Hon. 'Aisake Valu Eke  
Minister of Finance and National Planning  
Ministry of Finance and National Planning  
PO Box 87  
Nuku'alofa  
Kingdom of Tonga

Kingdom of Tonga: Additional Financing for the Pacific Aviation Investment Program-  
Tonga Aviation Investment Project, and Amendment to the PRIF Grant Agreement. PRIF Grant  
Numbers TF012702 and TF0A1644

Dear Honorable Minister:

We refer to the grant agreement ("PRIF Grant Agreement") between the Kingdom of Tonga ("Recipient") and the International Development Association ("Association") and the International Bank for Reconstruction and Development (collectively, "World Bank") acting as administrator of grant funds provided by Australia and New Zealand ("Donors") through the Pacific Region Infrastructure Facility ("PRIF") multi-donor trust fund for the Tonga Aviation Investment Project ("Project"), dated July 11, 2012 (Grant No. TF012702). We refer also to the financing agreement ("Original Financing Agreement") between the Recipient and the Association, dated February 17, 2012 (Grant No. H743-TO), providing for financing from the Association for the Project. We further refer to your letter dated September 15, 2015 requesting additional PRIF grant funds for the Project.

We are pleased to acknowledge on behalf of the World Bank the intention of the Donors to make available additional grant funds in the amount of three hundred and ten thousand United States dollars (US$310,000) for the Project. Accordingly, we propose to amend the PRIF Grant Agreement through this amendment letter ("Amendment Letter") as follows:

1. The title of the letter of the PRIF Grant Agreement is amended to read as follows:

   "RE: Tonga: PRIF Multi-Donor Trust Fund Co-financing: Pacific Aviation Investment Program – Tonga Aviation Investment Project PRIF Grant No. TF012702 and No. TF0A1644"

2. The first paragraph of the PRIF Grant Agreement is amended to reflect the increased aggregate value of the PRIF grant funds so as to read as follows:

   "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 and the International Development Association (collectively, "World Bank"), acting as administrator of grant funds provided under the Pacific Region Infrastructure Facility ("PRIF") multi-donor trust fund ("Donor"), proposes to extend to the Recipient a grant ("Original PRIF Grant") in an amount not to exceed one million, three hundred and twenty thousand United States Dollars (US$1,320,000) (PRIF Grant No. TF01270) and an additional grant ("Additional PRIF Grant") in an amount not to exceed three hundred
ten thousand United States Dollars, (US$310,000) (PRIF Grant No. TF0A1644), providing an aggregate grant amount not to exceed one million, six hundred and thirty thousand United States Dollars (US$1,630,000) (“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”). This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donors.”

3. The third paragraph of the PRIF Grant Agreement is amended to reflect the increased aggregate value of the funds made available by the Association so as to read as follows:

“The International Development Association has also agreed to provide financing to the Recipient in an aggregate amount equivalent to twenty two million, six hundred thousand Special Drawing Rights (SDR 22,600,000) to finance activities related to the Project. This financing consists of: a grant to the Recipient under the Original Financing Agreement in an amount equivalent to seventeen million two hundred thousand Special Drawing Rights (SDR 17,200,000); and financing to the Recipient under the Additional Financing Agreement as a grant in an amount equivalent to five hundred thousand Special Drawing Rights (SDR 500,000) and a credit in an amount equivalent to four million, nine hundred thousand Special Drawing Rights (SDR 4,900,000).”

4. Section 1.02 of the PRIF Grant Agreement is amended to read as follows:

“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, in the Original Financing Agreement, the Additional Financing Agreement, or in this Agreement, and the following additional terms shall have the following meanings:

(a) “Additional Financing Agreement” means the financing agreement for the Pacific Aviation Investment Program - Tonga Aviation Investment Project between the Kingdom of Tonga and the Association, of the same date as this Amendment Letter, (Grant No. D1060-TO and Credit No. 57700-TO), providing additional financing for activities related to the Project, as may be amended from time to time.

(b) “Original Financing Agreement” means the financing 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 Amendment Letter (Grant Number H743-TO).

(c) “PRIF Subsidiary Agreement” means the agreement referred to in Section 2.03 of this Agreement pursuant to which the Recipient shall make the proceeds of the Grant allocated for the Project available to the Project Implementing Entity, as said agreement may be revised from time to time with the prior written agreement of the World Bank, and such term includes any annexes or schedules to such agreement.

(d) “Project” means the project described in Schedule 1 to the Original Financing Agreement.”
5. All references to ‘Grant Agreement’ where the phrase is not immediately preceded with the word ‘PRIF’ in the PRIF Grant Agreement are replaced with the words ‘Original Financing Agreement’.

6. Article III of the Annex to the PRIF Grant Agreement is amended to read as follows:

"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) Article III of 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 Original PRIF Grant Allocated (expressed in USD)</th>
<th>Amount of the Additional PRIF Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consultant services, consultants’ services, and Operating Costs.</td>
<td>1,320,000</td>
<td>210,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) TFSU Operating Costs.</td>
<td>0</td>
<td>100,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>1,320,000</td>
<td>310,000</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:

(a) prior to the date of the Original Financing Agreement with respect to amounts of the Original PRIF Grant;

(b) prior to the date of countersignature of this Amendment Letter by the Recipient, except that withdrawals up to an aggregate amount not to exceed sixty two thousand Dollars (USD$62,000) out of the Additional PRIF Grant may be made for payments made prior to the date of this Amendment Letter but on or after January 1, 2016 for Eligible Expenditures under Category 1; or

(c) under Category (2) unless and until the Recipient has submitted evidence satisfactory to the Association that the Project Implementing Entity has not received payments in accordance with a Service Agreement for fulfilment of its obligations under Section 1 of the Schedule to the Project Agreement.
3.03.  **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is December 31, 2018."

All capitalized terms used in this Amendment Letter have the same meaning assigned to them in the PRIF Grant Agreement. All the terms of the PRIF Grant Agreement not hereby amended will remain in full force and effect.

Please confirm the Recipient’s agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed two copies of this Amendment Letter, and returning one copy to the World Bank. This Amendment Letter shall become effective upon receipt by the World Bank of:

(a) the countersigned copy of the Amendment Letter; and

(b) evidence satisfactory to the World Bank that the Subsidiary Agreement required under Section 2.03 of the PRIF Grant Agreement has been amended to make the Additional PRIF Grant available to the Project Implementing Entity for the Project.

Sincerely,

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

AGREED:

Kingdom of Tonga

By

Authorized Representative

Title

Date April 2016