

Public Disclosure Authorized

OFFICIAL DOCUMENTS

GRANT NUMBER D458-TO

Financing Agreement

(Third Inclusive Growth Development Policy Financing)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date 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: (i) 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 (ii) 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) 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 the Appendix to this Agreement.

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 four million Special Drawing Rights (SDR 4,000,000) (“Financing”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Payment Dates are April 15 and October 15 in each year.
- 2.04. The Payment Currency is Dollar.
- 2.05. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 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 is 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 is 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 Signature Date.
- 5.03. 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 VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is its minister at the time responsible for finance.
- 6.02. For purposes of Section 11.01 of the General Conditions: (a) the Recipient's address is:

Ministry of Finance
PO Box 87
Nuku'alofa
Kingdom of Tonga

(b) the Recipient's Electronic Address is:

Facsimile:	E-mail:
+676 26011	minister@finance.gov.to

- 6.03. 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.

KINGDOM OF TONGA

By





Authorized Representative

Name: PEHIVA TU'OLONETA

Title: MINISTER OF Finance

Date: 11 June, 2019

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: MICHEL KERF

Title: COUNTRY DIRECTOR

Date: 31 MAY 2019

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

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

Pillar I: Supporting fiscal resilience

1. The Recipient's Cabinet has approved for submission to Parliament a revised Revenue Services Administration Bill that introduces additional avenues for revenue recovery and sets updated and graduated penalties, as evidenced by the Recipient's Cabinet Decision number 89, dated February 1, 2019, and the Revenue Services Administration Bill 2019.
2. The Recipient's Cabinet has approved for submission to Parliament a new Customs Bill that aligns with international standards (including the revised Kyoto Convention and World Customs Organization recommended practices) and simplifies customs administration, as evidenced by the Recipient's Cabinet Decision number 90, dated February 1, 2019, and the Customs Bill 2019.
3. The Recipient has: (i) realigned the performance management system year; (ii) provided target performance-rating distributions to public institutions; and (iii) clarified the eligibility of public sector employees to receive performance rewards and the application of procedures to manage poor performance, based on a review of its new public service remuneration structure and performance management system, as evidenced by the Recipient's Cabinet Decision number 629, dated August 17, 2018; the letter from the Recipient's Chief Executive Officer for the Office of the Public Service Commission to the Association, No. STF32/5/2, dated April 4, 2019, titled "Recent reforms to Tonga's Performance Management System for public servants"; and the Circular of the Office of the Public Service Commission, No. STF.38/4/5/8&STF.38/4/5, dated July 12, 2018, titled "Public Service Commission Decision No. 292 of 01 June 2018".

Pillar II: Government accountability

4. The Recipient has removed the non-economic items from the economic segment of the Chart of Accounts, which will improve the accuracy and integrity of budget reporting, as evidenced by the letter from the Recipient's Chief Executive Officer for the Ministry of Finance to the Association, No. 69G/324, dated April 3, 2019, titled "Ministry of Finance Reforms for the Tonga Third Inclusive Growth Development Policy Operation – Budget Support for Financial Year 2018/2019", and the Circular of the Ministry of Finance, No. 15/23/254, dated March 29,

2019, titled “Implementation of Revision to the Chart of Account in FY 2019/2020 Budget”.

Pillar III – Supporting a more dynamic and inclusive economy

5. The Recipient’s Cabinet has approved for submission to Parliament the Employment Relations Bill, which will ensure fundamental labor rights are enshrined in domestic law, as evidenced by the Recipient’s Cabinet Decision number 447, dated April 5, 2019, and the Employment Relations Bill 2019.
6. The Recipient’s Cabinet has approved revised Foreign Investment Regulations, which provide clearer and more transparent requirements for foreign investment applications, as evidenced by the Recipient’s Cabinet Decision number 387, dated March 29, 2019, and the Foreign Investment Regulations 2019.
7. The Recipient’s Cabinet has approved a recommendation that the Ports Authority Tonga adopts a landlord model for Nuku’alofa port, as evidenced by the Recipient’s Cabinet Decision number 1042, dated November 9, 2018.

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 proceeds. 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	4,000,000
TOTAL AMOUNT	4,000,000

- 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. **Deposit of Financing Amounts.**

1. Notwithstanding the provisions of Section 2.03 of the General Conditions, and except as the Association may otherwise agree:
 - (a) the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain on terms and conditions satisfactory to the Association a dedicated account in Dollars (“Foreign Currency Deposit Account”); and
 - (b) all withdrawals from the Financing Account shall be deposited by the Association into the dedicated Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the dedicated 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.
2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the dedicated Foreign Currency Deposit Account; (b) the details of the account to which the Tongan Pa’anga equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and disbursement of the dedicated Foreign Currency Deposit Account.

E. Audit.

Upon the Association’s request, the Recipient shall:

1. have the dedicated 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 dedicated Foreign Currency Deposit Account and their audit as the Association shall reasonably request.

F. Closing Date. The Closing Date is September 30, 2020.

APPENDIX

Section I. Definitions

1. "Cabinet" means the Cabinet of Ministers of the Recipient.
2. "Chart of Accounts" means the Recipient's system for classifying and recording financial transactions.
3. "Customs Bill" means the Recipient's Customs Bill 2019, as submitted to Cabinet on February 1, 2019.
4. "Employment Relations Bill" means the Recipient's Employment Relations Bill 2019, as submitted to the Cabinet on April 5, 2019.
5. "Foreign Currency Deposit Account" means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.
6. "Foreign Investment Regulations" means the Foreign Investment Regulations 2019, as submitted to the Cabinet on March 29, 2019.
7. "General Conditions" means the "International Development Association General Conditions for IDA Financing, Development Policy Financing", dated December 14, 2018.
8. "Kyoto Convention" means the International Convention on the Simplification and Harmonisation of Customs Procedures that came into force on February 3, 2006, as amended.
9. "Ministry of Finance" means the Recipient's ministry responsible for finance, or any successor thereto.
10. "Ports Authority Tonga" means the authority established under the Recipient's Ports Authority Act, in effect as of April 4, 2019.
11. "Program" means the program of objectives, policies, and actions set forth or referred to in the letter, reference No. MF 1/33, submitted by the Recipient to the Association on April 4, 2019, 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 and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program's objectives.

12. “Public Service Commission” means the Recipient’s Public Service Commission established under the Recipient’s Public Service Act, in effect as of April 4, 2019.
13. “Revenue Services Administration Bill” means the Recipient’s Revenue Services Amendment Bill 2019, as submitted to the Cabinet on February 1, 2019.
14. “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.
15. “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.
16. “Tongan Pa’anga” means the currency of the Recipient.
17. “World Customs Organization” means the independent intergovernmental body, established in 1952 as the Customs Co-operation Council, whose mission is to enhance the effectiveness and efficiency of customs administrations.