Financing Agreement

(Additional Financing for Pacific Aviation Investment Program-
Tonga Aviation Investment Project)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated 7 April, 2016
AGREEMENT dated 7 April, 2016, entered into between KINGDOM OF TONGA ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the project described in the financing agreement for the Pacific Aviation Investment Program- Tonga Aviation Investment Project ("Original Project") between the Recipient and the Association, dated February 17, 2012, as amended to the date of this Agreement (Grant No. H743-TO) ("Original Financing Agreement").

This Agreement: (i) sets out the terms and conditions related to the Additional Financing for the Project; and (ii) amends specific provisions of the Original Financing Agreement (as such term is defined in the Appendix to this Agreement).

The Recipient and the Association 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 the Original Financing Agreement 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 and a credit (collectively, "Financing") in the following amounts to assist in financing the project described in Schedule I to this Agreement ("Project"):

(a) an amount equivalent to five hundred thousand Special Drawing Rights (SDR 500,000) ("Grant"); and

(b) an amount equivalent to four million nine hundred thousand Special Drawing Rights (SDR 4,900,000) ("Credit").
2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are February 15 and August 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

2.07. The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall:

(a) through the Line Ministries, carry out Parts B (a) through (c) and D of the Project (as it applies to the Line Ministries); and

(b) cause all other Parts the Project to be carried out by the Project Implementing Entity;

all in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consists of the following, namely that, the Project Implementing Entity’s Legislation has been amended, suspended,
abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) the amendment to the Subsidiary Agreement provided for under Section I.B.1 of Schedule 2 to this Agreement has been executed on behalf of the Recipient and the Project Implementing Entity; and

(b) the amendment letter to the PRIF Grant Agreement providing for the Additional PRIF Grant has been executed on behalf of the Recipient and the Association.

5.02. The Additional Legal Matter consists of the following, namely that, the amendment to the Subsidiary Agreement as described above in Section 5.01 has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.

5.03. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.04. 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 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 National Planning
PO Box 87
Nuku’alofa
Kingdom of Tonga
6.03. The Association’s Address is:

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

Telex: 248423 (MCI)
Facsimile: +676 23066

Telex: 248423 (MCI)
Facsimile: +676 26011
AGREED at NUKUALOA, TONGA, as of the day and year first above written.

KINGDOM OF TONGA

By

[Signature]

Authorized Representative

Name: 'AISETI VAKU ECE

Title: MINISTER OF FINANCE AND NATIONAL PLANNING

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]

Authorized Representative

Name: FRANZ R. DREES-GROS

Title: COUNTRY DIRECTOR, EA/AF
SCHEDULE 1

Project Description

The objective of the Project is to improve operational safety and oversight of international air transport infrastructure.

The Project is part of the Program, and consists of the Original Project as amended to date.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements.

1. The Recipient shall, throughout the Project implementation period, maintain its participation and membership in the Program Steering Committee.

2. The Recipient shall, throughout the Project implementation period, maintain the National Steering Committee with powers and composition satisfactory to the Association which shall include inter alia, responsibilities to ensure that the Project is consistent with the national goals and objectives of the Recipient for its aviation sector, as well as making recommendations regarding the resolution of Project-related implementation issues and proposing remedial actions.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project Implementing Entity’s Respective Part of the Project, the Recipient shall make part of the proceeds of the Financing available to the Project Implementing Entity under an amendment to the Subsidiary Agreement, which shall include the following:

   (a) the requirement that the principal amount of the Credit made available under the amended Subsidiary Agreement (“Subsidiary Credit”) shall be:

      (i) denominated and repayable in United States Dollars and shall be the equivalent in terms of SDRs (determined as of the date or respective dates of repayment) of the amount of the Subsidiary Credit withdrawn and outstanding from time to time;

      (ii) a service charge on the principal amount of the Subsidiary Credit withdrawn and outstanding from time to time shall be charged at a rate equal to three-fourths of one percent (3/4 of 1%) per annum; and

      (iii) repayable over a period not exceeding forty (40) years from the date of the Subsidiary Agreement, inclusive of a grace period not exceeding ten (10) years; and

   (b) the requirement that the Grant made available under the amended Subsidiary Agreement shall be made available on grant terms.
2. The Recipient shall exercise its rights under the amended Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing and the PRIF Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards.

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental Management Plan.

2. The Recipient shall ensure that each contract for civil works under the Project includes the obligation of the relevant contractor and any sub-contractor(s) to comply with the relevant provisions of the Environmental Management Plan applicable to such civil works commissioned/awarded pursuant to said contract.

3. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall, in accordance with terms of reference satisfactory to the Association: (a) monitor the status of compliance with the Environmental Management Plan; and (b) prepare and furnish to the Association, as part of each Project Report, a report on the results of such monitoring activities during the period covered by said Project Report, giving details of:

   (i) measures taken in furtherance of the Environmental Management Plan;

   (ii) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the Environmental Management Plan; and

   (iii) remedial measures taken or required to be taken to address such conditions.

6. The Recipient shall not amend, vary or waive, or permit to be amended, varied or waived, any provision of the Environmental Management Plan, whether in whole or in part, unless the Association has provided its prior approval thereof in writing, and the Recipient has complied with the same consultation and disclosure requirements as applicable to the original adoption of the Environmental Management Plan.
7. In the event of a conflict between any provisions of the Environmental Management Plan and the provisions of this Agreement, the provisions of this Agreement shall prevail.

E. Other Covenants

The Recipient shall ensure that:

(a) throughout the Project implementation period, a safety and security levy equivalent to at least five Australian Dollars (AU$5) shall be collected from departing international air passengers for use to pay aviation safety and security expenditures incurred by TAL and the Ministry of Infrastructure;

(b) the sublease for the Fua’amotu and Vava’u airport lands to TAL is maintained throughout the Project implementation period in accordance with the terms of the leases currently in effect with the Ministry of Infrastructure; and

(c) at all times during the Project implementation period, TAL shall manage all revenues associated with the aviation sector and accounts for such revenues in a satisfactory manner.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project reports in accordance with the provisions of Section 4.08 of the General Conditions and the Operations Manual. Each Project Report shall cover the period of one (1) calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be selected in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in Section II and III of the Procurement Guidelines, or Section II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Shopping</td>
</tr>
<tr>
<td>(b) Direct Contracting</td>
</tr>
<tr>
<td>(c) Force Account</td>
</tr>
</tbody>
</table>
C. Particular Methods of Selection of Consultants' Services

1. Quality- and Cost-based Selection. Except as otherwise provided in paragraph 2 below, consultants' services shall be selected under contracts awarded on the basis of Quality- and Cost-based Selection.

2. Other Methods of Selection of Consultants' Services. The following table specifies methods of selection, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Selection Methods:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection Based on Consultants' Qualifications</td>
</tr>
<tr>
<td>(b) Quality Based Selection</td>
</tr>
<tr>
<td>(c) Least Cost Selection</td>
</tr>
<tr>
<td>(d) Single Source Selection</td>
</tr>
<tr>
<td>(e) Procedures set forth in paragraphs 5.2, and 5.3, of the Consultant Guidelines for the Selection of Individual Consultants</td>
</tr>
<tr>
<td>(f) Selection of United Nations Agencies</td>
</tr>
</tbody>
</table>

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall 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 Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
### Category

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, works, Training, Operating Costs,</td>
<td>4,900,000</td>
<td>500,000</td>
<td>100% of the TFSU Costs paid as per the terms of the Service Agreement, and 100% of all other Eligible Expenditures</td>
</tr>
<tr>
<td>TFSU Costs and consultants' services for all</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Parts of the Project other than for Parts B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(e) through (g) and C thereof.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>4,900,000</td>
<td>500,000</td>
<td></td>
</tr>
</tbody>
</table>

### B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed:

   (a) one hundred thousand Special Drawing Rights (SDR 100,000) out of the Grant; and

   (b) four hundred ninety thousand Special Drawing Rights (SDR 490,000) out of the Credit;

   may be made for payments made prior to this date but on or after January 1, 2016 for Eligible Expenditures.

2. The Closing Date is December 31, 2018.
SCHEDULE 3

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing August 15, 2026 to and including February 15, 2036</td>
<td>1%</td>
</tr>
<tr>
<td>commencing August 15, 2036 to and including February 15, 2056</td>
<td>2%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APPENDIX

Section I. Definitions

1. “Additional PRIF Grant” means an amount of three hundred ten thousand Dollars ($310,000) provided by the various donors under PRIF to assist in financing the Project.


3. “AUS” means Australian Dollars, the lawful currency of Australia.

4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.


6. “Environmental Management Plan” or “EMP” means the Environmental and Social Management Plan, dated February 22, 2011 and updated and re-disclosed on December 3, 2015 which sets out, with respect to the Project, mitigation, enhancement, monitoring, and institutional measures, including capacity building through training, to be implemented in the Recipient’s territory to eliminate any adverse environmental impacts of activities to be implemented, offset them, or reduce them to acceptable levels, or enhance positive impacts; as well as administrative and monitoring arrangements to ensure the implementation of said plan, as said plan may be revised from time to time with the prior written agreement of the Association, and such term includes any annexes or schedules to such plan.


8. “Operating Costs” means incremental expenses (other than TFSU Operating Costs) incurred by the Recipient and TAL on account of the implementation, management, and monitoring and evaluation of the Project, based on the annual budgets approved by the Association, including rental of office space, bank charges, communications, utilities, stationery, vehicle operation, maintenance, and insurance, transportation costs, and accommodations and allowances of TAL’s and the Line Ministries’ staff, but excluding salaries, fees, honoraria, bonuses, and any other salary supplements of the Recipient’s public servants.
9. “Original Financing Agreement” means the grant agreement for the Pacific Aviation Investment Program – Tonga Aviation Investment Project between the Recipient and the Association, dated February 17, 2012 as amended to the date of this Agreement (Grant No. H743-TO).

10. “Original Project” means the Project described in Schedule 1 to the Original Financing Agreement.

11. “PRIF” means Pacific Region Infrastructure Facility, a trust fund currently administered by the Association.

12. “PRIF Grant Agreement” means the agreement between the Recipient and the Association (as administrator of PRIF funds) dated July 11, 2012, to be amended pursuant to Section 5.01 of this Agreement to provide for the Additional PRIF Grant.


14. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated December 15, 2015 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

15. “Program” means the regional aviation program to be carried out by the Recipient, the Program Countries, as presented to such countries in the PASO’s Council Meeting held at Noumea, New Caledonia, on October 13, 2011, and as set forth in minutes of such meeting dated October 21, 2011.


17. “Project Agreement” means the agreement between the Association and Project Implementing Entity, referred to in Sections 3.01 and 4.01 of this Agreement.


20. “Subsidiary Agreement” means the agreement dated February 17, 2012 referred to in Section 1.B of Schedule 2 to the Original Financing Agreement, as amended pursuant to Section 5.01 of this Agreement.
21. "TFSU Operating Costs" means incremental expenses incurred by TAL through
the TFSU on account of the delivery of services under each of the Service
Agreements, based on the annual budgets approved by the Association, including
rental of office space, bank charges, communications, utilities, stationery, vehicle
operation, maintenance, and insurance, transportation costs, and accommodations
and allowances of TAL's staff, but excluding salaries, fees, honoraria, bonuses,
and any other salary supplements.

22. "Training" means the reasonable costs of training under the Project, based on the
annual budgets approved by the Association, and attributable to seminars,
workshops, and study tours, along with domestic and international travel and
subsistence allowances for training participants, services of trainers, rental of
training facilities, preparation and reproduction of training materials, and other
activities directly related to course preparation and implementation.

Section II Amendments to the Original Financing Agreement

The Original Financing Agreement is amended as follows:

1. Part A of the Project set forth in Schedule 1 to the Original Financing Agreement
is amended by adding the following activities:

   Part A. Aviation Infrastructure Investments

   (1) construction of a new air traffic control tower at Fua'amotu International
       Airport, including the acquisition and installation of air traffic control equipment
       for the new traffic control tower.

2. Section II.A of Schedule 2 to the Original Financing Agreement is amended to
read as follows:

   "A. Project Reports

   (c) The Recipient shall monitor and evaluate the progress of the Project and
       prepare Project Reports in accordance with the provisions of Section 4.08
       of the General Conditions and on the basis of the indicators acceptable to
       the Association and set forth in the Operations Manual. Each Project
       Report shall cover the period of the period of six (6) months, and shall be
       furnished to the Association not later than forty-five (45) days after the
       end of the period covered by such report."

3. The following definitions in the Original Financing Agreement are amended to
read as follows:
15. "Line Ministries" means the Recipient's Ministry of Infrastructure, and the Recipient's ministries responsible for finance, national planning, public enterprises, works and environment, and any successors thereto, and any other of the Recipient's ministries that may be proposed by the Recipient and agreed to by the Association for purposes of implementing and/or benefitting from the activities referred to in Part B (a) through (c) and D of the Project."

16. "Ministry of Infrastructure" or MOI means the Recipient's ministry responsible for infrastructure, or any successor thereto."

33. "Service Agreement" means each of the agreements, referred to in Section I C.1 of the Schedule to the Project Agreement, to be entered into between the Project Implementing Entity and each of the Program Countries except for the Recipient."

37. "TFSU Costs" means:

(a) the costs of TFSU consulting services calculated in accordance with the provisions of the Operations Manual and the respective Service Agreements with the other Program Countries.; and

(b) the applicable TFSU Operating Costs."

4. All references to "Ministry of Transport" or "MOT" in the Original Financing Agreement are replaced with references to "Ministry of Infrastructure".

5. The Supplemental Letter for Monitoring Indicators dated February 17, 2011 is now rescinded and replaced by the indicators specified in the Operations Manual.

6. The Closing Date in Section IV.B.2 of Schedule 2 to the Original Financing Agreement is extended to December 31, 2018.