

CONFORMED COPY

CREDIT NUMBER 3647 TON

Development Credit Agreement

(Cyclone Emergency Recovery and Management Project)

between

KINGDOM OF TONGA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 28, 2002

CREDIT NUMBER 3647 TON

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 28, 2002, between the KINGDOM OF TONGA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Commonwealth of Australia (Australia), through its Australian Agency for International Development (AusAID), has agreed to make available to the Borrower, through the Association, a grant (the Australian Grant) in the principal amount of six hundred thirty five thousand Australian dollars (AUD635,000) to assist in joint financing about 40 houses under Part A.1 of the Project as described in Schedule 2 to this Agreement on the terms and conditions set forth in the Administration Agreement of even dated herewith, entered into between Australia and the Association (the Administration Agreement), which Administration Agreement, inter alia, provides for the Association to administer the proceeds of the Australian Grant;

(C) pursuant to the Administration Agreement mentioned in paragraph (B) above the Borrower and the Association, acting as Administrator of the Grant Funds provided by Australia, have entered into an agreement of even date herewith (the Australian Grant Agreement); and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Affected Household” means a household whose house was damaged by the Cyclone and who is eligible for receiving a replacement house under Part A.1 of the Project in accordance with the provisions of the Operational Manual;

(b) “Beneficiary” means a community, an individual, or a small-scale enterprise eligible to carry out Sub-projects under Parts A.2 and A.3 of the Project, respectively, in accordance with the provisions of the Operational Manual;

(c) “Cyclone” means the tropical cyclone Waka that affected the Borrower’s Niufo’ou islands, Niuatoputapu islands, and the Vava’u island group on December 30 and 31, 2001;

(d) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(e) “Grant” means a grant in Tongan Pa’anga made or proposed to be made by the Borrower to a Beneficiary through the Project Management Unit, out of the proceeds of the Credit, through a Grant Agreement, satisfactory to the Association, to finance the carrying out of: (a) the reconstruction or retrofitting of community buildings under Part A.2 of the Project; and (b) retrofitting and upgrading cyclone-resistance of residential and small-medium enterprise buildings under Part A.3 of the Project, all in accordance with the provisions of the Operational Manual;

(f) “Operational Manual” means the manual, satisfactory to the Association, to be adopted by the Borrower, in accordance with paragraph 3 of Schedule 4 to this Agreement, as said manual may be revised from time to time with the prior agreement of the Association;

(g) “Project Coordination Committee” means the committee to be established pursuant to paragraph 1 (a) of Schedule 4 to this Agreement;

(h) “Project Management Unit” and the acronym “PMU” mean the unit to be established within the Borrower’s Ministry of Finance, in accordance with paragraph 1 (b) of Schedule 4 to this Agreement;

(i) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;

(j) “Sub-projects” means the carrying out of investments under Parts A.2 or A.3 of the Project by a Beneficiary utilizing the proceeds of the Grant, all in accordance with the provisions of the Operational Manual; and

(k) “Tonga Pa’anga” means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to four million seven hundred thousand Special Drawing Rights (SDR 4,700,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for:

- (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for Parts A.1, B and C of the Project and to be financed out of the proceeds of the Credit; and
- (ii) amounts paid (or, if the Association shall so agree, to be paid) by the Borrower on account of withdrawals made by the Project Management Unit on account of a Beneficiary to meet reasonable cost of goods, works and services required for a Sub-project in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars a separate special deposit account in the National Reserve Bank of Tonga on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2005, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15, and November 15, commencing November 15, 2012, and ending May 15, 2042. Each installment to and including the installment payable on May 15, 2022, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out: (i) Parts A.1, A.3 and B.3 of the Project through its Ministry of Works; (ii) Parts A.2, B.1 and C of the Project through its Ministry of Finance; and (iii) Part B.2 of the Project through its Ministry of Lands, Survey and Natural Resources, with due diligence and efficiency and in conformity with sound administrative, engineering, and financial practices, and social and environment standards, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry

out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts A.1, B and C of the Project, and Parts A.2 and A.3 of the Project, and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement, and paragraph 3 of Schedule 4 to this Agreement, respectively.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter at all times maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited on a semi-annual and annual basis, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than 45 days after the semi-annual audit and six months after the end of each such year, as the case may be, (A) certified copies of

the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Financial Monitoring Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Financial Monitoring Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set forth in paragraph 6 of Schedule 4 to this Agreement the Borrower shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing

separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that:

- (a) subject to subparagraph (b) of this paragraph:
 - (i) the right of the Borrower to withdraw the proceeds of the Australian Grant or any other grant, credit or loan made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
 - (ii) any such credit or loan shall have become due and payable prior to the agreed maturity thereof.
- (b) Subparagraph (a) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation, termination or prematuring is not caused by the failure of the

Borrower to perform any of its obligations under such agreement; and (ii) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a)(ii) of Section 5.01 of this Agreement shall occur, subject to the provision of paragraph (b) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions that:

(a) the Australian Grant Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Borrower to make withdrawals thereunder, except only the effectiveness of the Development Credit Agreement, have been fulfilled;

(b) the Project Coordination Committee has been established in accordance with paragraph 1 (a) of Schedule 4 to this Agreement;

(c) the Project Management Unit has been established in accordance with paragraph 1 (b) of Schedule 4 to this Agreement;

(d) the services of an independent auditor with qualifications and experience and terms of reference satisfactory to the Association, and selected in accordance with paragraph 2, Part C, Section II of Schedule 3 to this Agreement, have been retained for purposes of carrying out the audits provided for in Section 4.01 of this Agreement;

(e) the Borrower has furnished to the Association evidence, satisfactory to the Association, on the land tenure arrangements made with each Affected Household and each Beneficiary in accordance with paragraph 2 of Schedule 4 to this Agreement;

(f) the Operational Manual has been adopted by the Borrower in accordance with paragraph 3 of Schedule 4 to this Agreement; and

(g) the Borrower has adopted a financial management system for the Project within the Project Management Unit, in accordance with paragraph 5 of Schedule 4 to this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the written consents referred to in paragraph 2 of Schedule 4 to this Agreement have been issued in accordance with Tongan laws and are legally valid and enforceable in accordance with such laws; and

(b) that the Australian Grant Agreement has been duly authorized or ratified by the Borrower and is legally binding upon the Borrower in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
Vuna Road, Nuku 'alofa
Kingdom of Tonga

Facsimile: 676-26-011

For the Association:

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

Cable address:

INDEVAS

Washington, D.C.

Telex:

248423 (MCI) or

64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

KINGDOM OF TONGA

By /s/ H.E. Tu'a Taumoepeau Tupou

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mr. Jitendra Bajpai

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Australian Grant Allocated (Expressed in AUD Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	2,250,000	600,000	90%
(2) Grants	640,000		100% of Grant amount disbursed
(3) Goods	320,000		100% of foreign expenditures, 100% of local expenditures (ex-factory cost), and 95% of local expenditures for other items procured locally
(4) Consultants' services:			
(a) under Part A.1 of the Project	80,000	35,000	90% for foreign individual consultants and foreign consulting firms, and 90% for local individual consultants and local consulting firms
(b) under Parts B and C of the Project	1,130,000		

	<u>Category</u>	Amount of the Credit Allocated (Expressed in SDR Equivalent)	Amount of the Australian Grant Allocated (Expressed in AUD Equivalent)	% of Expenditures to be <u>Financed</u>
(5)	Training and workshops	40,000		100%
(6)	Incremental operating costs	16,000		100%
(7)	Unallocated	224,000		
	TOTAL	<u>4,700,000</u>		

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term “Incremental operating costs” means reasonable expenditures directly related to the Project, incurred by the Borrower (which expenditures would not have been incurred absent the Project), namely the costs for the operation of the Project Management Unit, including in-country travel costs and subsistence allowances, communication, and office consumables, but excluding salaries.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures:

(a) in respect of Category (1) set forth in the table in paragraph 1 of this Schedule unless and until the proceeds of the Australian Grant shall have been fully disbursed;

(b) in respect of Category (4) (a) set forth in the table in paragraph 1 of this Schedule unless and until the proceeds of the Australian Grant shall have been fully disbursed; and

(c) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 940,000 may be made in respect of Categories (1) and (4) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after April 16, 2002.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) Grants; (b) goods under contracts to be procured under paragraph 2 of Part C of Section I of Schedule 3 to this Agreement, regardless of the cost; (c) contracts for the employment of consulting firms costing less than \$100,000 equivalent per contract; (d) contracts for the employment of individual consultants costing less than \$50,000 equivalent per contract; (e) training and workshops; and (f) incremental operating costs; all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in: (a) recovering the standard of living of its population affected by the Cyclone through the rehabilitation of the social infrastructure in selected damaged areas; and (b) strengthening and upgrading its emergency and risk management capacity through the improvement of its nationwide resilience to natural hazards.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Social Infrastructure Recovery

1. Construction of about 440 units of low-cost cyclone-resistant houses, including the provision of advisory services for design and supervision therefor.
2. Reconstruction or retrofitting of community buildings for cyclone-resistance in about 40 villages in Vava'u group, Niufo'ou and Niuatoputapu islands including the provision of Grants.
3. Retrofitting and upgrading cyclone-resistance of residential and small-medium enterprise buildings including the provision of Grants.

Part B: Emergency and Risk Management Capacity Building

1. Strengthening the capacity of the Borrower's agencies responsible for emergency and risk management, inter alia, the National Disaster Management Office, the Prime Minister's Office, the Ministry of Works, and the Ministry of Lands, Survey and Natural Resources, including the provision of advisory services, training and equipment therefor.
2. Establishment of land and geographical information system for support of risk management, including: (a) aerial photography and mapping of Tongatapu, Ha'apai, and Vava'u island groups; (b) geographic information system for national use; and (c) hazard assessment and development of a risk mitigation strategy.
3. Implementation and dissemination of building construction codes including the provision of advisory services, training and carrying out of workshops.

Part C: Project Management

1. Strengthening the capacity of the Borrower's Ministry of Finance; Ministry of Lands, Survey and Natural Resources; and the Ministry of Works in: managing and coordinating Project activities; financial management and accounting; procurement; monitoring and reporting, and carrying out of audits, all under the Project, including the provision of advisory services.

2. Carrying out of audits of Project Accounts including the provision of advisory services.

* * *

The Project is expected to be completed by June 30, 2005.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with (a) the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the provisions of the following Parts of this Section I.

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines, in particular with respect to paragraphs 2.63 and 2.64 therein, and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. Limited International Bidding

Goods under Parts B.2 (a) and B.2 (b) of the Project which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with the provisions of paragraph 3.2 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate amount not to exceed \$50,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to all contracts for goods and works estimated to cost the equivalent of \$20,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to all contracts for goods estimated to cost less than \$20,000 equivalent per contract, the following procedures shall apply:

- (i) prior to the selection of any supplier/execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under Part B.3 of the Project may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for auditing of the Project accounts and services under Part C of the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for the provision of the financial management system under Part C.1 of the Project, and services under Part B.3 of the Project, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services under Parts B.1, B.3 and C.1 of the Project may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Project Management

1. The Borrower shall establish and thereafter maintain:

(a) a Project Coordination Committee chaired by the Secretary of Finance and comprising representatives of the Borrower's Ministry of Works; Ministry of Lands, Survey, and Natural Resources; Central Planning; National Disaster Management Office; and Vava'u Disaster Management Committee; with terms of reference satisfactory to the Association and assigned with funds and resources as shall be necessary to undertake the overall coordination of Project implementation and achieve the Project objectives.

(b) a Project Management Unit within the Ministry of Finance, headed by a qualified and experienced manager/procurement officer, assigned with qualified staff in adequate numbers, including a finance officer/Project accountant, and an administrative assistant, and provided with such powers, responsibilities organization and funding as shall be required to enable it to carry out the day-to-day management, monitoring and coordination of Project activities.

2. The Borrower shall undertake a census of the Affected Households, satisfactory to the Association, to determine, inter alia, the land tenure situation of the land and damaged house/buildings, and shall obtain written consent from the landowner witnessed by a third party or duly sworn affidavit before a Magistrate or Commissioner of Oaths of the Borrower, to construct a replacement house under Part A.1 of the Project thereon; provided, however, that if the Affected Household is different from the landowner, the said written consent shall also include provisions to allow the Affected Household the use of the house to be built under the same land tenure arrangements existing prior to the Cyclone, and for a period of time of not less than the economic life of the house to be built.

3. The Borrower shall prepare, adopt and thereafter apply the Operational Manual acceptable to the Association, as such manual may be amended with the prior agreement of the Association, in the implementation of the Project, which Operational Manual shall provide, inter alia, for: (a) criteria for environmental review of Sub-projects, and for construction of houses under Part A.1 of the Project; (b) eligibility criteria for construction of new housings under Part A.1 of the Project and buildings under Parts A.2 and A.3 of the Project; (c) the procedure and criteria for appraisal and selection of Beneficiaries and Sub-projects; (d) terms and conditions governing the Grant Agreements; (e) development plan screening for land cleaning, sewage disposal and construction under Part A of the Project; (f) screening criteria for natural habitats and cultural property; (g) procurement procedures for

goods, works and services under Sub-projects to be contracted at a reasonable price following the established commercial practices in the territory of the Borrower, including community participation arrangements acceptable to the Association; and (h) financial management and disbursement arrangements.

4. The Borrower shall not abrogate, amend, assign, repeal, suspend or waive any of the provisions of the Operational Manual and the Grant Agreement without the prior concurrence of the Association.

5. The Borrower shall establish, and thereafter maintain until completion of the Project, a financial management system for the Project within the Project Management Unit, acceptable to the Association.

Monitoring and Reports

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 1, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by April 1, 2004, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1) through (6) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term “Authorized Allocation” means an amount equivalent to \$585,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$200,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.