
GRANT NUMBER D523-KI

Financing Agreement

(South Tarawa Water Supply Project)

between

REPUBLIC OF KIRIBATI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

GRANT NUMBER D523-KI

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between REPUBLIC OF KIRIBATI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

WHEREAS (A) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement (“Project”), has requested the Association to extend a grant to assist in the financing of the Project;

(B) the Recipient has also requested Asian Development Bank (“Co-financier”), to provide additional assistance towards the financing of the Project, and the Co-financier intends to make available to the Recipient for such purpose: (a) a financing in an amount of thirteen million Dollars (\$13,000,000) for its own account, using its own resources; and (b) an amount of twenty-eight million six hundred and thirty thousand Dollars (\$28,630,000) in the form of a financing from the Green Climate Fund to be provided by the Co-financier in its capacity as an accredited entity of the Green Climate Fund (collectively, “Co-financing”); and

(C) the Recipient intends to provide an amount equivalent to at least one million four hundred and ninety thousand Dollars (\$1,490,000) for the financing of the Project.

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 this Agreement (including its Preamble and its Appendix).

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 eleven million one hundred thousand Special Drawing Rights (SDR 11,100,000 million) (“Financing”), to assist in financing the Project.

- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are November 1 and May 1 in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

ARTICLE IV — EFFECTIVENESS; TERMINATION

- 4.01. The Additional Condition of Effectiveness consists of the following namely, that, each of the Co-financing Agreements has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.
- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. 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 V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is the Minister at the time responsible for finance.
- 5.02. 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

- 5.03. 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

Teuea Toatu

Authorized Representative

Name: Teuea Toatu

Title: Vice President & Minister of Finance

Date: 02-Feb-2020

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Michel Kerf

Authorized Representative

Name: Michel Kerf

Title: Country Director, PNG & Pacific Islands

Date: 31-Jan-2020

SCHEDULE 1

Project Description

The objectives of the Project are to increase access to and quality of water supply services, and to improve the operational performance of the water supply services provider, in South Tarawa.

The Project consists of the following parts:

Part 1: Improvement of water supply services

- 1.1 Support the construction of desalination systems and the rehabilitation of existing water production facilities.
- 1.2 Support the expansion and modernization of the water transmission and distribution systems.
- 1.3 Support the construction of a solar photovoltaic power plant, energy storage and transmission infrastructure.

Part 2: Institutional strengthening and implementation support

- 2.1 Support the operation and maintenance of the water supply system by private operators and their auditing, the upgrade of the PUB's management systems and capacity building activities for PUB staff.
- 2.2 Support Project implementation through: (a) infrastructure design activities; and (b) technical assistance to MISE and the Project Management Unit for Project management and supervision.
- 2.3 Support the management of the Bonriki Water Reserve and the Buota Water Reserve and sector strengthening through: (a) the formulation and implementation of water reserve sustainable management plans; (b) the preparation of sector studies; and (c) the implementation of community engagement and non-revenue water management activities.

Part 3: Water, sanitation and hygiene awareness

Support the formulation and implementation of water, sanitation and hygiene awareness activities.

Part 4: Project Management Unit

Strengthen the management capacity of the Project Management Unit to monitor and administer Project implementation.

Part 5: Sanitation pilots

Support: (a) the design and construction of onsite or small decentralized sanitation systems and fecal sludge management systems; and (b) the provision of technical assistance and training to community-based organizations and other stakeholders involved in the implementation and management of the sanitation facilities and the fecal sludge management facilities.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall maintain, until the completion of the Project:
 - (a) the National Infrastructure Development Steering Committee chaired by Cabinet Secretary, and comprising, *inter alia*, the secretaries (or their representatives) of the Ministry of Infrastructure and Sustainable Energy and the Ministry of Finance and Economic Development, which shall be responsible for providing general oversight, coordination as well as strategic direction and guidance of the Project implementation; and
 - (b) the Project Management Unit in the Ministry of Infrastructure and Sustainable Energy, which shall be responsible for the management and monitoring of the Project.
2.
 - (a) Without limitation to the provisions of Section I.A.1 above, the Recipient shall: (i) recruit and retain such consultants, as may be needed to support the functions of the entities referred to in the said Section, all with qualifications, experience and under the terms of reference acceptable to the Association; and (ii) ensure that the Project Management Unit is supported by KFSU on financial management and accounting arrangements and functions under the Project, all as further detailed in the Project Operations Manual.
 - (b) Without limitation to the generality of Section I.A.2(a) above, by not later than three (3) months after the Effective Date (or such other date which the Association has confirmed in writing to the Recipient is reasonable and acceptable under the circumstances, as determined by the Association in its sole discretion), the Recipient shall recruit or appoint: (i) a procurement specialist and a safeguard manager in the Project Management Unit; and (ii) an accountant in KFSU, all with qualifications, experience and under the terms of reference acceptable to the Association, to support Project implementation, and thereafter maintain such positions (or ensure that such respective support functions are made available) until the completion of the Project.
3. The Recipient shall provide, or cause to be provided to, each of the National Infrastructure Development Steering Committee and the Project Management Unit at all times with adequate funds and other resources, mandate/functions, and with

qualified and experienced personnel in adequate numbers, as shall be necessary to accomplish Project objectives as further detailed in the Project Operations Manual.

B. Project Operations Manual

1. By not later than one (1) month after the Effective Date, or such other date which the Association has confirmed in writing to the Recipient is acceptable to the Association, the Recipient shall:
 - (a) prepare a manual, in form and substance satisfactory to the Association, which shall set forth, *inter alia*, the following detailed arrangements and procedures for the implementation of the Project: (i) implementation arrangements; (ii) procurement procedures and standard procurement documentation; (iii) reporting requirements, financial management procedures and audit procedures; (iv) Project performance indicators; (v) arrangement and procedures for environment and social safeguard management; (vi) monitoring and evaluation arrangements; and (vii) any other administrative, financial, technical and organizational arrangements and procedures as shall be necessary for the implementation of the Project and the achievement of its development objectives;
 - (b) furnish to, and exchange views with the Association on such manual promptly upon its preparation; and
 - (c) adopt such manual as shall have been accepted by the Association (“Project Operations Manual”).
2. The Recipient shall thereafter implement the Project in accordance with the Project Operations Manual, and except as the Association shall otherwise agree in writing, the Recipient shall not amend, suspend, abrogate, repeal or waive any provisions of the Project Operations Manual.
3. In the event of any conflict between the provisions of the Project Operations Manual and those of this Agreement, the provisions of this Agreement shall prevail.

C. Safeguards

1. The Recipient shall ensure that the Project is carried out with due regard to appropriate health, safety, social, and environmental practices and standards, and in accordance with the Safeguard Instruments.
2. The Recipient shall:

- (a) take all necessary actions to avoid, where feasible, or minimize the Involuntary Resettlement of Affected Persons in the carrying out of the Project or any part thereof;
 - (b) where Involuntary Resettlement is unavoidable, before initiating the implementation of any Project activities which would result in such Involuntary Resettlement, make available to the Affected Persons compensation and, as applicable, relocate and rehabilitate the Affected Persons in accordance with the RPF and in a manner satisfactory to the Association; and
 - (c) whenever required pursuant to the RPF, proceed to have RAPs: (i) prepared in form and substance satisfactory to the Association; (ii) except as otherwise agreed with the Association, submitted to the Association for review and no-objection; (iii) consulted upon, adopted and publicly disclosed, in a manner satisfactory to the Association; and (iv) thereafter, implemented in accordance with their terms and in a manner satisfactory to the Association.
3. Except as the Association shall otherwise agree in writing, the Recipient shall ensure that none of the provisions of the Safeguard Instruments be abrogated, amended, repealed, suspended or waived. In case of any inconsistencies between the provisions of any of the Safeguard Instruments and the provisions of this Agreement, the provisions of this Agreement shall prevail.
4. The Recipient shall ensure that: (a) all consultancies related to technical assistance, design and capacity building under the Project, the application of whose results could have environmental, social and health and safety implications, shall only be undertaken pursuant to terms of reference reviewed and found satisfactory by the Association; and (b) such terms of reference shall require the technical assistance, design and capacity building activities take into account the requirements of the applicable Safeguard Policies and EHS Guidelines.
5. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall:
- (a) take all measures necessary on its part to regularly collect, compile, and submit to the Association, as part of the Project Reports, and promptly in a separate report whenever the Association may require, information on the status of compliance with the Safeguard Instruments, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the Safeguard Instruments; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the Safeguard Instruments; and (iii) remedial measures taken or required to be taken to address such conditions;

- (b) promptly furnish to the Association a copy of each quarterly progress report prepared and submitted by any entity (including any engineer) supervising the Project's civil works, the Project's contractors and/or subcontractors; and
 - (c) promptly upon receipt, furnish to the Association any notification received from any entity (including any engineer) supervising the Project's civil works, the Project's contractors and/or subcontractors regarding any incident that have might occurred during Project implementation.
6. The Recipient shall maintain, throughout Project implementation, and publicize the availability of a grievance redress mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

Section II. Project Monitoring, Reporting and Evaluation

- 1. The Recipient shall furnish to the Association each Project Report not later than one (1) month after the end of each calendar quarter, covering the calendar quarter.
- 2. By not later than three (3) years after the Effective Date, or such other date as the Association shall agree in writing, the Recipient shall: (a) carry out jointly with the Association, a mid-term review of the Project, which shall cover the progress achieved in the implementation of the Project; and (b) following such mid-term review, act promptly and diligently to take any corrective action as shall be recommended by and agreed with the Association.

Section III. Withdrawal of the Proceeds of the Financing

A. General

Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to: (a) finance Eligible Expenditures; and (b) repay the Preparation Advance; in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

Category	Amount of the Grant Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, works, non-consulting services, Training and Workshops, Operating Costs and consulting services for Parts 1.1, 1.2 and 2.1 of the Project	7,390,000	32.44%
(2) Goods, works, non-consulting services, Training and Workshops, Operating Costs and consulting services for Parts 2.3 and 5 of the Project	1,080,000	100%
(3) Refund of Preparation Advance	450,000	Amount payable pursuant to Section 2.07(a) of the General Conditions
(4) Unallocated	2,180,000	
TOTAL AMOUNT	11,100,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.
2. The Closing Date is June 30, 2027.

Section IV. Other Undertakings

A. Alternative Procurement Arrangements

1. At the request of the Recipient, the Association has agreed that the procurement of all goods, works, non-consulting services and consulting services required for parts 1, 2.1, 2.2, 3 and 4 of the Project and to be financed out of the proceeds of the Financing and the Co-financing, be undertaken under the alternative procurement arrangements referred to in Paragraph 2.4(a) of the Procurement Regulations.
2. It is understood the procurement oversight under alternative procurement arrangements will be exercised by the Co-financier through a risk-based approach comprising prior and post reviews.

3. All goods, works, non-consulting services and consulting services required for Parts 1, 2.1, 2.2, 3 and 4 of the Project and to be financed out of the proceeds of the Financing shall be procured by the Recipient in accordance with:
 - (a) the provisions set forth in: (i) the Asian Development Bank Procurement Guidelines of 2015, as amended from time to time (with respect to goods, works and non-consulting services); and (ii) the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers of 2013, as amended from time to time (with respect to consulting services);
 - (b) the provisions of Paragraphs 3.21, 3.23(e) and 3.32 of the Procurement Regulations; and
 - (c) the Procurement Plan.
4. In the event that the alternative procurement arrangements referred in paragraph 1 above are terminated at the request of the Recipient, Co-financer or the Association, goods, works, non-consulting services and consulting services required for parts 1, 2.1, 2.2, 3 and 4 of the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the Procurement Regulations arrangements (other than alternative procurement arrangements). In such case, the term Procurement Plan shall be the Recipient's procurement plan for the Project provided for under Section IV of the Procurement Regulations, as such plan may be updated from time to time with the Association's approval.

B. Funding for Operation and Maintenance of Water Supply Assets; Review of Water Tariffs

1. Without limitation to the provisions of Section 5.03 of the General Conditions, the Recipient shall ensure, until the completion of the Project, that its Cabinet issues a resolution on an annual basis to allocate sufficient budget or subsidy to meet any funding shortfalls for the operations and maintenance of the PUB water supply assets.
2. The Recipient shall undertake a study, under the terms of reference acceptable to the Association, to review water tariffs of PUB (including a focus on affordability aspects) and furnish the completed study to the Association by not later than June 30, 2020.

APPENDIX

Definitions

1. “Affected Person” means a person or entity who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by Involuntary Resettlement; and “Affected Persons” means more than one such Affected Person.
2. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
3. “Bonriki Water Reserve” means the area situated at Bonriki, declared to be water reserve pursuant to the Public Utilities Ordinance (CAP 83) and L.N. 58/69, as such act and legal notice may be amended from time to time.
4. “Buota Water Reserve” means the area situated on the Islet of Betio, declared to be water reserve pursuant to the Public Utilities Ordinance (CAP 83) and L.N. 69/69, as such act and legal notice may be amended from time to time.
5. “Cabinet” means the cabinet of ministers of the Recipient, established in accordance with Chapter IV, Part III of the Constitution of Kiribati 1979.
6. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
7. “Co-financier” means Asian Development Bank.
8. “Co-financing” means, for purposes of paragraph 14 of the Appendix to the General Conditions, collectively, an amount of thirteen million Dollars (\$13,000,000) to be provided by the Co-financier out of its own funds, and an amount of twenty-eight million six hundred and thirty thousand Dollars (\$28,630,000) in the form of a financing from the Green Climate Fund provided by the Co-financier in its capacity as an accredited entity of the Green Climate Fund, to be provided by the Co-financier to assist in financing the Project.
9. “Co-financing Agreements” means, collectively, the agreements between the Recipient and the Co-financier providing for the two components of the Co-financing.

10. “EHS Guidelines” means the World Bank Group Environmental, Health and Safety Guidelines published on www.ifc.org/ehsguidelines, as said guidelines are updated from time to time.
11. “Environmental and Social Impact Assessment” or “ESIA” means the Environmental and Social Impact Assessment prepared and adopted by the Recipient dated August 2019, satisfactory to the Association, disclosed in-country, and the Association’s website on September 30, 2019, setting out details of potential environmental and social risks and adverse impacts associated with any Project activities, together with an ESMP defining measures to manage such risks and impacts (including health and safety issues and impact on physical cultural resources), procedural, budget and institutional arrangements and actions needed to implement these measures and including any schedules to such assessment, and as such assessment may be amended by the Recipient from time to time, with the prior written approval of the Association.
12. “Environmental and Social Management Plan” or “ESMP” means the Environmental and Social Management Plan prepared by the Recipient as part of the ESIA, satisfactory to the Association and disclosed on the Association’s website on September 30, 2019, which details (a) the measures to be taken during the implementation and operation of the Project to avoid, minimize, mitigate or offset adverse environmental and social impacts (including health and safety issues and impact on physical cultural resources), or to reduce them to acceptable levels; and (b) the actions needed to implement these measures, including any schedules to such plan, and as such plan may be amended by the Recipient from time to time, with the prior written approval of the Association.
13. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018.
14. “Involuntary Resettlement” means (a) the involuntary taking of land of Affected Persons resulting in: (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such persons must move to another location; or (b) the involuntary restriction of access of Affected Persons to Legally Designated Parks and Protected Areas, resulting in adverse impacts on the livelihood of such persons.
15. “KFSU” means the Kiribati Fiduciary Services Unit established by the Recipient within the Ministry of Finance and Economic Development.
16. “Legally Designated Parks and Protected Areas” means the Bonriki Water Reserve and the Buota Water Reserve.

17. “Ministry of Finance and Economic Development” means the Recipient’s ministry responsible for finance and economic development, or any successor thereto.
18. “Ministry of Infrastructure and Sustainable Energy” and the acronym “MISE” mean the Recipient’s ministry responsible for infrastructure and energy, or any successor thereto.
19. “National Infrastructure Development Steering Committee” means the committee established by the Recipient to coordinate infrastructure projects in the Recipient’s territory.
20. “Operating Costs” means reasonable expenditures directly related to the Project, incurred by the Recipient (which expenditures would not have been incurred absent the Project), including consumable materials and supplies, communications services (postage, telephone and internet), media and printing services, advertising expenses, translation and interpretation services, office space rental and utilities, maintenance of office equipment, operation and maintenance, fuel costs, bank charges required for the Project, administrative support staff, and staff travel, lodging and per diems, but excluding salaries, bonuses, fees and honoraria or equivalent payments of officials of the Recipient’s civil service.
21. “Preparation Advance” means the portion of the advance referred to in Section 2.07(a) of the General Conditions, granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on May 7, 2018 and on behalf of the Recipient on May 25, 2018.
22. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017 and August 2018.
23. “Procurement Plan” means the Recipient’s procurement plan for the Project dated February 21, 2019, as the same shall be updated from time to time with prior written approval of the Association.
24. “Project Operations Manual” means the Project’s operations manual, referred to in Section I.B.1 of Schedule 2 to this Agreement, to be adopted by the Recipient in accordance with the provisions of the said section.
25. “Project Management Unit” means the unit established by the Recipient within the Ministry of Infrastructure and Sustainable Energy.
26. “Public Utilities Board” and the acronym “PUB” mean the Recipient’s public utilities board, established and operating pursuant to the Public Utilities Ordinance (CAP 83) and the State-Owned Enterprises Act 2013.

27. “Resettlement Action Plan” or “RAP” means the resettlement action plan or the abbreviated resettlement action plan, as may be applicable, to be prepared pursuant to the Section I.C.2(c) of Schedule 2 to this Agreement, in accordance with the procedures and requirements of the Resettlement Policy Framework, which includes the principles, procedures, organizational arrangements and budget to implement the resettlement related activities under the Project, or under Parts of the Project, as said resettlement action plan may be revised from time to time with the prior written agreement of the Association; and “RAPs” means, collectively, all such RAP.
28. “Resettlement Policy Framework” or “RPF” means the Resettlement Framework prepared and adopted by the Recipient, satisfactory to the Association, and disclosed on the Association’s website on September 30, 2019, which sets out the resettlement principles, organizational arrangements (including consultation and budget), and design criteria to be applied to resettlement related Project activities to be prepared during Project implementation as well as for the preparation of RAPs under the Project, as such framework may be amended from time to time with the prior written agreement of the Association.
29. “Safeguard Instrument” means an ESIA, ESMP, RPF or a RAP for a Project activity; and “Safeguard Instruments” means, collectively, all such assessments, framework and plans for the Project.
30. “Safeguard Policies” means the Operational Policies (OPs) and Bank Procedures (BPs) of the Association, namely OP/BP 4.01 (Environmental Assessment), OP/BP 4.04 (Natural Habitats), OP/BP 4.09 (Pest Management), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.11 (Physical Cultural Resources), OP/BP 4.12 (Involuntary Resettlement), OP/BP 4.36 (Forests), and OP/BP 4.37 (Safety of Dams); they can be found at <https://policies.worldbank.org>.
31. “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.
32. “Training and Workshops” means activities to be carried out by the Recipient, based on terms of reference acceptable to the Association, for facilitating, conducting, and/or undertaking domestic and overseas training and workshops under the Project, the reasonable costs of which include: costs of training or workshop materials; equipment and venue rental; and per diem, accommodation, and transportation for those attending the training or workshop, and honoraria for trainers.