Financing Agreement

(Energy Sector Development Policy Financing)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 19, 2010
FINANCING AGREEMENT

AGREEMENT dated October 19, 2010, 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 appropriate 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 three million four hundred thousand Special Drawing Rights (SDR 3,400,000) ("Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule I 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 1 and December 1 in each year.

2.05. The Payment Currency is the Dollar.
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 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.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

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

Ministry of Finance and National Planning
Vuna Road, Nuku ‘aloafa
Kingdom of Tonga

Facsimile:

676-26-011

6.03. The Association’s Address is:

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

Cable address: Telex: Facsimile:

INDEVAS 248423(MCI) 1-202-477-6391
Washington, D.C.

 AGREED at District of Colombia, United States of America, as of the day and year first above written.

KINGDOM OF TONGA

By/s/ Sonatane Tu’a Taumoepeau Tupou

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By/s/ James W. Adams

Authorized Representative
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 adopted the Tonga Energy Road Map June 2010, by decision of its Cabinet No. 739, dated August 20, 2010.

2. An intra-governmental mechanism to coordinate energy sector activities across Recipient’s administration is established and operationalized, pursuant to the terms of the decision of Cabinet of November 25, 2009 and the minutes of the meetings of the Tonga Energy Road Map Committee dated February 12, 2010 and February 19, 2010.

3. The Tonga Power Limited FY08/09 Audit Report was submitted to the Recipient’s Auditor General’s office.

4. The Recipient’s Ministry of Finance has issued treasury instructions pursuant to Article 45 of the Recipient’s Financial Management Act (2002), to the Recipient’s line ministries.

5. Recipient’s Cabinet has approved the submission of the Public Procurement Regulations to the Law Committee.

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:
<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Single Withdrawal Tranche</td>
<td>3,400,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,400,000</td>
</tr>
</tbody>
</table>

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 appropriateness of the Recipient’s macroeconomic policy framework.

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

1. The Recipient shall have open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain the following two (2) deposit accounts ("Deposit Accounts") on terms and conditions satisfactory to the Association:

   a. deposit account in US Dollars ("Foreign Currency Deposit Account"); and

   b. a deposit account in Tongan pa’ Angela ("Local Currency Deposit Account").

2. All withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Deposit Account. Upon each deposit of an amount of the Financing into the Foreign Currency Deposit Account, the Recipient shall deposit an equivalent amount into the Local Currency Deposit Account.

3. The Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. Audit. The Recipient shall:

1. have the Foreign Currency Deposit Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and the audit will cover the following:
a. the accuracy of the summary of the transactions of the Foreign Currency Deposit Account, including accuracy of exchange rate conversions;

b. that the Foreign Currency Deposit Account was only used for the purposes of the operation and that no other amounts were deposited into this account; and

c. that payments from the Foreign Currency Deposit Account were in a timely manner (normally within 30 days of disbursement) transferred to an account available to finance budgeted expenditure.

2. furnish to the Association as soon as available, but in any case not later than six (6) months after the last disbursement from the Association, 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 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 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, 2011.
APPENDIX

Section I. Definitions

1. "Cabinet" means the Recipient's cabinet ministers.

2. "Law Committee" means the Recipient's law committee;

3. "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 sub-groups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or</td>
</tr>
<tr>
<td>971</td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
<td></td>
</tr>
<tr>
<td>-----</td>
<td>----------------------------------------------------------</td>
<td></td>
</tr>
</tbody>
</table>

(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.

4. "Foreign Currency Deposit Account" means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.

5. "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.

6. "Local Currency Deposit Account" means the account referred to in Part D.1(b) of Section II of Schedule 1 to this Agreement.

7. "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 August 13, 2010 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.
8. “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 I to this Agreement.

9. “Tonga Energy Road Map June 2010” means the document titled “Tonga Energy Road Map 2010-2020: A Ten Year Road Map To Reduce Tonga’s Vulnerability To Oil Price Shocks And Achieve An Increase In Quality Access To Modern Energy Services In An Environmentally Sustainable Manner, June 2010” prepared by the Recipient, setting out priorities and objectives for the Recipient’s energy sector.

10. “Tonga Power Limited” means the state-owned enterprise operating under the Recipient’s Electricity Act (2007) to generate and distribute power within the territory of the Recipient.

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”.