

OFFICIAL
DOCUMENTS

CREDIT NUMBER 5771-TO
GRANT NUMBER D107-TO

Financing Agreement

(First Inclusive Growth Development Policy Financing)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 12, 2016

FINANCING AGREEMENT

AGREEMENT dated *April 12*, 2016, entered into 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 (a) 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 (b) 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) constitute an integral 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, on the terms and conditions set forth or referred to in this Agreement, a grant and a credit (collectively, “Financing”) in the following amounts:
 - (a) an amount equivalent to eight hundred thousand Special Drawing Rights (SDR 800,000) (“Grant”); and
 - (b) an amount equivalent to eight hundred thousand Special Drawing Rights (SDR 800,000) (“Credit”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 15 and August 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollar.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 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 including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely 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 consists of the following, namely 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 date of this Agreement.
- 5.03. For purposes of Section 8.05 (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 ten (10) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister for Finance and National Planning.
- 6.02. The Recipient's Address is:

Ministry of Finance and National Planning
PO Box 87
Nuku'alofa
Kingdom of Tonga

Phone	Facsimile
+676 23066	+676 26011

- 6.03. The Association's Address is:

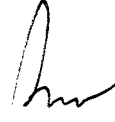
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Telex:	Facsimile:
248423(MCI)	1-202-477-6391

AGREED at Washington, District of Columbia, as of the
day and year first above written.

KINGDOM OF TONGA

By



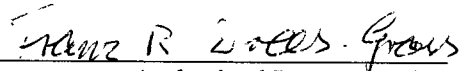
Authorized Representative

Name: RONALD SILABAN

Title: Executive Director, SG Asia Group

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: FRANZ R. DREES-GROSS

Title: COUNTRY DIRECTOR, EACUF

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

- A. Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:
1. The Recipient has increased the rate of fuel excise tax by 0.06 Tongan Pa'anga per liter (an increase in the fuel excise tax by 12%) and other excise duty and import duty rates in order to improve revenue mobilization and strengthen incentives to consume healthy foods, as evidenced through the Excise Amendment and the Customs Amendment.
 2. The Recipient's Cabinet has approved a new Medium-Term Debt Strategy, as evidenced by the Recipient's Cabinet Decision number 1443 dated December 18, 2015, and the Medium-Term Debt Strategy has been made publicly accessible on the Recipient's Ministry of Finance and National Planning's website: <http://www.finance.gov.to/sites/default/files/MTDS%202015-16%20-%202017-18.pdf>.
 3. (a) The Recipient's Remuneration Authority has completed a remuneration review of the public service in order to ensure equitable, competitive and fiscally-sustainable remuneration, and submitted its recommendations to Cabinet; and (b) the Recipient's Cabinet has reviewed the said recommendations; as evidenced by the Recipient's Prime Minister's letter to the Association dated February 1, 2016, Ref. No. FI 5/2, and the Recipient's Cabinet Decision No.1318, dated November 20, 2015.
 4. The Recipient's Cabinet has approved the revised Procurement Regulations, and prepared standard bidding documents and procurement manuals in support of the Procurement Regulations, as evidenced through the Recipient's 'Tonga Government Gazette Extraordinary' No. 29, dated July 17, 2015.
 5. The Recipient has prepared a new biannual report of audit recommendations and actions for all ministries and agencies, and a new Audit Oversight Committee of the Recipient's Cabinet has been established and tasked with ensuring timely and thorough follow-up of audit recommendations, as evidenced through Cabinet Decision No. 840, dated August 28, 2015.
 6. A new Communications Commission Act that establishes an independent communications regulator, has been passed by the Recipient's Legislative Assembly.
 7. The Recipient's Cabinet has approved the appointment of shared boards of directors for public enterprises in the information, communications and technology sector, and the utilities sector, as evidenced through the Recipient's Cabinet

Decisions No. 1143 and No. 1144 both dated September 25, 2015, in order to streamline the number of directors and achieve greater efficiency.

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. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Grant Allocated (expressed in SDR.)	Amount of the Credit Allocated (expressed in SDR.)
(1) Single Withdrawal Tranche	800,000	800,000
TOTAL AMOUNT	800,000	800,000

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. Deposits of Financing Amounts. Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into a deposit account in Dollar ("Foreign Currency Deposit Account") designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon the deposit of an amount of the Financing into the Foreign Currency Deposit Account, an equivalent amount in Tongan Pa'anga is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

E. Audit. Upon the Association's request, the Recipient shall:

1. have Foreign Currency Deposit 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 Deposit Accounts and their audit as the Association shall reasonably request.
- F. Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- G. Closing Date.** The Closing Date is June 30, 2017.

SCHEDULE 2

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each February 15 and August 15:	
commencing August 15, 2026 to and including February 15, 2036	1%
commencing August 15, 2036 to and including February 15, 2056	2%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.

APPENDIX

Section I. Definitions

1. "Audit Oversight Committee" means the Recipient's Cabinet committee established by the Recipient's Cabinet Decision No. 840, dated August 28, 2015.
2. "Customs Amendment" means the Recipient's Customs Duty (Amendment) Order 2015, amending the Recipient's Customs Act No. 5 (2007), as confirmed in the Recipient's 'Tonga Government Gazette Extraordinary' No. 27, dated July 3, 2015.
3. "Communications Commission Act" means the Recipient's Communication Commission Act No. 12 (2015).
4. "Excise Amendment" means the Recipient's Excise Tax (Amendment) Order 2015, amending the Recipient's Excise Act No. 6 (2007), as confirmed in the Recipient's 'Tonga Government Gazette Extraordinary' No. 27, dated July 3, 2015.
5. "Excluded Expenditure" means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
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), non-irradiated, 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, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
 - (d) 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;
 - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
 - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
6. "Foreign Currency Deposit Account" means the account referred to in Part D.1 (a) of Section II of Schedule I to this Agreement.
7. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

8. “Medium-Term Debt Strategy” means the Recipient’s ‘Medium Term Debt Strategy 2015/16 - 2017/18’, prepared by the Debt Management Section of the Recipient’s Ministry of Finance and National Planning, dated December, 2015.
9. “Procurement Regulations” means the Recipient’s Public Procurement Regulations 2015, as confirmed in the Recipient’s ‘Tonga Government Gazette Extraordinary’ No. 29, dated July 17, 2015.
10. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated January 20, 2016 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.
11. Remuneration Authority” means the authority established pursuant to the Recipient’s Remuneration Authority Act 2010 (Act No. 17 of 2010) whose mandate is to consider and make recommendations as to the remuneration and other monetary benefits of public officers specified therein.
12. “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.
13. “Tongan Pa’anga” means the currency of the Recipient.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 4. above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3. above) is modified to read as follows:

“Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.”

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (f) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.