



Initial Poverty and Social Analysis

Project Number: 55016-001
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Tonga: Economic Recovery Support Program

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 14 July 2021)

Currency unit	–	pa'anga (T\$)
T\$1.00	=	\$0.4477
\$1.00	=	T\$2.2336

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease
TA	–	technical assistance
TSDf	–	Tonga Strategic Development Framework

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., FY2021 ends on 30 June 2021.
- (ii) In this report, "\$" refers to United States dollars, unless otherwise stated.

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INITIAL POVERTY AND SOCIAL ANALYSIS

Country:	Tonga	Project Title:	Economic Recovery Support program
Lending/Financing Modality:	Policy-based grant	Department/ Division:	Pacific Department, Social Sectors and Public Sector Management Division

I. POVERTY IMPACT AND SOCIAL DIMENSIONS

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

Tonga has adopted a vision for “a more progressive Tonga supporting a higher quality of life for all,” following the Tonga Strategic Development Framework (TSDF) II, 2015–2025. The program aligns with the following TSDF impacts: (i) more inclusive and sustainable growth and development, and (ii) more responsive good governance.^a Reaching the government’s targeted average annual growth rate of 2.5%–4.0% of gross domestic product by 2025 will require prudent fiscal policies, efficient and effective mobilization of public resources, and substantially increased private sector contribution to growth (including from private remittances). This program will promote improved fiscal resilience through its support for (i) adoption of a medium-term debt strategy and government guarantee policy to keep public debt manageable, (ii) reducing public wage bill to create fiscal space for poverty reducing expenditures, and (iii) implementing a new public financial management plan to strengthen management systems. The program also aims to improve inclusive economic growth by supporting (i) supporting a new bill to create a legal basis for education sector reforms to align sector better with market needs, (ii) improved skills and labor mobility through initiatives to foster more inclusive participation in overseas labor opportunities, (iii) adoption of a Bill to improve supervision of non-banking financial institutions while fostering increased access to finance for small businesses and enhanced financial inclusion, and (iv) creating a more conducive environment for foreign investment through passage of an international arbitration bill. These outputs are consistent with issues identified in ADB’s country operations business plan for eleven small Pacific island countries, 2021–2023 and ADB’s Strategy 2030.^b

B. Poverty Targeting

General intervention Individual or household (TI-H) Geographic (TI-G) Non-income MDGs (TI-M1, M2, etc.)
The program’s impact on growth, public finances, and public sector performance is expected to increase the sustainability of public services that benefit the poor and vulnerable. Increased fiscal buffers should also allow the government to respond more efficiently and effectively to external shocks, which disproportionately affect the poor. The program will promote economic and social inclusion of poor and vulnerable groups by improving access to labor schemes in Australia and New Zealand, and equipping workers with skills the market needs.

C. Poverty and Social Analysis

1. Key issues and potential beneficiaries. Estimates based on the 2015/2016 Household Income and Expenditure Survey show that fewer than 1% of Tongans live below the international poverty line of \$1.90 a day, but a higher share of the population are struggling to meet the cost of local basic needs.^c Tonga’s national poverty statistics, based on the consensual method of estimation (a sociological approach that reflects the extent to which people can achieve a basic standard of living as defined by a majority of the population), indicate that a quarter of the population were living in poverty. Poverty rates were particularly high in rural and remote areas relative to urban areas: 47% of the population in the outer islands, which are mainly rural, were living in poverty, compared with 14% living in poverty on the main island of Tongatapu, which is largely urban. Though the exact effects have to be assessed for Tonga (ADB and World Bank are collaborating on phone surveys for this purpose), the coronavirus disease pandemic is adversely affecting livelihoods by cutting into economic activity and earnings. This is likely to have increased poverty incidence. A lack of access to services, employment opportunities, and remittances, and exposure to shocks (such as food price shocks and natural disasters) are some of the factors underlying poverty vulnerability. In addressing some of these, the program’s beneficiaries are all citizens of Tonga, but the labor market and training policies are particularly targeted at improving employment outcomes among youth and women.

2. Impact channels and expected systemic changes. The program aims to reduce vulnerabilities by (i) improving fiscal buffers and the government’s ability to respond to shocks; (ii) improved basic service delivery through improving the composition of public expenditure and its efficiency; and (iii) diversifying employment and income opportunities for the population, including opportunities for the poor and vulnerable. The public sector is a key provider of infrastructure and services that low-income households need to improve their livelihoods. By supporting better fiscal management, the policy actions will help ensure that the government has more space to respond to future economic, health, and climatic shocks, which tend to impact the poor disproportionately, while maintaining critical health, education, and community services on which the bottom 40% are particularly dependent. Strengthening public sector management systems will further support the delivery of these services through improved expenditure efficiency and remuneration controls. By adopting comprehensive strategies that support strengthened labor mobility (e.g., aligning skills and training courses to the demands of local and overseas job markets) and creating a more enabling environment for businesses, reforms should also help enhance the capacity for women, youth, and members of vulnerable households to take full advantage of local employment opportunities and overseas worker programs.

3. Focus of (and resources allocated in) the transaction TA or due diligence. No project preparatory technical assistance (TA) was required. ADB's ongoing engagement in the Joint Policy Reform Matrix (JPRM) discussions; ongoing TA for public financial management and public sector reform; and TA support for the International Arbitration Bill will support due diligence. Further TA is available from ADB and other JPRM partners as needed. The due diligence will be prepared in cooperation with development partners and will include a poverty and social analysis.

4. Specific analysis for policy-based lending. With stress of public finances, improved public financial management and stabilization of the public wage bill will make more discretionary funding available to channel towards pro-poor policies such as education and health services. In the medium-term, direct impacts for the poor will include building up human capital that is better aligned to the job market and improved access to domestic and international labor opportunities. The program will also indirectly benefit the poor and vulnerable by increasing the government's capacity to respond to shocks and avoid fiscal consolidation or disruption of service delivery.

II. GENDER AND DEVELOPMENT

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

There is a clear gender dimension to labor market outcomes. According to the Tonga 2016 Census of Population and Housing, in 2016, the labor force participation rate for women (56.7%) was substantially lower than for men (71.2%). The employment rate (28.4% for women compared with 45.2% for men) and unemployment rate (26.8% for women compared with 7.6% for men) reflected similar gender disparity.^d The gender gap is particularly problematic in overseas labor—only 1 out of every 10 Tongan overseas workers was female in fiscal year (FY) 2016.¹

2. Does the proposed project or program have the potential to contribute to the promotion of gender equity and/or empowerment of women by providing women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

This program supports the adoption of a public service sexual harassment policy that not only provides mechanisms to respond to work based sexual harassment and abuse but also sets an important normative standard for respectful and safe workplaces. Given that 42% of employees in the public sector are women, this is a key policy action to prevent and respond to gender-based violence and to address a barrier to women's employment. The program will explore other possibilities for proactive gender actions including further supporting semi-skilled employment programs for overseas work for women. Finally, it will support the government in strengthening public financial management to cover areas such as the need for gender responsive budgeting training for ministries and the collection of sex-disaggregated data in ministry annual reporting.

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

Yes No The program is not anticipated to 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 project, including beneficiaries and negatively affected people? Identify how they will participate in the project design.

The program is country-wide and will affect, through macroeconomic and sector policy changes, all citizens of Tonga. Specific stakeholders include the private sector, workers' associations, public enterprise employees, women's groups, and the vulnerable. The program is aligned with TSDF I and II, both of which are based on countrywide community consultations. Individual reform actions are based on or will incorporate feedback from consultations with identified stakeholder groups, led by the responsible implementing agencies.

2. How can the project contribute (in a systemic way) to engaging and empowering stakeholders and beneficiaries, particularly, the poor, vulnerable, and excluded groups? What issues in the project design require participation of the poor and excluded?

The program aims to promote pro-poor, socially acceptable, economically, and fiscally sustainable policies and initiatives. The program encourages the Government of Tonga to engage with and consult stakeholders affected by individual policy actions.

3. What are the key, active, and relevant civil society organizations in the project area? What is the level of civil society organization participation in the project design?

M Information generation and sharing M Consultation NA Collaboration NA Partnership

The Civil Society Forum of Tonga (an umbrella non-government organization replacing the Tonga Association of Non-Governmental Organisations) participates as a regular member of government policy consultations, as does Fafine Maa Tonga.

¹ [United Nation Women. Global Database on Violence against Women.](#) (accessed 22 July 2021)

4. Are there issues during project design for which participation of the poor and excluded is important? What are they and how should they be addressed? Yes No The program is aligned with national poverty reduction strategies. Government-led stakeholder consultations on selected policy actions will be carried out to address the needs of the poor and excluded.

IV. SOCIAL SAFEGUARDS

A. Involuntary Resettlement Category A B C FI

1. Does the project have the potential to involve involuntary land acquisition resulting in physical and economic displacement? Yes No The program does not involve any civil works, and none of the program activities will result in involuntary resettlement or cause any physical or economic displacement.

2. What action plan is required to address involuntary resettlement as part of the transaction TA or due diligence process?

Resettlement plan Resettlement framework Social impact matrix
 Environmental and social management system arrangement None

B. Indigenous Peoples Category A B C FI

1. Does the proposed project have the potential to directly or indirectly affect the dignity, human rights, livelihood systems, or culture of indigenous peoples? Yes No

2. Does it affect the territories or natural and cultural resources indigenous peoples own, use, occupy, or claim, as their ancestral domain? Yes No

3. Will the project require broad community support of affected indigenous communities? Yes No

4. What action plan is required to address risks to indigenous peoples as part of the transaction TA or due diligence process?

Indigenous peoples plan Indigenous peoples planning framework Social impact matrix
 Environmental and social management system arrangement None

V. OTHER SOCIAL ISSUES AND RISKS

1. What other social issues and risks should be considered in the project design?

H Creating decent jobs and employment L Adhering to core labor standards L Labor retrenchment
 L Spread of communicable diseases, including HIV/AIDS L Increase in human trafficking L Affordability
 M Increase in unplanned migration L Increase in vulnerability to natural disasters L Creating political instability
 L Creating internal social conflicts NA Others, please specify _____

2. How are these additional social issues and risks going to be addressed in the project design?

The creation of decent jobs in the public sector and through exported-labor opportunities is a key element of the program. In particular, the frameworks and policies supported by the program will address risks arising from poor public service management and unstructured engagement with international labor schemes. More broadly, the program is categorized *low risk* as (i) the grant amount does not exceed \$50 million, (ii) ADB has a sound record of engagement in public sector management in Tonga since 2009, (iii) the executing agency has reasonable capacity and experience in administering externally financed projects, and (iv) the program is not expected to be rated category A for any safeguard category.

VI. TRANSACTION TA OR DUE DILIGENCE RESOURCE REQUIREMENT

1. Do the terms of reference for the transaction TA (or other due diligence) contain key information needed to be gathered during transaction TA 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? Yes No

The program will draw from ADB's 2020 country performance assessment and assessments carried out for the extended country operations business plan, 2021–2023. Due diligence of individual policy reform actions will be led by the government, with support from JPRM partners' TA.

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 transaction TA or due diligence? Due diligence will be carried out by ADB staff.

^a Government of Tonga, Ministry of Finance and National Planning. 2015. *Tonga Strategic Development Framework, 2015–2025*. Nuku'alofa.

^b ADB. 2020. *Country Operations Business Plan: Eleven Small Pacific Island Countries, 2021–2023*. Manila; ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila

^c Government of Tonga, Tonga Statistics Department. 2017. *Household Income and Expenditure Survey 2015/2016*. Nuku'alofa.

^d Government of Tonga Statistics Department. 2017. *Tonga 2016 Census of Population and Housing*. Nuku'alofa.