
GRANT NUMBER 0416-KIR (SF)

GRANT AGREEMENT
(Special Operations)
(Strengthening Fiscal Stability Program)

between

REPUBLIC OF KIRIBATI

and

ASIAN DEVELOPMENT BANK

DATED 4 DECEMBER 2014

KIR 47314

GRANT AGREEMENT (Special Operations)

GRANT AGREEMENT dated 4 December 2014 between REPUBLIC OF KIRIBATI ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Recipient a development policy letter dated 30 September 2014 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Grant Agreement, designed to develop the Recipient's public financial management program ("Program");

(B) the Recipient has applied to ADB for a grant for the purposes of the Program; and

(C) ADB has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions set forth herein;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(15) is deleted and the following is substituted therefor:

24. The term "Program" means the program for which ADB has agreed to make the Grant, as described in the Grant Agreement and as the description thereof may be amended from time to time by agreement between ADB and the Recipient.

(b) The term "Project" wherever it appears in the Grant Regulations shall be substituted by the term "Program".

(c) Section 2.01(17) is deleted and the following is substituted therefor:

26. The term "Program Executing Agency" means the entity or entities responsible for the carrying out of the Program as specified in the Grant Agreement.

(d) The term “Project Executing Agency” wherever it appears in the Grant Regulations shall be substituted by the term “Program Executing Agency”.

Section 1.02. Wherever used in this Grant Agreement the several terms defined in the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in the Grant Agreement have the following meanings:

(a) “Counterpart Funds” means the local currency generated from the Grant proceeds under the Program and referred to in paragraph 5 of Schedule 3 to this Grant Agreement;

(b) “Deposit Account” means the account referred to in paragraph 3 of Schedule 2 to this Grant Agreement;

(c) “Eligible Imports” means the total imports of the Recipient during the relevant period minus the following imports during the same period:

- (i) imports from countries which are not members of ADB;
- (ii) imports of ineligible items specified in Attachment 1 to Schedule 2 to this Grant Agreement; and
- (iii) imports financed by official international or bilateral aid agencies or any other loans or grants made by ADB;

(d) “Eligible Items” means the Eligible Imports and services in connection with the delivery and installation of such imports;

(e) “Implementing Agencies” means MFED for Policy Action 2.1 under Output 2, and jointly with the Recipient’s Ministry of Commerce, Industries and Cooperatives (for Output 1), Ministry of Fisheries and Marine Resources (for Policy Action 2.2 under Output 2) and Ministry of Communication, Transportation and Tourism Development and Ministry of Public Works (for Outputs 3 and 4);

(f) “Loan Disbursement Handbook” means ADB’s Loan Disbursement Handbook (2012, as amended from time to time);

(g) “MFED” means the Recipient’s Ministry of Finance & Economic Development or any Successor thereto;

(h) “Output” or “Outputs” refers to the outputs as set out in Attachment 2 to Schedule 2 to this Grant Agreement;

(i) “Policy Matrix” means the policy matrix attached to the Policy Letter as agreed between the Recipient and ADB;

(j) “Program Executing Agency” for the purposes of, and within the meaning of, the Grant Regulations means MFED or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program;

- (k) "RERF" means the Recipient's Revenue Equalization Reserve Fund;
- (l) "SOE" means state-owned enterprise; and
- (m) "SOE Act" means the State Owned Enterprises Act 2013.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Grant Agreement an amount of three million Dollars (\$3,000,000).

ARTICLE III

Use of Proceeds of the Grant

Section 3.01. The Recipient shall cause the proceeds of the Grant to be applied to the financing of expenditures on the Program in accordance with the provisions of this Grant Agreement.

Section 3.02. The proceeds of the Grant shall be withdrawn in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

Section 3.03. Withdrawals from the Grant Account shall be made only on account of expenditures relating to Eligible Items which:

- (a) are produced in, and are supplied from, such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement; and
- (b) meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.04. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2014 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 3 to this Grant Agreement.

Section 4.02. (a) The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.

(b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.

Section 4.03. As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (a) the Counterpart Funds and the use thereof; and (b) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Recipient shall have met, to ADB's satisfaction, all conditions for the release of the Grant proceeds as set out in Attachment 2 to Schedule 2 to this Grant Agreement.

Section 5.02. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister for Finance & Economic Development of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Ministry of Finance & Economic Development
P.O. Box 67, Bairiki
Tarawa, Kiribati

Facsimile Number:

(686) 21307.

For ADB

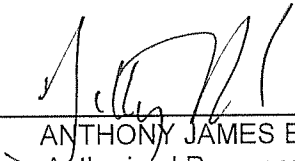
Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:


(632) 636-2444
(632) 636-9246.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

REPUBLIC OF KIRIBATI

By 
ANTHONY JAMES BAKER
Authorized Representative

ASIAN DEVELOPMENT BANK

By 
XIANBIN YAO
Director General
Pacific Department

SCHEDULE 1**Description of the Program**

1. The principal objective of the Program is to achieve fiscal stability as prioritized in the Kiribati Economic Reform Plan 2012-2015. The Program will support in 2014, the following components of the Kiribati Economic Reform Plan: (a) public expenditure quality; (b) revenue performance; (c) management of public assets and liabilities; and (d) the business environment. The Program is described in more detail in the Policy Letter.
2. The Program is expected to be completed by 31 December 2014.

SCHEDULE 2

Allocation and Withdrawal of Grant Proceeds

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Grant proceeds from the Grant Account.

2. (a) An application for withdrawal from the Grant Account shall be submitted to ADB by the Recipient and shall be in a form satisfactory to ADB.

(b) Such withdrawal applications shall be accompanied by a certificate of the Recipient confirming that with respect to each year during which the proceeds of the Grant are expected to be disbursed, the value of the Eligible Imports is expected to be greater than the amount of the Grant expected to be disbursed during such year.

(c) The Recipient shall allow experts appointed by ADB to verify the value of Eligible Imports during any period in respect of which the Recipient has certified the value of Eligible Imports in its withdrawal application.

3. (a) Prior to submitting the first application to ADB for withdrawal from the Grant Account, the Recipient shall nominate an account (Deposit Account) at ANZ commercial bank into which all withdrawals from the Grant Account shall be deposited. The Deposit Account shall be established, managed and liquidated in accordance with terms and conditions satisfactory to ADB.

(b) Separate accounts and records in respect of the Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Recipient shall have the financial statements for the Deposit Account audited by independent auditors, whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB. Promptly after their preparation but in any event not later than 6 months after the date of ADB's request, copies of such audited financial statements and the opinion of the auditors on the financial statements, in the English language, shall be furnished to ADB.

(c) Throughout the Program implementation period, the Recipient shall submit trade statistics and any other information as ADB may require from time to time to assess the Recipient's compliance with the formula for determining Eligible Imports.

4. No withdrawal shall be made from the Grant Account unless ADB is satisfied that the Recipient has met the policy actions for the release of the Grant proceeds specified in Attachment 2 to this Schedule.

Negative List

No withdrawals will be made for the following:

- (i) expenditures for goods included in the following groups or sub-groups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3) or any successor groups or sub-groups under future revisions to the SITC, as designated by ADB by notice to the Recipient:

Table: Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), nonirradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, nonmonetary (excluding gold ore and concentrates)

Source: United Nations.

- (ii) expenditures in the currency of the Recipient or for goods supplied from the territory of the Recipient;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party; and
- (vii) expenditures on account of any payment prohibited by the Recipient in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Policy Actions for Release of the Grant Proceeds

1. (a) The Cabinet shall have approved the merger of the Kiribati Copra Cooperative Society (KCCS) and Kiribati Copra Mill Limited.

(b) SOEs shall have submitted bids for community service obligations for negotiation with MFED in preparation for the 2015 budget with other subsidies to SOEs reduced to zero in the national budget.

2. (a) MFED shall have conducted a review of the first quarter following the implementation of the VAT system, which shall comprise data on revenue collected, issues and challenges of implementing VAT.

(b) The Ministry of Fisheries and Marine Resources Development and MFED shall have jointly produced a report on the sources of fisheries revenue in 2013 containing disaggregated data for fisheries license revenue from agreements with the European Union, the United States of America and from other sources.

3. (a) MFED shall have appointed a staff whose principal role is to enforce the implementation of the Debt Policy as approved by Cabinet in 2013.

(b) Cabinet shall have approved RERF management policies including: (i) reallocation of RERF assets to achieve consistency with clearly-stated investment objectives; (ii) application of new concentration and deviation limits; and (iii) application of more appropriate benchmarks to improve monitoring of asset manager performance.

4. (a) Cabinet shall have agreed to a comprehensive review of shipping to the outer islands at improved services for the sector and approved that contracting out management of the landing craft owned by the government be included as part of the reform process.

(b) Cabinet shall have approved the (i) appointment of a liquidator for Bobotin Kiribati Limited; and (ii) preparation of a detailed implementation plan and timetable with the recommendations to limit the Government Plant and Vehicle Fund's (PVU's) commercial activities to the provision and maintenance of heavy plant and equipment and vehicles for government use and cease activities that are not related to government functions.

(c) Cabinet shall have approved an invitation for expressions of interest for private firms to enter into a public-private partnership concession agreement with Betio Shipyard Limited.

(d) Key provisions of the SOE Act are implemented, including:

(i) The Government's SOE Monitoring Unit shall have received 2014 statement of intents (SOIs) for all SOEs. The SOIs should specify each SOE's (A) main objectives, (B) projected annual cash flow, (C) projected annual balance sheet and (D) projected annual profits;

- (ii) The five largest SOEs – Kiribati Oil Limited, Kiribati Housing Authority, Public Utility Board, Broadcasting and Publications Authority and Air Kiribati Limited – shall have submitted 2013 financial accounts to the Office of the Auditor General for auditing; and
- (iii) All appointments to SOE boards (except appointments to the advisory committee of PVU) shall comply with the SOE Act.

SCHEDULE 3

Program Implementation and Other Matters

Implementation Arrangements

1. The Recipient shall be responsible for the coordination and execution of the Program with the various concerned departments and agencies of the Recipient. The Program Executing Agency shall oversee and coordinate the timely implementation of agreed policy, legal, and regulatory actions. The Implementing Agencies shall also be responsible for Program administration, disbursements, and maintenance of all Program records. ADB will work through the Recipient's Budget Support Management Committee mechanism to monitor progress, oversee the implementation of the Program, and guide and direct the activities of the Program Executing Agency.

Policy Actions and Dialogue

2. The Recipient shall (a) use its best endeavors to ensure that critical Program staff will remain in their position on a full-time basis for a reasonable duration to ensure continuity in the implementation of the Program; and (b) ensure that all Implementing Agencies will be adequately staffed and provided with the necessary financial, technical, and other resources to perform their functions under the Program.

3. The Recipient shall (a) ensure that all policy actions adopted under the Program, as set out in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the Program and subsequently; and (b) make submissions to ADB on the completion of actions under the Policy Matrix by reference to the indicators set out therein.

4. The Recipient shall keep ADB informed of policy discussions with other multilateral and bilateral aid agencies that may have implications for the implementation of the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall take into account ADB's views before finalizing and implementing any such proposal.

Use of Counterpart Funds

5. The Recipient shall ensure that the local currency funds generated by the Grant will be used to finance the costs relating to the implementation of the Program and other activities consistent with the objectives of the Program and will provide the necessary budget appropriation to finance the costs relating to the implementation of reforms under the Program.

Governance and Anticorruption

6. The Recipient shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Monitoring and Review

7. The Recipient and ADB shall undertake ongoing monitoring and regular formal review of Program performance in the lead up to the Board's consideration of the Program. The Recipient, through the Program Executing Agency, shall establish and maintain a Program performance monitoring system that will include a database on the status of policy actions.

8. The Recipient shall monitor the implementation and outcomes of the Program using a set of indicators and targets that has been agreed between the Recipient and ADB to assess progress towards meeting the objectives of the Program. For each of the agreed indicators, progress shall be measured against the baselines in the design and monitoring framework.