November 9, 2012

Honorable Lisiate ‘Aloveita ‘Akolo
Minister for Finance and National Planning
Ministry for Finance and National Planning
P.O. Box 87, Vuna Rd
Nuku’alofa, Tonga

Re: Pacific Disaster Risk Financing and Insurance Multi-Donor Trust Fund
Pacific Catastrophe Risk Insurance Project
PCRAFI Grant No. TF013363

Excellency:

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 Bank for Reconstruction and Development/International Development Association (“World Bank”), acting as administrator of grant funds provided by Japan and other Donors (“Donors”) under the Pacific Disaster Risk Financing and Insurance Multi-Donor Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed six hundred thousand United States Dollars (US$600,000) (“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 the project described in the Annex (“Project”).

The Grant is funded out of the above-mentioned trust fund for which the World Bank receives periodic contributions from the donor to the trust fund. In accordance with Section 3.02 of the Standard Conditions, 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 under the above mentioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds. In the event that any Donor cancels or fails to pay any contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the Project shall be terminated and neither the Recipient nor the World Bank shall have any liability whatsoever to each other or to any third parties in respect of any expenditures or liabilities incurred in connection with this Agreement which exceed the amount of funds made available to the World Bank by the Donor for the purposes of the Grant.

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 of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received the countersigned copy of this Agreement within thirty (30) days after the date of signature of this Agreement by the World Bank, unless the World Bank shall have established a later date for such purpose.

Very truly yours,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT AND INTERNATIONAL DEVELOPMENT ASSOCIATION

By Ulrich Zachau
Acting Country Director
Timor-Leste, Papua New Guinea and Pacific Islands Operations
East Asia and Pacific Region

AGREED:
KINGDOM OF TONGA

By /Mth;orized Representative
Name LISIATE A· AKOLO
Title MINISTER OF FINANCE
Date: 30/11/2012

Enclosures:

ANNEX

Article I
Standard Conditions; Definitions

1.01. Standard Conditions. The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement, subject to the following modification to Section 3.02 of said Standard Conditions:

"Section 3.02. Funding Shortfall. Notwithstanding the provisions of Section 3.01, no withdrawals shall be made if, as a result of such withdrawal, the total amount of the Grant withdrawn from the Grant Account would exceed the amount available to the World Bank from trust fund resources provided to it by other financiers for the purposes of the Grant. In the event that any financier cancels or fails to pay any contributions under the trust fund to the World Bank for any reason, or that as a result of currency exchange variations the amount of funds available in the trust fund is insufficient for the purposes of the Grant, the Project shall be terminated and neither the Recipient nor the World Bank shall have any liability whatsoever to each other or to any third parties in respect of any expenditures or liabilities incurred in connection with this Agreement which exceed the amount of funds made available to the World Bank by the financiers for the purposes of the Grant."

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 or in this Agreement and the following additional terms have the following meanings:

(a) "Derivative Agreements" means any derivatives agreement between the World Bank and the Recipient for the purpose of documenting and confirming one or more derivatives transactions between the World Bank and the Recipient, as such agreement may be amended from time to time. "Derivatives Agreement" includes all schedules, annexes and agreements supplemental to the Derivatives Agreement.

(b) "Premia for Disaster Risk Financing or Transfer Products" means such amounts as may be payable by the Recipient to the World Bank from time to time in consideration for the entry into contingent disaster risk financing or transfer agreements (including, without limitation, Derivatives Agreements).

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to ascertain the viability of market-based sovereign catastrophe risk transfer instruments in the Recipient’s territory.
The Project consists of the following:

**Pacific Catastrophe Risk Insurance Pilot Program**

Testing the viability of market-based sovereign catastrophe risk transfer instruments to reduce the financial vulnerability to natural disasters (earthquakes and tropical cyclones) of the Recipient. This will be achieved by providing financing to allow the Recipient to join the Pacific catastrophe risk insurance pilot program and purchase catastrophe risk coverage against catastrophic earthquake and/or tropical cyclone events for the 2012-2013 and 2013-2014 pilot periods.

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 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. **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 or take all measures required on its part to enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

2.04. **Project Monitoring, Reporting and Evaluation.** (a) 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 agreed with the World Bank. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six (6) months after the Closing Date.

**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 category of Eligible Expenditures that may be financed out of the proceeds of the Grant.
(“Category”), the allocations of the amounts of the Grant to the Category, and the percentage of expenditures to be financed for Eligible Expenditures in the Category:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premia for Disaster Risk Financing or Transfer Products</td>
<td>600,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>600,000</td>
<td></td>
</tr>
</tbody>
</table>

3.02. **Payment of Premia to World Bank.** Notwithstanding the provisions of Section 3.01 of this Agreement, on or before the effective date of any Derivatives Agreement between the World Bank and the Recipient in respect of a disaster risk financing or transfer product provided by the World Bank at the Recipient’s request and for which the Recipient has requested that the premium be paid out of the proceeds of the Grant, the World Bank shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amounts required to pay any such premium up to the amount allocated from time to time for that purpose in the Category in the table above.

3.03. **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.

3.04. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is August 31, 2015.

**Article IV**
**Additional Remedies**

4.01. **Additional Events of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consist of the following, namely that the World Bank has determined after the countersignature date of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient’s right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.
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 the 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 and National Planning
- P.O. Box 87
- Vuna Road
- Nuku' alofa
- Kingdom of Tonga
- Facsimile: (676) 26011

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

- International Bank for Reconstruction and Development and International Development Association
- 1818 H Street, N.W.
- Washington, D.C. 20433
- United States of America

- Cable: INTBAFRAD
- Telex: INDEVAS 248423 (MCI) or 1-202-477-6391
- Facsimile: Washington, D.C. 64145 (MCI)