2. Notwithstanding the foregoing, if, at any time prior to the receipt by the Association of a request for withdrawal of an amount of the Financing, the Association determines that a review of the Recipient's progress in carrying out the Program is warranted, the Association shall give notice to the Recipient to that effect. Upon the giving of such notice, no withdrawals shall be made of the Unwithdrawn Financing Balance unless and until the Association has notified the Recipient of its satisfaction, after an exchange of views as described in paragraphs (a) and (b) of Section 3.01 of Article III of this Agreement, with the progress achieved by the Recipient in carrying out the Program.
3. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied, based on evidence satisfactory to it, that the situation described in paragraph (c) of Section 3.01 of Article III of this Agreement has been resolved.

**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 November 30, 2024.

## APPENDIX

### Section I. Definitions

1. “Amendment to the Public Service Policy and Instructions” means the document entitled “Public Service Policy and Instructions 2010, Proposed revision, 2A.7 Overtime”, endorsed by Cabinet on October 4, 2021, pursuant to Cabinet Memorandum No. 906.
2. “Cabinet” means the Recipient’s cabinet constituted in accordance with the Constitution.
3. “Catastrophic Event” means an imminent or occurring emergency situation, caused by: (i) a cyclone, flood, drought, storm, storm surge, tsunami, earthquake, volcanic eruption, or other similar event; or (ii) an epidemic, pandemic, or other public health emergency, that requires the Recipient to promptly mobilize its capacity and/or financial resources, but excluding an emergency situation caused by human induced hazard.
4. “Constitution” means the Constitution of Tonga (CAP. 1.01, 2020 Revised Edition).
5. “Credit Unions Bill” means the Credit Unions Bill 2021, approved by Cabinet for submission to the Legislative Assembly on July 16, 2021, pursuant to Cabinet Memorandum No. 658.
6. “Disaster Risk Management Bill” means the Disaster Risk Management Bill 2021, approved by Cabinet for submission to the Legislative Assembly on August 6, 2021, pursuant to Cabinet Memorandum No. 681.
7. “Emergency Management Act 2007” means the Recipient’s Emergency Management Act 2007 (Act No. 14 of 2007, CAP. 7.02, 2020 Revised Edition).
8. “Foreign Currency Dedicated Account” has the meaning given in Section II.D.1(a) of Schedule 1 to this Agreement.
9. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021), with the modifications set forth in Section II of this Appendix.

10. “Government Guarantee Policy” means the Government Guarantee Policy for Tonga, approved by Cabinet on May 12, 2021, pursuant to Cabinet Memorandum No. 380.
11. “Import Procedures for Vaccines, Medicines and Medical Products” means the Import Procedures for Vaccines, Medicines and Medical Products approved by the Minister for Trade and Economic Development on August 18, 2021 pursuant to the Internal Memo (reference number TRA/6/4/14/6), dated August 19, 2021.
12. “Legislative Assembly” or “Parliament” means the Recipient’s legislative assembly constituted in accordance with the Constitution.
13. “Medium-Term Debt Strategy” or “MTDS” means the Kingdom of Tonga Medium-Term Debt Strategy Fiscal Years 2021 – 2025 dated May 2021, prepared by the Ministry of Finance, and approved by Cabinet on May 7, 2021, pursuant to Cabinet Memorandum No. 360.
14. “Minister for Finance” means the Recipient’s minister responsible for finance.
15. “Minister for Trade and Economic Development” means the Recipient’s minister responsible for trade and economic development.
16. “Ministry of Finance” means the Recipient’s ministry responsible for finance, or any successor thereto.
17. “Ministry of Health” means the Recipient’s ministry responsible for health, or any successor thereto.
18. “Ministry of Internal Affairs” means the Recipient’s ministry responsible for internal affairs, or any successor thereto.
19. “Ministry of Trade and Economic Development” means the Recipient’s ministry responsible for trade and economic development, or any successor thereto.
20. “National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023” means the Kingdom of Tonga National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023 dated April 6, 2021, issued by the Ministry of Health, and approved by Cabinet on April 7, 2021, pursuant to Cabinet Memorandum No. 264.

21. “Program” means the program of objectives, policies, and actions set forth or referred to in the letter dated September 24, 2021 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.
22. “Public Service Commission Sexual Harassment Policy” means the Public Service Commission Sexual Harassment Policy issued by the Government of Tonga, as approved by Cabinet on March 24, 2021, through Cabinet Memorandum No. 242.
23. “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.
24. “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.
25. “Tonga Disaster Risk Financing Strategy 2021-2025” means the Tonga Disaster Risk Financing Strategy 2021-2025 prepared by the Ministry of Finance, and approved by Cabinet on May 7, 2021, pursuant to Cabinet Memorandum No. 361.
26. “Tonga Labour Mobility Operations Manual” means the Tonga Labour Mobility Operations Manual dated June 2021, commissioned by the Ministry of Internal Affairs, and approved by Cabinet on June 30, 2021, pursuant to Cabinet Memorandum No. 576.
27. “Tongan Pa’anga” means the official currency of the Recipient.

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

The General Conditions are hereby modified as follows:

1. Section 3.02 of the General Conditions is deleted in its entirety, and the remaining sections are renumbered accordingly.
2. In the Table of Contents, the Appendix and all other provisions of the General Conditions, all references to Section numbers and paragraphs of Article III are modified, as necessary, to reflect the modification set forth above.