Hon. Dr. ‘Aisake Valu Eke  
Ministry of Finance & National Planning  
Vuna Rd., PO Box 87  
Nuku’alofa  
Kingdom of Tonga

Dear Minister,

GFDRR Grant No. TF017580  
Tonga Cyclone Ian Reconstruction and Climate Resilience Project

In response to the request for financial assistance made on behalf of the Kingdom of Tonga ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by various donors ("Donors") under the Global Facility for Disaster Reduction and Recovery ("GFDRR") Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed one million eight hundred thousand United States Dollars (U.S.$1,800,000) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of Part 2 and Part 3 of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor(s) under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified by the World Bank in accordance with Section 4.01 of the Annex to this Agreement.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By [Signature]
 Franz R. Drees-Gross
 Country Director
 Timor-Leste, Papua New Guinea
 & Pacific Islands
 East Asia and Pacific Region

AGREED:
KINGDOM OF TONGA

By: [Signature]
Name: Hon. Tevita Lavemau
Title: Acting Minister of Finance and National Planning
Date: 8th May 2015

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions


1.02. Definitions. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions, the IDA Financing Agreement, or in this Agreement, and the following additional terms have the following meanings:

"IDA Financing Agreement" means the agreement dated June 11, 2014 between the Recipient and the Association, pursuant to which the Association extended a grant of SDR 3,900,000 to the Recipient in support of the Project, as it may be amended from time to time.

Article II
Project Execution

2.01. Project Objectives and Description. The objectives of the Project are to (a) restore housing, community facilities, and basic services to the affected population of Ha'apai; and (b) strengthen the Recipient's resilience to natural disasters. The Project consists of the Project described in Schedule 1 to the IDA Financing Agreement.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through its Ministry of Infrastructure in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants," dated October 15, 2006 and revised in January 2011 ("Anti-Corruption Guidelines"); and (c) this Article II.

2.03. Institutional and Other Arrangements. The Recipient shall carry out the Activities in accordance with the Implementation Arrangements set forth in Section I of Schedule 2 to the IDA Grant Agreement.

2.04. Donor Visibility and Visit.

(a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors' support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request, enable the representatives of the Donors to visit any part of the Recipient's territory for purposes related to the Project.

2.05. Project Monitoring, Reporting and Evaluation.
The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank and set forth in the Project Operations Manual. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five days after the end of the period covered by such report.
2.06. **Financial Management.**

(a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”), in the case of goods, works, and non-consulting services;

(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in [Sections II and III of the Procurement Guidelines; or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Non-consulting Services**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts which are specified in the Procurement Plan: (A) Shopping; (B) Direct Contracting; (C) Force Account; (D) Community Participation procedures which have been found acceptable to the World Bank.

(d) **Particular Methods of Procurement of Consultants’ Services**

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants' Qualifications; (E) Single-source Selection of consulting firms; (F) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

3.01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated expressed in USD</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services and consultants' services for Parts 2 and 3 of the Project</td>
<td>1,800,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,800,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. Withdrawal Conditions. Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient, except that withdrawals up to an aggregate amount not to exceed $100,000 equivalent may be made for payments made prior to this date but on or after April 1, 2014 for Eligible Expenditures.

3.03. Withdrawal Period. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2016.
Article IV
Effectiveness; Termination

4.01. This Grant Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank demonstrating that the IDA Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

Article V
Recipient's Representative; Addresses

5.01. **Recipient's Representative.** The Recipient's Representative referred to in Section 7.02 of the Standard Conditions is its Minister for Finance and National Planning.

5.02. **Recipient's Address.** The Recipient's Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance & National Planning
Vuna Rd, PO Box 87
Nuku'alofa

Telephone: 67623066

5.03. **World Bank's Address.** The World Bank's Address referred to in Section 7.01 of the Standard Conditions is:

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

Cable: INDEVAS
Telex: 248423 (MCI) or 64145 (MCI)
Telex: 1-202-477-6391

Facsimile: