October 9, 2014

Honorable ‘Asiake Valu Eke
Minister for Finance and National Planning
Ministry for Finance and National Planning
P.O. Box 87, Vuna Rd
Nuku’alofa, Tonga

Re: Kingdom of Tonga - Additional Financing from the Japan-World Bank Program for Mainstreaming Disaster Risk Management in Developing Countries Trust Fund for the Pacific Catastrophe Risk Insurance Project
GFDRR Grant No. TF018143

Excellency:

We refer to the Letter Agreement dated November 30, 2012, as amended, between the Kingdom of Tonga (“Recipient”) and International Bank for Reconstruction and Development/International Development Association (collectively, “World Bank”), acting as administrator of grant funds under the Pacific Disaster Risk Financing and Insurance Multi-Donor Trust Fund (PDRFI) under which the World Bank extended six hundred thousand United States Dollars (U.S.$600,000) to support the above-mentioned project.

The Recipient has requested the World Bank, acting as administrator of grant funds under the Japan-World Bank Program for Mainstreaming Disaster Risk Management in Developing Countries Trust Fund (“Trust Fund”) to provide additional financing in support of the Pacific catastrophe risk insurance pilot program under the above mentioned project. The World Bank has considered the request and proposes to extend to the Recipient, a grant in an amount not to exceed two hundred fifty thousand United States Dollars (U.S. $250,000) (“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 scale-up of the project described in the Annex (“Project”).

In accordance with Section 2.01(b) of the Standard Conditions (as defined in the Annex to this Agreement), the Recipient shall, for the purpose of the Project, provide its counterpart funding in the amount of forty thousand United States Dollars (U.S. $40,000) to partially finance the Premia for Disaster Risk Financing or Transfer Products (as defined in the Annex to this Agreement).

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. 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 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 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/INTERNATIONAL DEVELOPMENT ASSOCIATION

[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]
Authorized Representative

Name: Aisianca Vaalia
Title: Minister of Finance
Date: 10-10-2014

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
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.

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 as follows:

(a) "Derivative Agreements" means any derivatives agreement between the World 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).

(c) "Participating Pacific Island Countries" means Republic of Marshall Islands, Independent State of Samoa, Kingdom of Tonga and Republic of Vanuatu.

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 to reduce the financial vulnerability to natural disasters (earthquakes and tropical cyclones) of Participating Pacific Island Countries. The Project consists of the following parts:

**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 2014-2015 pilot period.

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 Donor's 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 Donor 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 the 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 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, 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 (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Premia for Disaster Risk Financing or Transfer Products</td>
<td>250,000</td>
<td>86%</td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>250,000</strong></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 January 31, 2016.

**Article IV**

**Recipient’s Representative; Addresses**

4.01. **Recipient’s Representative.** The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is Minister of Finance and National Planning.

4.02. **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

4.03. **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/  
International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America

Cable:  
Telex:  
Facsimile:

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