Financing Agreement

(Third Economic Reform Development Policy Financing)

between

REPUBLIC OF KIRIBATI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 17 October, 2016
FINANCING AGREEMENT

AGREEMENT dated 17 October, 2016, 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 (i) 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 (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) 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 one million five hundred thousand Special Drawing Rights (SDR 1,500,000) ("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 Dollar.

2.06. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), 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 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 and the actions specified in Section I of the Schedule to this Agreement;

(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 consists of the following 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 twenty (20) years after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the minister responsible for finance.

6.02. The Recipient’s Address is:

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

Facsimile:
(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

Telex: Facsimile:
248423(MCI) 1-202-477-6391
AGREED at BATIKI, TARANU, as of the day and year first above written.

REPUBLIC OF KIRIBATI

By

[Signature]

Authorized Representative

Name: DR. TEUEA TOATU
Title: HON. MINISTER OF FINANCE & ECONOMIC DEVELOPMENT

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Mona Sur

Authorized Representative

Name: MONA SUR
Title: Acting Country Director
SCHEDULE

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

Actions Taken Under the Program. The actions taken by the Recipient under the Program include the following:

1. (a) The Recipient has reviewed all existing fisheries joint ventures to examine their financial performance, contribution to the economy, and consistency with the National Fisheries Policy and regional agreements as evidenced through the letter from the Recipient’s Minister of Finance and Economic Development to the Association dated July 20, 2016, regarding “Government of Kiribati Review of the Fishing Joint Ventures in 2015”; and

   (b) the Recipient’s Cabinet has approved the restructuring or dissolution of the fisheries joint ventures as appropriate based on the findings and recommendations of the review; as evidenced through the Cabinet Minute No. 38/14 dated 30th October 2014, disclosed by way of the “Extract of Cabinet Minute No. 38/14 held on 30th October 2014” from the Secretary to Cabinet, dated 29 April, 2016.

2. The Recipient has implemented key reform actions to improve the management of the Revenue Equalisation Reserve Fund by:

   (a) appointing two (2) new external asset managers through a transparent and competitive selection process, as evidenced through paragraph 4.3 of the Cabinet minutes from meeting number 35/15 dated September 15, 2015, disclosed by way of the “Extract of Cabinet Minute No. 35/15 held on 15 September 2015” from the Secretary to Cabinet, dated 29 April, 2016; the executed service legal agreement for the “Government of Kiribati Revenue Equalisation Fund” between the Government of Kiribati and BlackRock Investment (Australia) Limited countersigned on May 15, 2016; and the investment management agreement between Northern Trust Global Investments Limited and the Government of Kiribati countersigned on May 13, 2016; and

   (b) executing the approved strategic restructuring of the RERF portfolio to better align with the RERF’s long term investment objectives; as evidenced through paragraph 1.1 of the Cabinet minutes from meeting number 2/15 dated January 29,, 2015, disclosed by way of the “Extract of Cabinet Minute No. 2/15 held on 29 January 2015” from the Secretary to Cabinet, dated 29 April, 2016, the BlackRock monthly report for the Recipient’s government dated May 31, 2016, and the State Street report on the Recipient’s Government titled “Performance Measurement and Analytics for the Month Ending May 31, 2016”.
3. The Recipient has improved management of its public debt by establishing a comprehensive database of public debt, including the debt of state owned enterprises and joint ventures, as evidenced through the letter from the Recipient’s Secretary of Finance and Economic Development to the Association confirming the use of the public debt data database, dated July 22, 2016, and the Recipient’s public debt database spreadsheet.

4. The Recipient has issued a second mobile operator license so as to introduce competition in the cellular mobile communications services in the Recipient’s territory, as evidenced through the Communications Commission of Kiribati Individual License for Provision and Operation of Communications Networks and Services, issued to Ocean Link Ltd, dated March 3, 2016.

5. The Recipient has implemented short term measures to improve the operational performance of the Public Utilities Board, including appointing, through a competitive and transparent process, an international chief executive officer for the PUB to manage and implement the PUB’s medium-term reform plan; as evidenced through the Public Utilities Board Contract Employment Service Agreement Chief Executive Officer (CEO) signed February 29, 2016 by the Chairman of the Board and the appointee.

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>1,500,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,500,000</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 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.

F. Closing Date. The Closing Date is December 31, 2017.
APPENDIX

Section I. Definitions

1. "BlackRock Investment (Australia) Limited" means the company BlackRock Investment Management (Australia) Limited with the Australian business number 3006165975 whose registered office at Level 26, 101 Collins Street, Melbourne, VIC, 3000.

2. "Cabinet" means the Recipient’s Cabinet of Ministers.

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 subgroups 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</td>
</tr>
<tr>
<td>Machinery</td>
<td></td>
<td></td>
</tr>
<tr>
<td>--------------------------------------------------------------------------</td>
<td></td>
<td></td>
</tr>
<tr>
<td>897  897.3  Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>971  Gold, non-monetary (excluding gold ores and concentrates)</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. "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.

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


8. "Ocean Link Ltd" means the company Ocean Link Ltd registered in the Recipient’s territory, registration number 164, registered address Betio, Tarawa, Republic of Kiribati.

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 July 22, 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.

10. "Public Utilities Board" or "PUB" means the Recipient’s Public Utilities Board, established by Chapter 83, Section 3, of the Laws of the Gilbert Islands.

11. "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.

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 the Schedule to this Agreement.

13. "State Street" means the Australian public company State Street Australia Limited, with the Australian business number 21002965200.

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 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. 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.

(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".