



Concept Paper

Project Number: 55016-001
August 2021

Proposed Policy-Based Grant Kingdom of 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
FY	–	fiscal year
GDP	–	gross domestic product
IMF	–	International Monetary Fund
JPRM	–	Joint Policy Reform Matrix
PEFA	–	public expenditure and financial accountability
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., FY2021 ends on 30 June 2021.
- (ii) In this report, "\$" refers to United States dollars, unless otherwise stated.

Vice-President	Ahmed M. Saeed, Operations 2
Director General	Leah C. Gutierrez, Pacific Department (PARD)
Deputy Director General	Emma M. Veve, PARD
Directors	Ananya Basu, Social Sectors and Public Sector Management Division (PASP), PARD Masayuki Tachiiri, Regional Director, Pacific Subregional Office in Suva, Fiji (SPSO), PARD
Team leaders	Ashish Narain, Principal Economist, PASP, PARD
Team members	James Webb, Public Management Economist, PASP, PARD ^a Ferila Brown, Senior Safeguards Officer, SPSO, PARD Mairi Macrae, Social Development Specialist (Gender and Development), PASP, PARD Remrick Patagan, Economics and Statistics Analyst, PASP, PARD Leba Sovea, Senior Programs Assistant, SPSO, PARD Melinda Tun, Counsel, Office of the General Counsel Diane Mauritz Zapata, Operations Assistant, PASP, PARD
Peer reviewer	Hans Van Rijn, Principal Public Management Specialist, Public Management, Financial Sector, and Regional Cooperation Division, East Asia Department

^a Outposted to SPSO.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 55016-001	
Project Name	Economic Recovery Support Program	Department/Division	PARD/PASP
Country	Tonga	Executing Agency	Ministry of Finance
Recipient	Ministry of Finance		
Country Economic Indicators	https://www.adb.org/Documents/LinkedDocs/?id=55016-001-CEI		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=55016-001-PortAtaGlance		
2. Sector		ADB Financing (\$ million)	
✓ Public sector management	Economic affairs management		1.50
	Public administration		1.00
	Public expenditure and fiscal management		2.50
	Total		5.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.00
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.b		Effective gender mainstreaming (EGM)	✓
SDG 3.d			
SDG 4.4			
SDG 5.2, 5.5			
SDG 8.10, 8.5			
SDG 16.3, 16.6			
SDG 17.1, 17.4			
4. Risk Categorization: Low		Poverty Targeting	
		General Intervention on Poverty	✓
5. Safeguard Categorization		Environment: C Involuntary Resettlement: C Indigenous Peoples: C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		5.00	
Sovereign Program grant: Asian Development Fund		5.00	
Cofinancing		23.40	
Government of Australia - Program grant (Not ADB Administered)		10.80	
New Zealand Grant - Program grant (Not ADB Administered)		7.60	
World Bank - Program grant (Not ADB Administered)		5.00	
Counterpart		0.00	
None		0.00	
Total		28.40	
Currency of ADB Financing: US Dollar			

I. THE PROPOSAL

1. The Economic Recovery Support Program seeks to help Tonga restore inclusive growth led by the private sector, which has been adversely affected by the coronavirus disease (COVID-19) pandemic. The program aims to achieve this through (i) strengthening fiscal management, (ii) improving the enabling environment for the private sector, and (iii) enhancing human resource management. The program is consistent with ADB's Strategy 2030 priorities of strengthening governance and institutional capacity and accelerating progress in gender equality.¹ It is included in ADB's country operations business plan for eleven small Pacific island countries, 2021–2023.²

2. A policy-based grant of \$5.0 million from ADB's Asian Development Fund is proposed to help expedite and accelerate the government's ongoing reforms, while providing much-needed budget support. A single tranche stand-alone policy-based grant is considered appropriate in view of elections in November 2021, to build on reforms under previous programs while allowing flexibility to discuss any subsequent program with the new government in line with evolving priorities.³ The program is being developed in collaboration with the governments of Australia and New Zealand, and the World Bank who also provide financing and technical assistance (TA).

II. PROGRAM AND RATIONALE

A. Background and Development Constraints

3. **Key developmental challenges.** Tonga faces many structural challenges because of its geographic remoteness, small size, and exposure to disasters caused by natural hazards. These factors reduce competitiveness by raising costs of production and public service delivery, hamper private sector participation in economic activity, and constrain institutional capacity development, keeping growth rates low.⁴ While extreme poverty is rare in Tonga, there is significant material deprivation and vulnerability, especially in rural areas. The public sector is the major driver of the economy, providing infrastructure and public services. Gender disparities adversely affect development outcomes for women. While women have higher participation rates than men in education at all levels, their labor force participation is about 14 percentage points lower than men.⁵ Of ever-partnered women aged 15–49, 40% have experienced gender-based violence.⁶

4. The COVID-19 pandemic has exacerbated development challenges. Along with Tropical Cyclone Harold in April 2020, it caused the economy to contract by an estimated 0.8% of gross domestic product (GDP) in fiscal year (FY) 2020.⁷ As the pandemic continued, declines in tourism and delays on construction projects heavily impacted the private sector, affected employment,

¹ ADB. 2018. *Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*. Manila.

² ADB. 2020. *Country Operations Business Plan: Eleven Small Pacific Island Countries, 2021–2023*. Manila. The program name has been revised from *Macroeconomic Resilience Program* to *Economic Recovery Support Program*. A preliminary draft of the design and monitoring framework is in Appendix 1.

³ ADB. 2009. [Tonga: Economic Support Program](#). Manila; ADB. 2013. [Tonga: Strengthening Public Financial Management Program](#). Manila; ADB. 2016. [Tonga: Building Macroeconomic Resilience Program, Subprogram 1](#). Manila; ADB. 2017. [Tonga: Building Macroeconomic Resilience Program, Subprogram 2](#). Manila; ADB. 2019. [Tonga: Building Macroeconomic Resilience Program, Subprogram 3](#). Manila; and ADB. 2020. [Tonga: Strengthening Macroeconomic Resilience Program](#). Manila.

⁴ Over the last 20 years, per capita gross domestic product (GDP) in Tonga has grown by 1.3% on average, compared to 2.3% globally. World Bank. [World Development Indicators](#) (accessed 13 July 2021).

⁵ Government of Tonga, Ministry of Internal Affairs. 2019. *Gender Equality: Where Do We Stand? The Kingdom of Tonga*. Nuku'alofa.

⁶ United Nations Women. [Global Database on Violence against Women](#) (accessed 13 July 2021).

⁷ ADB. 2021. *Asian Development Outlook 2021: Financing a Green and Inclusive Recovery*. Manila.

and deepened the contraction in FY2021 to an estimated 5.3%.⁸ Recovery of growth (projected at 1.8% in FY2022) will depend largely on reopening borders and resuming tourism, underpinned by the rollout of COVID-19 vaccines.⁹

5. **Binding constraints.** The government recognizes that an inclusive economic recovery is constrained by several interrelated factors. Tonga's policy regime makes doing business costly and risky for the private sector. Tonga has no international arbitration legislative framework, which discourages foreign investment by raising the costs and uncertainty associated with international business agreements.¹⁰ While the banking sector remains resilient, improved supervision of nonbank financial institutions is a priority because of growing risks during the COVID-19 pandemic, which further constrains access to finance for the private sector.¹¹ Recovery of employment is hampered by weak human resource management. The Tonga National Quality Assessment Board lacks the legal basis to perform many core functions, including ensuring that technical and vocational course offerings match the skills needs of the job market.¹² Although remittances are important in alleviating poverty and financing the current account deficit, potential migrant workers lack appropriate pre-departure training and clear selection procedures that would allow them to take full advantage of opportunities abroad.¹³ Getting workers ready to take advantage of overseas opportunities, balancing the gender mix of emigrants and reducing dependency on a few sectors in destination markets will be important to improve developmental outcomes. Sexual harassment in the workplace also deters women's labor force participation.

6. Recovery efforts must be underpinned by strong fiscal management. Fiscal deficits are projected for FY2020–FY2021, and external debt is expected to rise (para. 7).¹⁴ Efforts to maintain critical public expenditures are hampered by a growing public sector wage bill.¹⁵ While recruitment has been tightly controlled, this reflects increases in contractual and overtime payments, especially in the health sector. A recent government review also found discrepancies in wage bill data between the Ministry of Finance and the Public Service Commission resulting from the lack of a consolidated and up-to-date establishment employment registry. While debt remains manageable, the government must avoid debt build up to finance deficits and control government guarantees (estimated at 1%–3% of GDP). Public financial management (PFM) systems are generally functional and support basic service delivery, but a gender responsive public expenditure and financial accountability (PEFA) assessment under the previous operation identified several areas for improvement.¹⁶

⁸ While data on employment impacts of the COVID-19 pandemic is not available, an estimated 43% of salaried workers in Tonga depend on the private sector for their livelihoods and could potentially have been affected.

⁹ As of 23 July 2021, 27.2% of population had received the first dose and 6.5% had received both doses. Retrieved from: <https://ourworldindata.org/coronavirus> (accessed 23 July 2021).

¹⁰ In FY2019, net foreign direct investment inflows to Tonga were 1.7% of GDP, below the Pacific average of 4.3%.

¹¹ International Monetary Fund (IMF). 2021. *2020 Article IV Consultation and Request for Disbursement under the Rapid Credit Facility—Press Release; Staff Report; and Statement by the Executive Director for Tonga: IMF Country Report 21/26*. Washington, DC.

¹² The Tonga National Quality Assessment Board is responsible for developing a national qualifications framework, establishing appropriate policies, monitoring, and reviewing compulsory education and training, and registering and providing accreditation to providers.

¹³ In FY2019, Tonga received remittances of 27.3% of GDP, compared with a Pacific average of 7.2%. Tonga is among the main beneficiaries of seasonal worker schemes in Australia and New Zealand, with an estimated 5,774 workers (about 14% of the total domestic workforce) engaged in temporary worker programs in FY2019.

¹⁴ Sector Assessment (Summary): Public Sector Management (accessible from the list of linked documents in Appendix 2).

¹⁵ After declining from 31.6% of public expenditure in FY2017 to 30% in FY2019, the public sector wage bill went up to 32.3% of public expenditure in FY2021 (footnote 14).

¹⁶ These include better budget control and enhancements to the cash management system to build fiscal buffers. Areas identified in the gender responsive budgeting assessment include the need for gender responsive budgeting training for ministries and the collection of sex-disaggregated data in ministry annual reporting.

7. **Macroeconomic management.** The government has maintained a generally prudent fiscal stance over the past 5 years. Strong revenue collections despite disasters, adherence to spending controls to remain within fiscal anchors, and strong policy reforms that attracted support from development partners, led to fiscal surpluses between FY2017 and FY2020 (footnote 14). This helped build up cash reserves that contributed to financing the government's COVID-19 response, while keeping external debt contained at 36.7% of GDP in FY2020, well below the government's ceiling of 50.0%. However, government spending is projected to increase in FY2021 and FY2022 as health-related expenditures ramp up and a recovery package to support productive sectors and vulnerable populations is disbursed. As revenues are not expected to rise significantly, projected fiscal deficits are 1.0% of GDP in FY2021 and 1.2% in FY2022. With low fiscal buffers, the risk of debt distress is high, and external debt is projected to reach 38.5% of GDP in FY2021.¹⁷ Overall, the macroeconomic outlook is assessed to be stable and debt sustainable, based on the authorities' policy commitments toward fiscal consolidation.¹⁸ Risks however remain elevated because of the pandemic.

B. Policy Reform, ADB's Value Addition, and Sustainability

8. **Government 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 2015–2025.¹⁹ This vision is translated into five pillars, in which “economic institutions” seek to address constraints to more inclusive, sustainable, and resilient economic growth, including through improved macroeconomic management and increased access to economic opportunities. The government has also moved to mitigate the macroeconomic and social risks posed by the COVID-19 pandemic, to sustain the country's productive sectors and employment.

9. **Program description.** The proposed program supports Tonga's ongoing broad-based reforms, as reflected in the Joint Policy Reform Matrix (JPRM) framework (para. 16), to restore inclusive economic growth led by the private sector, which has been impacted by COVID-19. The program comprises three reform areas. Specific policy actions are prioritized based on government needs, to support medium-term reforms while responding to policy challenges intensified by COVID-19 (paras. 5–6).

10. **Reform area 1: Fiscal management.** The reform area will support preparation and cabinet approvals of (i) a medium-term debt strategy, including rules for no new non-concessional external borrowing, and (ii) a new guarantee policy to contain contingent liabilities. These will update the framework for and transparency in procedures to guide borrowing and guaranteeing of loans. This reform area will also aim at (i) improving composition of public expenditures through the cabinet approval of caps on overtime hours and payments, and the operationalization of a consolidated public employment registry to reduce data discrepancies and enable greater control over the wage bill; and (ii) strengthening PFM systems through cabinet approval of time-bound implementation of recommendations from the gender responsive PEFA assessment.

11. **Reform area 2: Enabling environment for the private sector.** The program will support cabinet approval for submission to Parliament of two legislative reforms: (i) the credit union bill

¹⁷ Tonga's external debt distress rating changed from *moderate* risk to *high* risk in 2017 as the debt sustainability analysis of the IMF incorporated the effects of disasters caused by natural hazards into the methodology. However, external debt remains sustainable. IMF. 2018. *2017 Article IV Consultation—Press Release; and the Staff Report for Tonga: IMF Country Report No. 18/12*. Washington, DC.

¹⁸ The fiscal deficit is projected to swing back into a surplus of 1.0% of GDP in FY2023 as the government controls recurrent expenditures, and external debt is projected to fall below 33.0% of GDP by FY2025.

¹⁹ Government of Tonga. 2015. *Tonga Strategic Development Framework, 2015–2025*. Nuku'alofa.

that is intended to improve regulation and supervision of nonbank financial institutions and enhance access to finance for the private sector, and (ii) an international arbitration bill to address the absence of an international arbitration legislative framework in Tonga.

12. **Reform area 3: Human resource management.** The program will support cabinet approval for submission to Parliament of the Tonga National Quality Assessment Board bill, providing the legal basis for the board's core functions and ensuring that course offerings are better tailored to market needs in Tonga and overseas. It will support adoption of a new operations manual to enhance management and core services of Tonga's labor mobility institutions, including reformed procedures for recruitment and selection, pre-departure training, and the establishment of work-ready pools, with a special focus on increasing female participation in work-ready pools. Finally, the reform area will address sexual harassment in government offices through cabinet approval of a sexual harassment policy. Because 42% of public sector employees are women, this is a key policy action to prevent gender-based violence and address a barrier to women's employment.

13. **ADB's value addition.** The program builds on reforms supported by earlier ADB TA and programs (footnote 3). On fiscal management, past engagement improved civil service performance management to control the wage bill; introduced a new debt management law and medium-term fiscal targets; and strengthened PFM, including by conducting a PEFA in partnership with the International Monetary Fund (IMF) to identify priorities in future PFM reform planning (para. 6). ADB TA mobilized economic and PFM advisors to support the formulation of development strategies.²⁰ On private sector development, ADB's advisory services helped strengthen corporate governance practices and commercialize selected state-owned enterprises to improve service delivery and reduce the burden on the budget.²¹ They have built the foundations for an enabling environment for foreign direct investment through supporting the approval of a foreign investment act and developing regulations to implement it.²² On human resources, ADB's previous policy-based grant supported development of a gender sensitive labor mobility framework and improvements of the technical and vocational education and training sector, which will be taken forward through program policy actions. Specifically for the proposed program, ADB has provided TA to develop economic and fiscal forecasting and planning models that supported preparation of the medium-term debt strategy (para. 10).²³ TA support has been provided for developing the International Arbitration Bill (para. 11). ADB has also supported the government's efforts to manage and mitigate COVID-19 impacts.²⁴

14. **Sustainability.** ADB's long engagement with Tonga developed strong government ownership of reforms. Regular dialogue helped to institutionalize reforms and provided an opportunity to build on them. ADB will develop a post-program partnership framework during the fact-finding mission drawing on the JPRM to support reform sustainability, monitor progress, and continue dialogue with the new government for possible follow-on budget support.

²⁰ ADB. 2013. [Technical Assistance for Pacific Economic Management \(Phase 2\)](#). Manila.

²¹ ADB. 2013. [Technical Assistance for the Pacific Private Sector Development Initiative, Phase III](#). Manila.

²² ADB. 2019. [Technical Assistance for the Pacific Private Sector Development Initiative, Phase IV](#). Manila.

²³ ADB. 2020. [Technical Assistance for Supporting Public Sector Management Reforms](#). Manila.

²⁴ To support the government's COVID-19 response, ADB, in 2020, disbursed a \$470,000 grant from the Asia Pacific Disaster Resilience Fund and a \$6 million grant from the Pacific Disaster Resilience Program (Phase 2) and provided a policy-based grant of \$12.2 million. In May 2021, ADB approved a \$5.5 million in grant to Tonga to help roll out COVID-19 vaccines. ADB. 2021. [Additional Financing: Systems Strengthening for Effective Coverage of New Vaccines in the Pacific Project under the Asia Pacific Vaccine Access Facility](#). Manila; ADB. 2020. [Additional Financing: COVID-19 Emergency Response in the Kingdom of Tonga](#). Manila; ADB. 2020. [Tonga: Strengthening Macroeconomic Resilience Program](#). Manila; and ADB. 2019. [Regional: Pacific Disaster Resilience Program \(Phase 2\)](#). Manila.

15. **Lessons.** Based on lessons learned, the program focuses on policy actions prioritized by the government to avoid overloading limited capacity, builds on earlier reforms for sustainability, and accommodates political economy considerations in program design.²⁵ ADB will continue to coordinate closely with partners to provide parallel TA to aid reform implementation.

16. **Development partner coordination.** The JPRM process provides an effective platform to coordinate support among key development partners. ADB, the World Bank, Australia, and New Zealand coordinate budget support and related TA through the JPRM process, with the European Union also participating.²⁶ As for past programs, the JPRM process brought together key ministries and development partners to map out critical constraints, design policy actions and TA measures, and monitor reform implementation for the proposed program.²⁷

C. Expected Outcome of the Reform

17. The program is aligned with the following development objective: a more progressive Tonga supporting a higher quality of life for all (footnote 19). The expected development outcome is to accelerate inclusive private sector-led economic growth in Tonga. Supported by program reforms, Tonga will not take on any new non-concessional debt, the public sector wage bill will come down, PFM systems will be strengthened, the framework for arbitration of international commercial disputes will be improved, the supervision of nonbank financial institutions will be enhanced, and the number of workers in work-ready pools will increase.

D. Development Financing Needs and Budget Support

18. In FY2022, government expenditures are expected to go up to 50.7% of GDP, largely because of continued efforts to build health preparedness, support key economic sectors, and increase capital spending. Domestic revenues are expected to be 23.9% of GDP in FY2022, resulting in a fiscal deficit (excluding grants) of 26.8% of GDP (footnote 14). This is equivalent to development financing needs of around \$130 million.²⁸ ADB's support through the proposed program is expected to help meet Tonga's FY2022 development financing needs. General budget support grants of \$23.4 million from other JPRM partners are planned for calendar year 2021: the World Bank expects to disburse \$5 million in October 2021, while Australia has provided about \$10.8 million and New Zealand about \$7.6 million in June 2021.

19. The Government of Tonga has requested a grant not exceeding \$5 million from ADB's Special Funds resources (Asian Development Fund) to help finance the program. ADB grant proceeds will support development financing needs, excluding ineligible items.

E. Implementation Arrangements

20. The government's existing Budget Support Management Committee leads the JPRM process and oversees the program, with the Ministry of Finance as the executing agency. The Ministries of Internal Affairs and Trade and Economic Development; and the Public Service Commission are also implementing agencies. The JPRM process will continue to facilitate broad

²⁵ Independent Evaluation Department. 2015. *Corporate Evaluation Study: ADB Support to Small Pacific Island Countries*. Manila: ADB; ADB. 2011. *Policy Brief: Policy-Based Programs for the Pacific Islands*. Manila; ADB. 2020. [Completion Report: Building Macroeconomic Resilience Program](#). Manila.

²⁶ The European Union coordinates TA and policy dialogue through the JPRM process, but not its budget support.

²⁷ The JPRM, FY2020–FY2021 forms the basis for reforms supported under the program.

²⁸ The government expects to finance this through mobilizing grants, and a possible concessional loan from the IMF Rapid Credit Facility.

consultations on reform priorities. The government is consulting with the private sector and civil society on individual reform initiatives as needed. The program is expected to be implemented from July 2020 to December 2021. ADB will monitor the implementation of reforms under the post-program partnership framework (para. 14). The proceeds of the policy-based grant will be withdrawn, upon effectiveness, in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

III. DUE DILIGENCE REQUIRED

21. Due diligence for the program, to be prepared collaboratively with development partners, will include a risk assessment and mitigation plan and an enhanced public sector assessment. ADB will request an assessment letter from the IMF on Tonga's macroeconomic framework.

22. The program is classified *some gender elements*. It 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. The expanded semi-skilled employment programs in Australia and New Zealand offer new opportunities for Tongan workers—particularly for women, which will be supported by the program. Further proactive gender elements will be explored during program preparation.

IV. PROCESSING PLAN

A. Risk Categorization

23. 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 externally financed project administration, and (iv) the program is not expected to be rated category A for any safeguard category.

B. Resource Requirements

24. ADB estimates that the program will require 5 person-months of international and 8 person-months of national staff time.

C. Processing Schedule

Proposed Processing Schedule

Milestones	Expected Completion Date
Concept approval	July 2021
Fact-finding mission	2–3 August 2021
Staff review meeting	17 August 2021
Grant negotiations	25 August 2021
Board consideration	1 October 2021
Grant effectiveness	15 October 2021

Source: Asian Development Bank.

V. KEY ISSUES

25. In the run-up to general elections, ADB will pay particular attention during processing and implementation to ensuring (i) timely TA to provide expertise or supplement government capacity, and (ii) close collaboration with development partners.

PRELIMINARY POLICY DESIGN AND MONITORING FRAMEWORK

Country's Overarching Development Objectives
A more progressive Tonga supporting a higher quality of life for all (Tonga Strategic Development Framework, 2015–2025) ^a

<p>Outcome Inclusive private sector-led economic growth in Tonga accelerated.</p>	<p>Risks and Critical Assumptions R1: A further health shock or disasters caused by natural hazards leads government to divert resources away from the program. R2: Non-availability or slow rollout of COVID-19 vaccine(s) slows down efforts to open the economy. R3: Economic conditions in overseas markets deteriorate and there is a decline in overseas labor programs.</p>
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Indicative Policy Actions: July 2020 to December 2021	Outcome Indicators
Reform Area 1: Fiscal management	
<p>1.1 Cabinet approves a new medium-term debt strategy to help meet Government's debt management goals consistent with macroeconomic stability.</p> <p>1.2 Cabinet approves a policy for assessing and approving requests for government guarantees to limit buildup of contingent liabilities.</p> <p>1.3 Cabinet approves a reform to the policy governing overtime in the public sector to control excessive overtime payments.</p> <p>1.4 Ministry of Finance and the Public Service Commission establish and operationalize a consolidated and up-to-date establishment employment register to reduce discrepancies in public wage payments.</p> <p>1.5 Cabinet approves a new public financial management reform strategy, which includes a plan for the time-bound implementation of recommendations emerging from the gender responsive PEFA assessment, to strengthen public financial management systems.</p>	<p>By December 2022</p> <p>a. Government borrowing and guarantees of loans complies with provisions of the new Medium-Term Debt Strategy and guarantee policy, including for no external borrowing unless on concessional terms (FY2016–2018 baseline: 100% of new external borrowing is on terms above 35% concessionality). Source: Government Budget Statements</p> <p>b. Decline in public sector wage bill as a proportion of total public expenditure (FY2020 baseline: 31.6%) Source: Government Budget Statements</p>
Reform Area 2: Business environment for the private sector	
<p>1.6 Cabinet approves for submission to Parliament a revised Credit Union bill to improve supervision and regulation of nonbank financial institutions.</p>	<p>a. Annual reporting on credit union regulation and supervision (FY2021 baseline: No annual reporting) Source: National Reserve Bank of Tonga</p>

Indicative Policy Actions: July 2020 to December 2021	Outcome Indicators
1.7 Cabinet approves for submission to Parliament an international arbitration bill to improve the enabling environment for foreign investment.	b. Arbitration of all cross-border commercial disputes follow dispute resolution framework adopted through International Arbitration bill (2020 baseline: Framework does not exist) Source: Ministry of Trade and Economic Development
Reform Area 3: Human resource management	
<p>1.8 Cabinet approves for submission to Parliament a revised Tonga National Quality Assessment Board bill to improve quality and relevance of skills training.</p> <p>1.9 Ministry of Internal Affairs adopts the Labor Sending Unit's operations manual, which includes gender sensitive reformed procedures for recruitment and selection, enhanced pre-departure training, and the establishment of more gender balanced work-ready pools to enhance management and core services of Tonga's labor mobility institutions.</p> <p>1.10 Cabinet approves a public service sexual harassment policy, which includes definition, process for reporting and investigation, and responsibilities of different parties in cases of sexual harassment, to prevent sexual harassment in government offices.</p>	a. Increased number of workers in work-ready pools of which a larger share are women (December 2019 Baseline: 511 Tongans in the Ministry of Internal Affairs work pools, of which 32% are women) Source: Ministry of Internal Affairs
<p>Budget Support</p> <p>Asian Development Bank: \$5 million grant</p> <p>Government of Australia: \$10.8 million grant (A\$13.75 million)</p> <p>Government of New Zealand: \$7.6 million grant (NZ\$10.5 million)</p> <p>World Bank: \$5.0 million grant</p> <p>Each development partner manages the disbursement of their respective grants in parallel.</p>	

COVID-19 = coronavirus disease, FY = fiscal year, PEFA = public expenditure and financial accountability, R = risk.

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

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=55016-001-ConceptPaper>

1. Initial Poverty and Social Analysis
2. Sector Assessment (Summary): Public Sector Management