



Concept Paper

Project Number: 48361-001
July 2015

Proposed Programmatic Approach and Policy- Based Loan and Grant for Subprogram 1 Tonga: Building Macroeconomic Resilience Program

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 19 June 2015)

Currency unit – pa'anga (T\$)

T\$1.00 = \$ 0.5018

\$1.00 = T\$1.9928

ABBREVIATIONS

ADB	–	Asian Development Bank
GDP	–	gross domestic product
JPRM	–	joint policy reform matrix
PFM	–	public financial management
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Tonga and its agencies ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 30 June 2014.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 48361-001	
Project Name	Building Macroeconomic Resilience Subprogram 1	Department /Division	PARD/PAUS
Country Borrower	Tonga Kingdom of Tonga	Executing Agency	Ministry of Finance and National Planning
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Public sector management	Economic affairs management		2.00
	Public expenditure and fiscal management		2.00
	Reforms of state owned enterprises		1.00
	Total		5.00
3. Strategic Agenda	Subcomponents	Climate Change Information	
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded	Climate Change impact on the Project	Low
4. Drivers of Change	Components	Gender Equity and Mainstreaming	
Governance and capacity development (GCD)	Institutional systems and political economy	No gender elements (NGE) ✓	
Partnerships (PAR)	Public financial governance		
	Bilateral institutions (not client government) Implementation		
	International finance institutions (IFI)		
Private sector development (PSD)	Conducive policy and institutional environment		
	Promotion of private sector investment		
5. Poverty Targeting		Location Impact	
Project directly targets poverty	No	Nation-wide	High
6. Risk Categorization:	Low		
7. Safeguard Categorization	Environment: C Involuntary Resettlement: C Indigenous Peoples: C		
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		5.00	
Sovereign Program grant: Asian Development Fund		2.50	
Sovereign Program loan: Asian Development Fund		2.50	
Cofinancing		7.10	
Australian Grant - GRANT		2.30	
European Union - GRANT		2.80	
World Bank - GRANT		1.00	
World Bank - LOAN		1.00	
Counterpart		0.00	
None		0.00	
Total		12.10	
9. Effective Development Cooperation			
Use of country procurement systems		Yes	
Use of country public financial management systems		Yes	

I. THE PROGRAM

A. Rationale

1. The proposed Building Macroeconomic Resilience Program aims to strengthen the long-term growth prospects and capacity to respond to external shocks in the Kingdom of Tonga. The program builds on previous policy-based operations to sustain government efforts to improve its fiscal position by adopting prudent policies and better public financial management (PFM), and the business climate by continuing policy, regulatory environment and public enterprise reforms. The programmatic approach will allow chronological sequencing of reforms.¹

2. **External and capacity challenges constrain development.** Smallness, remoteness, and geographic dispersion—aggravated by high exposure to natural disasters—raise the risk and cost of doing business and service delivery, and increase exposure to economic shocks. A thinly stretched public administration limits the government’s ability for strong economic governance, which leads, in combination with external factors, to a vicious circle of low revenue potential, limited private investment and job creation, and outward migration of skilled labor. The resulting growth trajectory has been low, volatile, and largely public sector driven—with average growth of only 0.6% of gross domestic product (GDP) ranging between –4.6% to 4.2% of GDP from 2005–2014—highlighting the need to grow the private sector, including through enhanced economic participation of women, to improve future growth prospects.²

3. **Reliance on external assistance.** Despite its challenges, Tonga has achieved high human development.³ However, this has only been possible with substantial aid and debt financing supplementing domestic revenue. The current fiscal deficit (excluding project grants) reached 6.9% in FY2014; aid, excluding in-kind contributions, stands at 32.2% of total government spending (or 9.4% of GDP). At medium risk of debt distress with external debt projected at 44.6% of GDP in FY2015, capacity for further borrowing is limited (footnote 2). Continuous external support through capacity building and supplementation is required to balance the weak public sector capacity and to improve systems and capabilities. For households, remittances provide income and serve as social safety nets. This dependence on external support creates high risks to service delivery, livelihoods, and human development, as experienced during the 2008–2009 global financial crisis.

4. **Government response.** The government embarked on an ambitious reform program in 2009, and since 2011 has prioritized and sequenced reforms through the joint policy reform matrix (JPRM) process, which brings together key ministries and development partners. Despite weak policy-making and administrative capacity and a political economy environment with small, intertwined political and social networks that pose inherent risks to reform implementation, progress has been substantial and successive governments have shown persistence. Following initial reforms, tax performance has started to recover, budget allocations are more strategic, debt has stabilized, and public enterprise performance improved tremendously. Public policies are generally pro-poor, as exemplified by new care programs for the vulnerable.

5. **Keeping up the reform momentum.** Profound fiscal and structural change requires a continuation of reforms across a broad range of areas over the medium term.⁴ Prudent management of debt and the excessive public wage bill, and further strengthening of domestic

¹ The program is included in Asian Development Bank (ADB). 2014. *Country Operations Business Plan: Tonga, 2015–2017*. Manila. It is aligned with ADB. 2010. *Pacific Approach 2010-2014*. Manila.

² ADB. *Asian Development Outlook* database (accessed on 18 May 2015).

³ United Nations Development Programme. 2014. *2014 Human Development Report*. New York.

⁴ Given the public sector’s central role, a balance between public and private sector reforms is instrumental. Weak government capacity and limited complexity in each reform area indicate the desirability to spread reform efforts across several government ministries, and prioritize and sequence reforms over several years.

revenue mobilization are required to put the fiscal position on a more sustainable path. More effective and efficient use of resources requires further PFM reforms. Better public service performance and continuous public enterprise reforms will benefit both the public and private sectors. Business environment reforms are needed to lower the cost and risk of doing business and encourage private sector activity to expand the formal economy and create employment.

6. **Program modality.** The programmatic approach, with three subprograms during 2015 and 2017, allows for chronological reform sequencing while providing flexibility to respond to emerging constraints and opportunities.⁵ It will increase aid effectiveness by strengthening country systems, and facilitating partner harmonization and alignment. The Asian Development Bank (ADB) has been a major reform partner, including through two successful policy-based programs in 2009 and 2013, and is the main technical assistance (TA) provider in public enterprise, business environment, and upstream PFM reforms.⁶ The proposed program is fully integrated with the JPRM dialogue and aligned with planned policy-based operations of the European Union, the Government of Australia, and the World Bank. It incorporates past lessons including the need to (i) build a strong political reform consensus; (ii) limit reform to a few major actions; (iii) institutionalize a government–partner coordination mechanism; (iv) link TA to policy-based operations to support complex, politically sensitive reforms; and (v) adopt a medium-term view recognizing that deep institutional and structural change requires time to take root.

B. Outcome and Outputs

7. The outcome will be the fiscal position and business environment of the Kingdom of Tonga is improved. The program has four outputs, which continue the government's reform efforts supported by ADB and other partners since 2009.

8. **Output 1: Prudent fiscal policies adopted.** Policy actions will address revenue mobilization and major expenditure areas including debt servicing (9.1% of domestic revenue in FY2014) and public wages and salaries (60.1%) (footnote 2). Under subprogram 1, the government will recalibrate its medium-term fiscal strategy to put the fiscal position on a more sustainable footing and reduce reliance on budget support to cover operating expenditure. A new medium-term debt strategy for FY2016–FY2019 aims to ensure high-quality borrowing within a cap. A public service remuneration review and cabinet approval of recommendations is a first step in effectively addressing regular, excessive demands for public wage increments. During subprograms 2 and 3, reforms to support domestic revenue raising and progressive taxation will be carried out, including reforms of the import duty regime, and to reduce tax exemptions. Implementation of the remuneration review findings will gradually reduce nondiscretionary public spending and high wage differential between the public and private sectors, which currently constrain the private sector's access to skilled staff.

9. **Output 2: PFM systems are more robust and transparent.** Policy actions will focus on downstream PFM functions to improve public fund management and external accountability. Subprogram 1 will continue with procurement reforms by adopting and rolling out revised procurement regulations. Under subprograms 2 and 3, a comprehensive review of business processes and the reporting and accounting frameworks will guide an upgrade of the financial management information system and related processes to enhance financial management and

⁵ ADB. 2015. *ADB Support to Small Pacific Island Countries*. Corporate Evaluation Study. Manila.

⁶ ADB. 2014. *Completion Report: Strengthening Public Financial Management Program in Tonga*. Manila; ADB. 2012. *Completion Report: Economic Support Program in Tonga*. Manila; ADB. 2013. *Implementing Strategic Economic Management*. Manila; ADB. 2013. *Pacific Private Sector Development Initiative, Phase III*. Manila; ADB. 2013. *Pacific Economic Management, Phase 2*. Manila.

facilitate reporting. Subject to currently ongoing PFM road-map prioritization, further reform actions may cover strengthening of internal controls and the external audit function.⁷

10. **Output 3: Environment for private sector-led growth enhanced.** Policy actions will be guided by a paper currently being prepared with support from ADB for cabinet endorsement, setting out the critical priorities and sequencing for reform of the business environment.⁸ Based on this, subprograms 2 and 3 will remove constraints to private sector development and growth. Likely reforms include amendment of the foreign investment act to encourage investment in agriculture and tourism, streamlining of work permit application processes, bankruptcy policy and legislation, policy on beneficial interest, actions to support more efficient financial markets, actions promoting the economic empowerment of women, and foundational employment legislation that will increase labor market functioning while safeguarding employee rights.

11. **Output 4: Efficiency of basic service delivery improved.** Cabinet approval of a public enterprise reform policy and implementation plan will provide the basis for rationalizing at least three public enterprises over the course of the program. In addition, at least one public enterprise utility provider will contract out service activities under subprogram 1 to increase delivery efficiency, with further contracting out or public–private partnerships targeted in subsequent subprograms. Establishment of a regulatory function for communication services will support competitive behavior with expected positive impact on service levels and costs. Under subprograms 2 and 3, endorsement of a competition policy and establishment of an integrated multisector regulatory function will improve service quality, access, and affordability.

C. Program Costs and Financing

12. The proposed ADB financing and parallel collaborative partner cofinancing (not ADB administered) are indicated in Table 1. Total annual budget support amounts correspond to (gradually reducing) operating deficits of about 9% of recurrent expenditure in the government’s medium-term budget estimates for FY2016–FY2018.⁹ The program is expected to contribute to increased domestic revenue mobilization from an annual average of 19.4% of GDP in FY2012–FY2014 to 20.9% of GDP in FY2017–FY2019, thereby helping to reduce the average annual primary deficit (excluding grants) from 8.3% to 5.2% of GDP in the same time span (footnote 2).

Table 1: Tentative Financing Plan

Source	Amount (\$ million)			Share of Total (%)
	Subprogram 1	Subprogram 2	Subprogram 3	
Asian Development Bank	5.0	5.0	5.0	46.9
Special Funds resources (loan)	2.5	2.5	2.5	23.4
Special Funds resources (grant)	2.5	2.5	2.5	23.4
European Union (grant)	2.8	2.8	2.8	26.3
Government of Australia (grant)	2.3	2.3	...	14.4
World Bank (loan)	1.0	1.0	...	6.3
World Bank (grant)	1.0	1.0	...	6.3
Total	12.1	12.1	7.8	100.0

... = data not available.

Source: Asian Development Bank.

D. Indicative Implementation Arrangements

13. The Ministry of Finance and National Planning will be the executing agency. The ministries of public enterprises; commerce, tourism, and labor; and revenue services and customs; and the Office of the Prime Minister will be the implementing agencies. The Budget

⁷ Government of Tonga. 2014. *PFM Reform Roadmap, 2014/15–2018/19*. Nuku'alofa.

⁸ The paper builds upon ADB. 2012. *Update of the Private Sector Assessment for Tonga*. Manila.

⁹ Government of Tonga. 2015. *Budget Strategy 2015/16–2017/18*. Draft. Nuku'alofa.

Support Management Committee will oversee program implementation. It is chaired by the chief executive officer of the Ministry of Finance and National Planning and comprises all implementing agencies and major development partners including ADB. No separate program management unit or procurement is envisaged. The program will be implemented from October 2014 to December 2017. The JPRM process and biannual development partner forum facilitate broad consultations on reform priorities, with the cabinet providing strategic guidance. Individual reform initiatives form part of existing sector strategies and will be discussed with private sector and civil society groups during program preparation and implementation.

II. DUE DILIGENCE REQUIRED

14. Due diligence will be prepared in cooperation with partners and include (i) a sector assessment focusing on budget quality; (ii) a macroeconomic assessment; (iii) a PFM, procurement, and anticorruption risk assessment and management plan; and, (iv) reform impact and safeguard assessments, as appropriate, to mitigate negative short-term impacts of reform actions (if any). An International Monetary Fund letter of comfort will be provided. The initial poverty and social analysis is in Appendix 3.

III. PROCESSING PLAN

15. **Risk categorization.** The program is categorized as low risk, as (i) the loan and grant amount is significantly below \$50 million; (ii) it builds on ADB's sound record of previous sector experience in Tonga, with programs successfully completed in 2009 and 2013, and continuous PFM and structural reform TA; (iii) the executing agency has reasonable capacity in terms of externally financed program administration; and (iv) safeguard categorization is expected to be C, with no impact on environment, indigenous peoples, or involuntary resettlement.

16. **Resource requirements.** ADB staff will prepare the program with an estimated 9 person-months of international staff time and 4.5 person-months of national staff time, spread evenly across the three subprograms. TA is available to support reforms.¹⁰

17. **Processing schedule.** ADB processing will be in parallel with partners' processing, including joint missions (Table 2). The processing schedule is subject to reform progress.

Table 2: Proposed Processing Schedule for Subprogram 1

Milestones	Expected Completion Date
Loan and grant fact-finding	5–12 August 2015
Staff review meeting	15 October 2015
Loan and grant negotiation	28–29 October 2015
Board consideration	12 January 2016

Source: Asian Development Bank estimates.

IV. KEY ISSUES

18. Particular attention during processing and implementation will be paid to (i) maintaining broad reform commitment and managing the political economy; (ii) ensuring timely TA to provide technical expertise or supplement government capacity, and (iii) ensuring close collaboration with development partners, especially Australia and the World Bank, to minimize unnecessary demands on government during processing and implementation.

¹⁰ See footnote 6. Further, a new TA project to support PFM road-map implementation is programmed for 2016 (footnote 1). TA from the Government of Australia, European Union, the International Monetary Fund's Pacific Financial Technical Assistance Centre, and the World Bank, is available in reform areas not supported by ADB TA.

DESIGN AND MONITORING FRAMEWORK

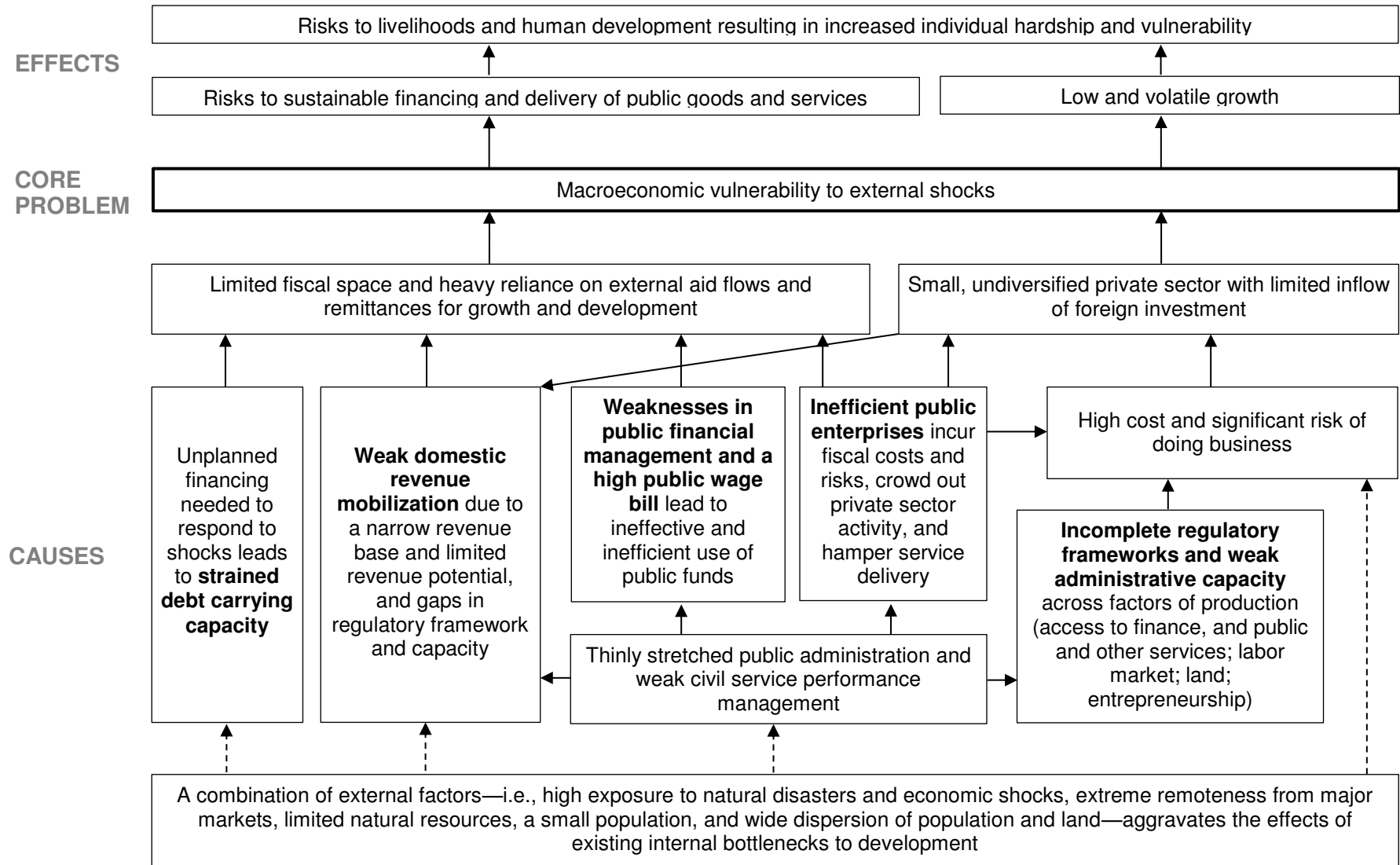
Impacts the Program is aligned with:			
1. More inclusive and sustainable growth and development 2. A more inclusive, sustainable, and dynamic knowledge-based economy 3. More responsive good governance (Tonga Strategic Development Framework II, 2015–2025, 2015) ^a			
Project Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Fiscal position and business environment of the Kingdom of Tonga is improved	Annual average, FY2017–FY2019 a. Domestic revenue–GDP ratio increased to at least 20.9% (baseline: FY2012–FY2014 average of 19.4%) b. External debt–GDP ratio is no more than 43.1% (baseline: FY2012–FY2014 average of 43.8%) c. Rate of business formation (i.e., new companies created) increased by 25% (baseline: FY2012–FY2014 average TBD)	a. IMF Article IV staff reports b. IMF Article IV staff reports c. Tonga Business Registries Office reports	Political commitment to good governance, and/or prudent macroeconomic and fiscal management decreases. External shocks undermine revenue base and require increased recurrent spending and/or borrowing for reconstruction. High additional spending and/or borrowing is required for infrastructure investments for the South Pacific Games.
Outputs 1. Prudent fiscal policies adopted	By the end of 2015 1a. Medium-term fiscal strategy adopted by cabinet 1b. New medium-term debt strategy adopted by cabinet 1c. Public service remuneration review recommendations adopted by cabinet	1a. Cabinet decision and meeting minutes 1b. Cabinet decision and meeting minutes 1c. Remuneration Authority report and cabinet decision and meeting minutes	Political commitment to specific reforms decreases. Administrative commitment to reform implementation and compliance weakens. Staff turnover in the already capacity-constrained environment is high. Lack of coordination for policy formulation among key government agencies delays reform.
2. PFM systems are more robust and transparent	By the end of 2015 2a. Revised procurement regulations and standard bidding documents adopted by cabinet 2b. Percentage of procurement processed through the Central Procurement Unit increased by 50% (FY2014 baseline: TBD)	2a. Cabinet decision and meeting minutes 2b. MFNP procurement unit reports	Limited stakeholder consultations with the executive and legislature puts the passing of legislative reforms at risk. Lack or delay of technical assistance to support reform design and implementation undermines the pace of reform.
3. Environment for private sector-led growth enhanced	No policy actions under subprogram 1.		

4. Efficiency of basic service delivery improved	4a. Public enterprise reform policy and implementation plan approved by cabinet 4b. At least one public enterprise utility provider contracts out services or activities to the private sector 4c. Legislation to establish a regulatory function for ICT services adopted by cabinet and submitted to Parliament	4a. Cabinet decision and meeting minutes 4b. Ministry of Public Enterprises report 4c. Cabinet decision and meeting minutes																																																	
Key Activities with Milestones Not applicable																																																			
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... = data not available; ADB = Asian Development Bank; FY = fiscal year; GDP = gross domestic product; Gov't = government; ICT = information and communication technology; IMF = International Monetary Fund; MFNP = Ministry of Finance and National Planning; PFM = public financial management; TBD = to be determined.

^a Government of Tonga. 2015. *Tonga Strategic Development Framework II, 2015–2025*. Draft. Nuku'alofa. May. Source: Asian Development Bank.

PROBLEM TREE



INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Tonga	Program Title:	Building Macroeconomic Resilience Program
Lending/Financing Modality:	Policy-based lending	Department:	Pacific Department Urban, Social Development and Public Management Division
		Division:	

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

A. Links to the National Poverty Reduction Strategy and Country Partnership Strategy

The Government of Tonga through its Tonga Strategic Development Framework II, 2015–2025, targets more inclusive and sustainable growth and development to achieve higher quality of life for all. This is supported by seven national outcomes, including a more dynamic, knowledge-based economy; responsive good governance; resilience to climate change and risks; and inclusive and sustainable human development and infrastructure delivery.^a Reaching the targeted average annual growth rate of 2.5%–4.0% of gross domestic product by 2025 will require prudent fiscal policies, efficient and effective management of public funds, and a substantially increased private sector contribution to growth. The program supports this strategy by improving (i) the government’s fiscal position through revenue, expenditure, and debt management reforms, which will make financing of basic public goods and services more sustainable and less dependent on external aid flows, and will increase the government’s ability to respond to external shocks including natural disasters; (ii) public financial management to better allocate, manage, and expend limited public funds, thereby increasing efficiency and effectiveness of public service delivery; (iii) the business environment, which will contribute to a stronger private sector contribution to growth and employment creation; and (iv) utility regulation and public enterprise performance to improve efficiency, access, quality, and affordability of basic services. These outputs address issues identified in the country operations business plan, 2015–2017 of the Asian Development Bank (ADB) for Tonga, and a country strategic analysis in absence of a country partnership strategy; both are in line with ADB’s regional assistance approach to Pacific Island countries.^b

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Nonincome MDGs (TI-M1, M2)

The program’s impact on growth and public finances is expected to increase the sustainability of public services that benefit the poor and vulnerable. Increased fiscal buffers should allow the government to respond more efficiently and effectively to external shocks. The program promotes economic and social inclusion of poor and vulnerable groups through a focus on the business environment relevant for micro and small enterprises to expand the formal economy and create new employment. Expected reforms of competition policy and foundational employment legislation will directly benefit these groups. While income dimensions of poverty and social exclusion will be targeted indirectly through improvements in the business environment and subsequently expected employment creation, nonincome dimensions will be addressed through actions aiming to increase access, quality, and affordability of basic services (such as utility regulation, competition policy, and improved public enterprise utility provider performance).

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Most recent poverty data for Tonga from the Household Income and Expenditure Survey of 2009—scheduled surveys to update poverty data have been postponed—shows a very low incidence of food or absolute poverty at 3.1%, a slight increase from 2.8% in 2001, likely due to external shocks in food and fuel prices in 2007 and 2008, and the onset of the global financial crisis in 2008.^c The proportion of the population living below the basic needs poverty line, covering not only basic dietary needs but also basic expenses related to housing, health care, education, clothing, transport, and customary and community obligations, is substantially higher at 22.5% in 2009, up from 16.2% in 2001. The poverty gap index measuring depth of poverty increased from 4.4% in 2001 to 6.3% in 2009. The most recent employment data is from the 2006 census and is considered outdated. It indicates an estimated unemployment rate of 4.9% and significant underemployment (including subsistence farming). While data is sparse and often outdated, social indicators are positive with the country on track to achieve the Millennium Development Goals 2 (education); 4, 5, and 6 (health); and 7 (environmental sustainability).^d However, vulnerability to external shocks and changes in service delivery are relatively widespread. Micro-simulation analysis indicates that shocks, in particular, to food and fuel prices, agricultural commodity exports, and remittances would push households into hardship, and deepen the severity of hardship for many others.^e The program is a general intervention that aims to address macro and economic constraints. The program impact is nationwide and the beneficiaries are the citizens of Tonga.

2. Impact channels and expected systemic changes. The program aims to reduce vulnerabilities (i) by improving the government’s ability to respond to shocks and sustainably maintain basic service delivery through a stronger fiscal position; and (ii) by diversifying the economic base through a more active private sector that creates employment and income for the population, including the poor and vulnerable. Reforms that aim at consumer and employee protection, and utility regulation specifically address beneficiaries’ constraints to access decent work and basic services. Systemic changes for better protection and economic inclusion of women are also envisaged.

3. Focus of (and resources allocated in) the PPTA or due diligence. No specific PPTA is provided but ongoing TA is available.^f The due diligence will be prepared in cooperation with development partners and include a poverty and social analysis. It will build on existing assessments including the regular country performance assessments and the extended country operations business plan. Due diligence for expected reform actions that have a measurable impact on poverty and social aspects, specifically in utility regulation, tax, competition policy, and public enterprise reform, will be done through broad consultations and separate assessments that feed (or have fed) into the reform strategies. Specific due diligence on labor retrenchment from public enterprise reform will be carried out, if applicable, to determine initiatives that can help improve skills and employability of staff affected by layoffs.

4. Specific analysis for policy-based lending. Increases from revenue collection and stabilizing the wage bill will make more discretionary funding available to channel to pro-poor policies, such as education and health services. The short- to medium-term direct impact on the poor is expected to include improved consumer and employee protection and improvements in access and affordability of utilities through better regulation. In the medium term, the program will indirectly benefit the poor and vulnerable through increased government capacity to respond to shocks and more sustainable financing of social services and protection initiatives, such as the old age pension and the recently introduced social care for elderly and children with disabilities. The improved business environment is expected to increase private sector activity and investment, and to generate new employment in the medium term.

II. GENDER AND DEVELOPMENT

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this program?

Despite the fact that women play a crucial role in communities and some government efforts to address gender inequalities, including through the revised National Policy on Gender and Development, 2014 and the related National Strategic Plan, 2014–2018, Tonga still faces severe gender issues and is unlikely to achieve the third Millennium Development Goal, which promotes gender equality and empowerment of women. Tonga is one of only seven countries in the world that has not yet ratified the Convention on the Elimination of Discrimination against Women. While education attainment and health indicators show that women and men are basically equal, women generally have more restricted access than men to professional and paid employment, credit, and other productive resources. The paternal culture and the law discriminate against women with regard to their right to inherit and own land. No pay equity legislation is in place and labor force participation in 2011 was 53.6% for women compared with 75.0% for men. Currently, women are not represented in Parliament. The program intends to include specific actions to further the economic empowerment of women and aims to mainstream gender elements in other actions, such as employment legislation and finance sector regulation.

2. Does the proposed program have the potential to make a contribution to the promotion of gender equity and/or empowerment of women by providing women with access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No The program aims to address gender issues directly through specific gender actions and indirectly through actions such as foundational employment legislation. The fact-finding mission will be used to determine gender actions and revisit the gender mainstreaming category.

3. Could the proposed program have an adverse impact on women and/or girls or widen gender inequality?

Yes No The program will not have any adverse impact on women and/or girls or widen gender inequality.

4. Indicate the intended gender mainstreaming category:

GEN (gender equity) EGM (effective gender mainstreaming)

SGE (some gender elements) NGE (no gender elements)

III. PARTICIPATION AND EMPOWERMENT

1. Who are the main stakeholders of the program, including beneficiaries and negatively affected people? Identify how they will participate in the program design. The program is country-wide and will affect, through macroeconomic and sector policy changes, all citizens of Tonga. Specific beneficiary groups and potentially negatively affected groups include the private sector, workers' associations, public enterprise employees, women's groups, and the vulnerable. The program is aligned with the Tonga strategic development frameworks I and II, which are both based on countrywide community consultations. Individual reform actions are based on or will incorporate feedback from consultations of identified stakeholder groups, led by the responsible implementing agencies.

2. How can the program contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly the poor, vulnerable, and excluded groups? What issues in the program design require participation of the poor and excluded? The program will selectively engage stakeholders based on potential effects of individual policy actions. Issues specifically relevant for the poor include negative employment effects from the foundational employment legislation, public enterprise reform, and utility regulation. The program aims to promote pro-poor, socially acceptable, and economically feasible policy decisions.

3. What are the key, active, and relevant civil society organizations in the program area? What is the level of civil society organization participation in the program design? Relevant stakeholder groups will be identified and consulted for specific actions. Information generation and sharing Consultation Collaboration Partnership (H= high, M = medium, L = low, N = not applicable)

<p>4. Are there issues during program design for which participation of the poor and excluded is important? What are they and how shall they be addressed? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The program is aligned with national poverty reduction strategies and government-led stakeholder consultations for selected policy actions will be carried out to address the needs of the poor and excluded.</p>
IV. SOCIAL SAFEGUARDS
<p>A. Involuntary Resettlement Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the program have the potential to involve involuntary land acquisition resulting in physical and economic displacement? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. What action plan is required to address involuntary resettlement as part of the PPTA or due diligence process? <input type="checkbox"/> Resettlement plan <input type="checkbox"/> Resettlement framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
<p>B. Indigenous Peoples Category <input type="checkbox"/> A <input type="checkbox"/> B <input checked="" type="checkbox"/> C <input type="checkbox"/> FI</p> <p>1. Does the proposed program have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>3. Will the program require broad community support of affected indigenous communities? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No</p> <p>4. What action plan is required to address risks to indigenous peoples as part of the PPTA or due diligence process? <input type="checkbox"/> Indigenous peoples plan <input type="checkbox"/> Indigenous peoples planning framework <input type="checkbox"/> Social impact matrix <input type="checkbox"/> Environmental and social management system arrangement <input checked="" type="checkbox"/> None</p>
V. OTHER SOCIAL ISSUES AND RISKS
<p>1. What other social issues and risks should be considered in the program design? <input checked="" type="checkbox"/> Creating decent jobs and employment <input type="checkbox"/> Adhering to core labor standards <input type="checkbox"/> Labor retrenchment <input type="checkbox"/> Spread of communicable diseases, including HIV/AIDS <input type="checkbox"/> Increase in human trafficking <input type="checkbox"/> Affordability <input type="checkbox"/> Increase in unplanned migration <input type="checkbox"/> Increase in vulnerability to natural disasters <input type="checkbox"/> Creating political instability <input type="checkbox"/> Creating internal social conflicts <input type="checkbox"/> Others (L = low)</p> <p>2. How are these additional social issues and risks to be addressed in the program design? The program actions are expected to include the preparation of foundational employment relation legislation that is nonexistent in Tonga. The legislation will be based on international labor standards, increasing employee protection including provisions for minimum wage and safe working conditions, while minimizing the negative impact and/or costs for employment generation. Wide consultations with civil society and the private sector will be undertaken during preparation of the bill. Public enterprise reform may lead to layoffs following privatization or commercialization processes. If applicable, consultations with labor unions and/or affected employee groups will be carried out by government, with ADB technical assistance support, to identify solutions that minimize negative impacts on employees.</p>
VI. PPTA OR DUE DILIGENCE RESOURCE REQUIREMENT
<p>1. Do the terms of reference for the PPTA (or other due diligence) contain key information needed to be gathered during PPTA or due diligence process to better analyze (i) poverty and social impact, (ii) gender impact, (iii) participation dimensions, (iv) social safeguards, and (v) other social risks. Are the relevant specialists identified? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No The program will draw from ADB's 2014 country performance assessment and assessments carried out for the extended country operations business plan, 2015–2017. Due diligence of individual policy reform actions will be led by government, with support from partners' technical assistance.</p> <p>2. What resources (e.g., consultants, survey budget, and workshop) are allocated for conducting poverty, social, and/or gender analysis, and participation plan during the PPTA or due diligence? Due diligence will be carried out by ADB staff. Further resources are programmed as part of existing technical assistance for specific reform actions.</p>

^a Government of Tonga. 2015. *Tonga Strategic Development Framework II, 2015–2025*. Draft. May. Nuku'alofa.

^b ADB. 2014. *Country Operations Business Plan: Tonga, 2015–2017*. Manila; ADB. 2014. *Pacific Approach 2010–2014*. Manila.

^c Government of Tonga. 2010. *2nd National Millennium Development Goals Report*. Nuku'alofa.

^d Pacific Islands Forum Secretariat. 2013. *Pacific Regional Millennium Development Goals Tracking Report*. Suva.

^e World Bank. 2014. *Hardship and Vulnerability in the Pacific Island Countries*. Washington, DC.

^f ADB. 2013. *Implementing Strategic Economic Management*. Manila; ADB. 2013. *Pacific Private Sector Development Initiative, Phase III*. Manila. ADB. 2013. *Pacific Economic Management, Phase 2*. Manila.

Source: Asian Development Bank.