

**OFFICIAL
DOCUMENTS**

GRANT NUMBER D006-KI

Financing Agreement

(Second Economic Reform Development Policy Financing)

between

REPUBLIC OF KIRIBATI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated *January 26th*, 2015

FINANCING AGREEMENT

AGREEMENT dated *January 26th*, 2015, entered into between REPUBLIC OF KIRIBATI ("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 the Schedule 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 in an amount equivalent to two million one hundred thousand Special Drawing Rights (SDR 2,100,000) ("Financing").
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of the Schedule 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 Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end:

- (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 the Schedule to this Agreement.

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 date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its Minister of Finance and Economic Development.
- 6.02. The Recipient's Address is:

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

Telephone:
686 21307

- 6.03. The Association's Address is:

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

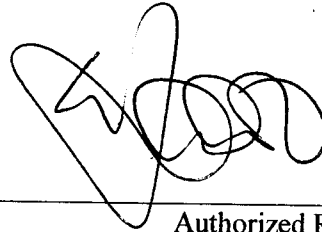
Facsimile:

1-202-477-6391

AGREED at District of Columbia, United States of America and New York City,
United States of America, as of the day and year first above written.

REPUBLIC OF KIRIBATI

By



Authorized Representative

Name: Makurita Baaro

Title: Ambassador

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Axel van Trotsenburg

Title: Regional Vice President

SCHEDULE

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

The actions taken by the Recipient under the Program include the following:

A. **Improving Revenue Performance**

The Recipient has produced a joint report of its Ministry of Fisheries and Marine Resource Development and Ministry of Finance and Economic Development on the sources of fisheries revenue containing disaggregated data regarding the sources of all fishing revenues, and has published the report on the website of the Ministry of Finance and Economic Development.

B. **Improving the Management of Public Assets and Liabilities**

1. The Recipient has adopted the following measures consistent with the State Owned Enterprises Act: (a) ensured full compliance of all SOE board appointments with the provisions of the SOE Act; (b) ensured that the five largest SOEs have submitted to it full financial statements within three months of the end of the Recipient's 2013 fiscal year; and (c) ensured the inclusion of SOE community service obligation subsidies in the Recipient's 2014 annual budget.
2. The Recipient, through its Cabinet, has approved a roadmap for reform and rationalization of its copra sector, including the merger of the Kiribati Copra Cooperative Society and the Kiribati Copra Mill Limited.
3. The Recipient, through its Cabinet, has approved key reforms in the management of its Revenue Equalization Reserve Fund to achieve consistency with clearly-stated investment objectives, including: (a) reallocation of RERF's assets to new asset managers; and (b) reorientation of RERF's portfolio towards lower-risk instruments.

C. **Expanding Private Sector Opportunities**

The Recipient has invited pre-qualified firms to bid for purchase of Telecommunication Services Kiribati Limited following completion of pre-qualification processes by the Recipient's Ministry of Communications.

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 Financing Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	2,100,000
TOTAL AMOUNT	2,100,000

C. Withdrawal Tranche Release Conditions

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. The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain a deposit account in Australian Dollars ("Local Currency Deposit Account") on terms and conditions satisfactory to the Association.
2. All withdrawals from the Financing Account shall be deposited by the Association into the Local Currency Deposit Account. Upon each deposit of an amount of the Financing into the Local Currency Deposit Account, the Recipient shall ensure that an equivalent amount is accounted for in the Recipient's budget management system, in a manner and substance acceptable to the Association.

E. Audit. The Recipient shall:

1. have the Local 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 Single Withdrawal Tranche is allocated, 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 Local Currency Deposit Account and its 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, 2015.

APPENDIX

Section I. Definitions

1. "Cabinet" means the Recipient's Cabinet of Ministers.
2. "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
713	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
723	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)
97		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.
3. "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.
 4. "Kiribati Copra Cooperative Society Limited" means the Recipient's state owned enterprise established pursuant to the Cooperatives Societies Ordinance of 1952 for the purpose of regulating the establishment and operation of cooperatives.
 5. "Kiribati Copra Mill Limited" means the Recipient's state owned enterprise listed under Schedule 1 of the State-Owned Enterprises Act of 2012.
 6. "Local Currency Deposit Account" means the account referred to in Part D. 1 of Section II of the Schedule to this Agreement.
 7. "Ministry of Finance and Economic Development" means the Recipient's ministry responsible for finance and economic development policy, and any successor thereto.
 8. "Ministry of Fisheries and Marine Resource Development" means the Recipient's ministry responsible for the fisheries and marine resource development sector, and any successor thereto.

9. "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 September 26, 2014 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.
10. "Revenue Equalization Reserve Fund" and "RERF" means the Recipient's fund established pursuant to the Public Finance Act of 1976 for the purpose of storing wealth from phosphate mining activities.
11. "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 the Schedule to this Agreement.
12. "SOE" means a state owned enterprise established and operating pursuant to the laws of the Recipient
13. "State Owned Enterprises Act" and "SOE Act" mean the Recipient's Act No. 2 of 2012 that provides for the improvement of the efficiency and effectiveness of SOEs.
14. "Telecommunication Services Kiribati Limited" means the company established under the Company Act Chapter 10A of the Recipient's laws, responsible for providing telecommunications services in the Recipient's territory.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are 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 remaining 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 3 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. 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.

- (c) 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”.