
LOAN NUMBER 3393-TON(SF)

GRANT NUMBER 0479-TON(SF)

FINANCING AGREEMENT
(Special Operations)

(Building Macroeconomic Resilience Program – Subprogram 1)

between

KINGDOM OF TONGA

and

ASIAN DEVELOPMENT BANK

DATED 7 JUNE 2016

TON 48361

**FINANCING AGREEMENT
(Special Operations)**

FINANCING AGREEMENT dated 7 June 2016 between KINGDOM OF TONGA ("Beneficiary") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) ADB has received from the Beneficiary a development policy letter dated 7 April 2016 ("Policy Letter"), setting forth certain objectives, policies and actions, described in Schedule 1 to this Financing Agreement, designed to build the Beneficiary's macroeconomic resilience through strengthening the public and private sectors ("Program");

(B) the Program comprises the first subprogram of a programmatic approach, as described in paragraph 1 of Schedule 1 to this Financing Agreement ("Programmatic Approach"), and the Beneficiary has applied to ADB for a loan and grant for the purposes of the Program; and

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

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations and Grant Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 ("Loan Regulations"), are hereby made applicable to this Financing Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) The term "Loan Agreement", wherever it appears in the Loan Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Borrower", wherever it appears in the Loan Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

(c) Section 2.01(24) is deleted and the following is substituted therefor:

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

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

(e) Section 2.01(26) 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 Financing Agreement.

(f) The term "Project Executing Agency" wherever it appears in the Loan Regulations shall be substituted by the term "Program Executing Agency".

Section 1.02. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 ("Grant Regulations"), are hereby made applicable to the Grant made pursuant to this Financing Agreement with the same force and effect as if they were fully set forth herein subject, however, to the following modifications:

(a) The term "Grant Agreement", wherever it appears in the Grant Regulations, shall be substituted by the term "Financing Agreement".

(b) The term "Recipient", wherever it appears in the Grant Regulations, shall be substituted by the term "Beneficiary" as defined in the opening paragraph of this Financing Agreement.

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

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

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

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

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

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

Section 1.03. Wherever used in this Financing Agreement, the several terms defined in the Loan Regulations and the Grant Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Financing Agreement have the following meanings:

(a) "Counterpart Funds" means the local currency generated from the proceeds of the Loan and the Grant under the Program and referred to in paragraph 4 of Schedule 4 to this Financing Agreement;

(b) "Deposit Account" means the account referred to in paragraph 3 of Schedule 3 to this Financing Agreement;

(c) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(d) "Pa'anga" or "TOP" means the currency of the Beneficiary;

(e) "Policy Matrix" means the policy matrix as agreed between the Beneficiary and ADB and attached to the Policy Letter, which sets forth policy actions and measures accomplished under the Program and indicative policy actions and measures to be accomplished under the Programmatic Approach; and

(f) "Program Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations and the Grant Regulations means Ministry of Finance and National Planning or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Program.

ARTICLE II

The Loan and the Grant

Section 2.01. ADB agrees to provide to the Beneficiary from ADB's Special Funds resources:

(a) a loan in various currencies equivalent to two million one hundred twenty-five thousand Special Drawing Rights (SDR2,125,000) ("Loan"); and

(b) a grant in the amount of three million Dollars (\$3,000,000) ("Grant").

Section 2.02. (a) The Beneficiary shall pay to ADB an interest charge at the rate of 1% per annum during the grace period, and 1.5% per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 January and 15 July in each year.

Section 2.04. The Beneficiary shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Financing Agreement.

Section 2.05. The currency of repayment of the principal amount of the Loan and the currency of payment of the interest charge for the purposes of Section 4.03(a) and 4.04 of the Loan Regulations shall be the Dollar.

ARTICLE III

Use of Proceeds of the Loan and the Grant

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

Section 3.02. The proceeds of the Loan and the Grant shall be withdrawn from the Loan Account and the Grant Account in accordance with the provisions of Schedule 3 to this Financing Agreement, as such Schedule may be amended from time to time by agreement between the Beneficiary and ADB.

Section 3.03. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2016, and the Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2016 or, in each case, such other date as may from time to time be agreed between the Beneficiary and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Program, the Beneficiary shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Financing Agreement.

Section 4.02. As part of the reports and information referred to in Section 6.05 of the Loan Regulations and Section 6.04 of the Grant Regulations, the Beneficiary shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning 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. A date 90 days after the date of this Financing Agreement is specified for the effectiveness of the Financing Agreement for the purposes of Section 9.04 of the Loan Regulations and Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. The Minister for Finance and National Planning of the Beneficiary is designated as representative of the Beneficiary for the purposes of Section 11.02 of the Loan Regulations and Section 11.02 of the Grant Regulations.

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

For the Beneficiary

Ministry of Finance and National Planning
Vuna Road
Nuku'alofa
Kingdom of Tonga

Facsimile Number:

(676) 24040

For ADB


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

Facsimile Numbers:

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

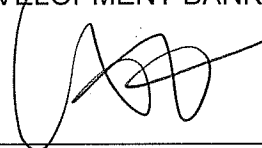
IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Financing Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

KINGDOM OF TONGA

By 

BHIMANTARA WIDYAJALA
Authorized Representative

ASIAN DEVELOPMENT BANK

By 

XIANBIN YAO
Director General
Pacific Department

SCHEDULE 1**Description of the Program**

1. The principal objective of the Programmatic Approach is to strengthen the Beneficiary's long term growth prospects and capacity to respond to exogenous shocks. The Programmatic Approach comprises 3 subprograms and the Program is the first subprogram.
2. The Program is described in more detail in the Policy Letter.
3. The Program is expected to be completed by 30 June 2016.

SCHEDULE 2

Amortization Schedule

(Building Macroeconomic Resilience Program – Subprogram 1)

<u>Date Payment Due</u>	<u>Payment of Principal</u> (expressed in Special Drawing Rights)*
15 July 2024	66,406
15 January 2025	66,406
15 July 2025	66,406
15 January 2026	66,406
15 July 2026	66,406
15 January 2027	66,406
15 July 2027	66,406
15 January 2028	66,406
15 July 2028	66,406
15 January 2029	66,406
15 July 2029	66,406
15 January 2030	66,406
15 July 2030	66,406
15 January 2031	66,406
15 July 2031	66,406
15 January 2032	66,406
15 July 2032	66,406
15 January 2033	66,406
15 July 2033	66,406
15 January 2034	66,406
15 July 2034	66,406
15 January 2035	66,406
15 July 2035	66,406
15 January 2036	66,406
15 July 2036	66,406
15 January 2037	66,406
15 July 2037	66,406
15 January 2038	66,406
15 July 2038	66,406
15 January 2039	66,406
15 July 2039	66,406
15 January 2040	<u>66,414</u>
Total	2,125,000

*The arrangements for payment of each maturity are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

SCHEDULE 3**Withdrawal of Loan and Grant Proceeds**

1. Except as ADB may otherwise agree, the following provisions of this Schedule shall apply to the withdrawal of Loan and Grant proceeds from the Loan Account and the Grant Account.
2. Applications for withdrawal from the Loan Account and the Grant Account shall be submitted to ADB by the Beneficiary and shall be in a form satisfactory to ADB.
3. (a) Prior to submitting the first application to ADB for withdrawal from the Loan Account and the Grant Account, the Beneficiary shall nominate an account (Deposit Account) at the National Reserve Bank of Tonga into which all withdrawals from the Loan Account and the Grant Account, respectively, shall be deposited. The Loan Deposit Account and the Grant 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 Loan Deposit Account and the Grant Deposit Account shall be maintained in accordance with accounting principles acceptable to ADB. Upon ADB's request, the Beneficiary shall have the financial statements for the Loan Deposit Account and the Grant 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.
4. None of the proceeds of the Loan and Grant shall be withdrawn to finance any of the items specified in Attachment to this Schedule.
5. The Beneficiary may withdraw the Loan and the Grant upon effectiveness of this Financing Agreement.

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 Beneficiary:

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 Beneficiary or for goods supplied from the territory of the Beneficiary;
- (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 Beneficiary or international agreements to which the Beneficiary is a party; and
- (vii) expenditures on account of any payment prohibited by the Beneficiary in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

SCHEDULE 4

Program Implementation and Other Matters

Implementation Arrangements

1. The Ministry of Finance and National Planning will be the executing agency. The Ministries of Public Enterprises; Commerce and Labor; Revenue and Customs Services; Meteorology, Energy, Information, Disaster Management, Climate Change and Communications; and the Office of the Prime Minister will be implementing agencies.

Policy Actions and Dialogue

2. The Beneficiary shall 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 Programmatic Approach.

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

Use of Counterpart Funds

4. The Beneficiary shall ensure that the Counterpart Funds are used to finance the implementation of certain programs and activities consistent with the objectives of the Program.

Governance and Anticorruption

5. The Beneficiary, the Program Executing Agency, and the implementing agencies 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

6. The Beneficiary shall ensure that reporting on impact of the Program following the Program completion is made by the Program Executing Agency to ADB. The Program Executing Agency shall, as needed, hold consultative meetings with stakeholders and the development partner community to solicit their feedback on emerging regulations and the impact of the Programmatic Approach.

7. The Beneficiary and ADB shall jointly assess the impact and evaluate the benefits of the Program within 12 months of the Effective Date, in accordance with ADB's performance management system. The Beneficiary and ADB may use the findings of such assessment and evaluation in refining the Programmatic Approach.

Reporting

8. Within six months of the Effective Date and semiannually thereafter, the Beneficiary shall prepare consolidated progress reports on policy and institutional reforms implementation and shall forward the same to ADB. The reports shall describe progress made under the Program, as well as within the scope of the Programmatic Approach, and any changes to the implementation schedule, and shall also identify any problems encountered and remedial actions taken.