

ASIAN DEVELOPMENT BANK

**COUNTRY ASSISTANCE PLAN
2001 – 2003**

TONGA

December 2000

CURRENCY EQUIVALENTS

(As of 30 November 2000)

Currency Unit	--	Pa'anga (T\$)
TS\$1.00	=	\$0.5054
\$1.00	=	TS\$1978631

ABBREVIATIONS

ADB	—	Asian Development Bank
CEDAW	—	Convention on the Elimination of All Forms of Discrimination Against Women
EIA	—	environmental impact assessment
EPS	—	Environmental Planning Section
EPSRP	—	Economic and Public Sector Reform Program
HDI	—	Human Development Index
HPI	—	Human Poverty Index
IMF	—	International Monetary Fund
PFTAC	—	Pacific Finance Technical Assistance Centre
PPTA	—	Project Preparatory Technical Assistance
RETA	—	Regional Technical Assistance
TA	—	Technical Assistance
TDB	—	Tonga Development Bank
UNCTAD	—	United Nation's Conference on Trade and Development

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June.
- (ii) In this report, "\$" refers to US dollars.

FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for Tonga covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of Tonga, and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000 and has been revised by the ADB to incorporate recent developments. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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TONGA

I. Country Performance Assessment

A. Economic Performance Assessment

1. The economic recovery that began in late 1998 has continued through 1999 and into 2000. Real GDP grew by 4.6 percent in the fiscal year ending 30 June 1999 and is estimated to have grown by 6.1 percent in the fiscal year 2000, with the inflation rate rising to approximately 4 percent throughout. This growth largely has reflected expansion in construction, kava manufacturing, commerce, transport and communications, and finance and business services. Output of the agriculture, forestry and fisheries sector also appears to have grown significantly in fiscal year 2000 after the stagnation of the previous four years, which was attributable to vulnerability to climatic and international economic shocks and a lack of domestic and foreign investment.

2. The poor performance of the primary sector has been a major reason for the low long-term growth rate of around one percent per annum, and has been reflected in sluggish growth in the small number of primary product exports (squash, vanilla, and fish). The trade deficit has been substantially offset by net private and official transfers and, with the capital account in surplus, the balance of payments has been in overall surplus during fiscal years 1999 and 2000. However, the foreign reserves level is still sufficient for only 3.9 months of import cover. The burden of adjustment to any future balance of payments pressures is likely to fall primarily on the exchange rate. Fiscal deficits, as defined under the Government Finance Statistics Format of the IMF (though not as shown in the Government accounts), have been run in each of the fiscal years 1997 to 2000 (largely for infrastructure development). Monetary policy is hampered by the inability to use open market operations because of the weak income position of the National Reserve Bank; and there is room for improvement in macroeconomic policy coordination.

3. The 1999—2000 budget contained some significant initiatives, including the introduction of a new contributory pension scheme for civil servants, and a commitment to begin implementation of tax reform that would shift the balance from trade to indirect taxes. Further reforms are needed in order to improve the efficiency and effectiveness of the public service and public enterprises, to promote financial development, to improve the enabling environment for the private sector, and to ensure provision of an adequate social safety net for those affected adversely by the process of economic change. If reforms can be implemented successfully in the context of ongoing macroeconomic stability, a sustainable economic growth rate of 2—3 percent is achievable and would provide crucial employment opportunities for the unemployed and new entrants to the workforce. In the absence of reforms, a continuation of the low historic growth rate of one percent is expected.

B. Poverty Assessment

4. In general, poverty has not been regarded as a problem in Tonga. GDP per capita is in excess of \$1,500; private remittance flows from Tongans living abroad have been substantial; and the extended family system has functioned as an effective means of redistributing income. Tonga's Human Poverty Index (HPI) is the lowest among PDMCs (5.9 as against 52.2 for

Papua New Guinea).¹ This index reflects the relatively low percentage of people not expected to survive to the age of 40 (8.4 percent); a low illiteracy rate (1 percent); the low percentage of people without access to safe water (5 percent); a zero percentage of people without access to health services; and a relatively low percentage of children under 5 years of age who are underweight. No country-specific poverty line has been calculated, but the Government of Tonga, with ADB assistance, intends to undertake a household income and expenditure survey in 2000, in order to provide data for the measurement of poverty and for a poverty profile. Details of the country economic performance and socio-environmental indicators are in Appendix 1, pages 1 and 2.

5. Although poverty is not a severe problem, Tonga is especially vulnerable to external economic shocks and natural disasters which threaten the sustainability of livelihoods. The United Nation's Conference on Trade and Development (UNCTAD) has calculated a composite vulnerability index that ranks Tonga as the third most vulnerable of 111 developing countries.²

6. In addition, there is a growing concern over rising urban unemployment, and inequality of income between the main island of Tongatapu and the outer islands. There are indications that pockets of poverty are developing in some sections of Tongan society. The search for employment, cash income, and education has resulted in a high concentration of the population on the main island of Tongatapu. In 1986, one third of the population lived in the capital, Nuku'alofa. By 1996, this figure had risen to 68 percent. The rate of urban population growth is now more than five times higher than that in the rural areas. Squatter settlements exist in Nuku'alofa and Pangai in particular, where people live in poor conditions, often in makeshift housing in swamps or by rubbish dumps, without clean water supply and adequate sanitation. There have been cases of child malnutrition and food deprivation within the poorer sections of society, including severe cases of marasmic malnutrition (protein and calorie deficiency).

C. Assessment of Socio-Environmental Performances

1. Gender Issues

7. The Human Development Index (HDI) for females in Tonga is six percent higher than that for males. This largely reflects a higher life expectancy of 71 years, compared with 65 years for males.³ Women's status as measured by the Human Poverty Index (HPI) is also slightly higher than men's. The primary and secondary enrolment ratios for females are 91 and 71, respectively; while total and teenage fertility rates are relatively low by Pacific standards, at 4.3 and 22, respectively. Women constitute 32 percent of the workforce, and 39 percent are in paid employment. There are no women in parliament.

8. Women in Tonga have traditionally had a nominal status generally superior to that of men, based on the cultural obligation of men to their sisters. This status however is gradually declining as a result of demographic and social changes. Rapid urbanization has resulted in a decline in traditional values, emerging pockets of urban poverty, and landlessness. One

¹ United Nations Development Programme, *Pacific Human Development Report 1999: Creating Opportunities*, Suva, Fiji, 1999.

² The composite vulnerability index is a weighted aggregate of openness as measured by export dependence, economic diversification as measured by UNCTAD's diversification index, and susceptibility to natural disasters as measured by the proportion of population affected by disasters in the period 1970-1996. See Joint Commonwealth Secretariat/World Bank Task Force, Conference on the Small States, St Lucia, West Indies, February 17-19, 1999, *Small States: A Composite Vulnerability Index*.

³ UNDP, Pacific Human Development Report, 1999

consequence of large-scale international migration is that women are often left behind to manage as single parents.

9. In spite of the difficulties in obtaining access to credit, women are key players in agricultural work, including commercial agriculture. Access to credit is more difficult for women because of their negligible land rights. Despite better repayment rates and overall creditworthiness than men, few women are able to access loans for commercial crops, even though their role in these sectors has become increasingly important.

10. Due in part to data shortage, women's economic activity remains largely undervalued in national accounts and sectoral reporting. As a result, the mainstreaming of gender into national planning and macroeconomic policy is seriously inhibited. Gender biases in the definition of work for example, mean that official statistics show as much as 58 percent of women over 15 years old as not economically active. According to national statistics, only 119 women were employed in agriculture and fisheries in 1996. Even in areas of employment where women are better represented formally and where non-discriminatory human resource management policies apply, gender biases persist. For instance, about 46 percent of civil service employees are women. Yet almost 85 percent of these women are in lower level positions. There is only one woman employed at the most senior level in the civil service.

11. Unlike those of other Pacific countries, the Tongan Constitution carries no general affirmative action provision that could be invoked in favor of women. Tonga has yet to ratify the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). Ratification is by no means assured in the near future either, as it would require the Tongan Government to guarantee, through legal and other measures, the equality of women in national law and policy. In this regard, discrimination in the area of land law is one of the most politically sensitive issues.

2. Human Development

12. The *Pacific Human Development Report 1999* presents an HDI score for Tonga of 0.647, which places the country in third place among PDMCs. The ranking is the result of a high adult literacy rate (99 percent), a high gross enrolment rate in primary and secondary school (83.3 percent), high life expectancy (68 years), and relatively high GDP per capita (\$1,868).

13. Primary education is free and compulsory in Tonga. Participation is high throughout primary and secondary levels. Expenditure on education as a percentage of total public expenditure is 17.8 percent, a high level by Pacific Island standards. Tonga's main challenge in the future is to address the problem that many young people are over- or inappropriately-trained, and provide employment to use their skills for personal and national development. Making education more relevant will remain a consideration of the Government in the beginning of the 21st century.

14. By international standards, Tonga enjoys a high standard of health. Life expectancy at birth is one of the highest in the Pacific, the infant mortality rate is amongst the lowest, and virtually 100 percent of the population has access to health services and safe water supply. Infectious and communicable diseases are largely under control. However, in addition to the challenge of further improving income levels, there is an associated challenge of improving the quality of life. As a result of high fat diets, high cigarette and alcohol consumption, and more sedentary lifestyles, non-communicable diseases are increasing in Tonga. It is estimated, for example, that 15-20 percent of the adult population in Tonga is diabetic. The Government of

Tonga spends about 12 percent of its total budget on health, which is around the level of other PDMCs. Health service provision is likely to have larger demands placed on it in the future within a tighter overall budget constraint, so that ways of improving efficiency of service delivery will have to be sought.

3. Environment

15. Tonga's limited land resources in conjunction with high population growth rates in urban centers have put considerable pressure on the country's natural resources and worsened its environmental problems. Due to limited land resources, mangrove forests have been cleared and filled to make home sites. Conversion of forest land for agriculture purposes in the past has virtually destroyed Tonga's entire indigenous forest resources with the remaining area of natural hardwood forest being estimated at about 4,000 hectares, most of which is located on steep and inaccessible areas of 'Eua island.

16. As a result of unregulated fishing by an increasing number of artisanal and commercial fishermen as well as the introduction of more efficient fishing technology, coastal and near coastal fisheries has suffered from over-exploitation of traditional marine species and much of the near shore fisheries show signs of being over-fished. As a consequence, the Government introduced a complete ban on the export of sea cucumber, a closed season for turtle and mullet fishing, and introduced minimum sizes for the harvest of certain marine species.

17. Environmental administration is vested with the Environmental Planning Section (EPS) of the Ministry of Lands, Surveys and Natural Resources. Although environmental impact assessment (EIA) policy is in place, few in-house EIAs have been carried out. There is a large body of legislation related to environmental issues but most of this is outdated (50 years and older). Given the difficulties in administering environmental controls in a cohesive and coordinated manner, discussions are underway to introduce comprehensive environmental legislation.

D. Governance: Sound Development Management

18. Tonga's constitutional monarchy represents a unique political system in the Pacific region. Tonga is also the only country in the region that succeeded in protecting itself from colonization, a fact that has given strength to the country's aristocratic system and cultural values over the years. Political life is dominated by the King and 33 hereditary nobles. The King appoints the Prime Minister and members of the Privy Council, the country's highest executive body. Although there is a pro-democracy movement in Tonga,⁴ the emphasis is on seeking to improve accountability within Government; the King is greatly respected, and few challenge retention of the monarchy. However, there is scope for strengthening public information and participation in decision-making and for introducing mechanisms for holding public officials accountable for their actions. The proposed EPSRP is expected to address a number of Governance issues, particularly related to transparency, accountability, and efficiency in the public sector and improvements of the legal framework to promote private sector growth.

⁴ Although the sluggish nature of the economy was a major factor in the March 1999 election, there was diminished support for the pro-democracy movement. Of the nine directly-elected parliamentary seats, the share held by pro-democracy supporters fell from seven to five. The other nine seats are directly appointed by the King from amongst the 33 nobles.

E. Implementation Assessment

1. The Portfolio

19. The ADB has approved 14 loans totaling \$47.8 million from ADF to Tonga since it joined the ADB in 1972. The most recent loan, to the power sector, was approved in December 1996 but was cancelled by the ADB in 1998 due to failure to become effective. Since 1972, a total of \$10.8 million of technical assistance grants was provided for 43 projects. Of the 14 loans, project completion reports have been prepared for 11 projects, eight of which have been post-evaluated (Appendix 2, page 1). The current portfolio of projects under implementation consists of three loans in fisheries, agriculture, and transportation sectors (Appendix 2, page 2). Five capacity-building technical assistance (TA) projects are associated to these three loans. Most of the projects are completed or nearing completion. The performance under most projects is considered satisfactory.

20. The *Fisheries Development Project*⁵ yielded limited developmental impact mainly because of poor management on the part of Sea Star Fishing Co Ltd. (SSFCL). Furthermore, the key covenant regarding privatization of the Government shares has yet to be complied with. The EA has recently contracted out its fishing operations to a private sector contractor, but further efforts are needed if the company is to recover from its earlier financial losses. The Government has yet to commit to a time-bound action plan to gradually divest its interests in the firm.

21. The *Outer Islands Agriculture Development Project*⁶ is progressing generally well, but the key issues of Government counterpart funding, cost overruns, compliance with key operational covenants, restructuring MAF, and support to Tonga Trade remain high on the agenda.

22. The *Transport Infrastructure Project*⁷ is in its final stage of implementation, and the overall progress is considered satisfactory.

23. Recently, the Tonga Electric Power Board (TEPB) raised a number of issues regarding the outcome of the Power Development Project.⁸ TEPB has raised the view that the project failed to meet its developmental objectives due to poor performance of equipment procured under the loan and has threatened to take this matter to arbitration. The project was approved in February 1991 and the loan was closed on 30 September 1996. A second loan was approved in December 1996 for a Second Power Development Project,⁹ but the loan was subsequently cancelled in October 1998, due to failure to become effective. ADB is currently working with the Government and TEPB to resolve this matter.

2. Issues In Project Implementation

24. Implementation of a number of ADB projects in Tonga in the past has been constrained by the insufficient availability of counterpart funds and weak project management. Problems related to loan effectiveness have also been experienced under two projects. In addition,

⁵ Loan 1030-TON(SF) Fisheries Development; for an amount of \$2.4 million approved on 6 Sept. 1990

⁶ Loan 1412-TON(SF) Outer Island Agriculture Development; for an amount of \$3.635 million approved on 12 Dec. 1995

⁷ Loan 1303-TON(SF) Transport Infrastructure; for an amount of \$10 million approved 28 Jun. 1994

⁸ Loan No. 1079-TON(SF) approved on 19 February 1991, for an amount of \$7.3 million

⁹ Loan No. 1497-TON(SF) approved on 3 December 1996, for an amount of \$4.9 million

delays in the procurement of goods and services have been experienced due to lack of familiarity with the ADB's procurement procedures, as well as burdensome and excessive coordination and approval procedures within both the Government and the ADB (e.g. *Fisheries Development Project*). Compliance with loan covenants, in particular with those related to financial statements, is another issue affecting all projects currently under implementation.

25. To improve project implementation and to assess the impact on the ground, project performance management systems, based on measurable success indicators, are gradually being introduced for all projects in Tonga. To avoid problems delaying loan effectiveness in future, (as experienced under the *Fisheries Development Project* and the *Second Power Development Project*), confirmation will be sought from the Government that all pipeline projects are firmly anchored in its national development plans and are given high priority with respect to counterpart funding and staffing.

II. Country Operational Strategy

A. The COS

26. The Government's development strategy aims at sustainable economic growth by promoting private sector development. The strategy also seeks to ensure equitable distribution of development benefits and conservation of the environment. The Government's priority for public sector investments include health, education, water and sanitation, and maintenance and rehabilitation of transport infrastructure, including for tourism and communication. The agriculture, fisheries and tourism sectors have been identified as those with the greatest potential for contributing to economic growth. This growth is expected to be fuelled by private sector investment, with government providing supporting infrastructure and an improved policy environment. Economic and public sector reforms are essential to the achievement of private sector led economic growth. In December 1999 Privy Council approved in principle the concept of an *Economic and Public Sector Reform Program (EPSRP)* for Tonga. While a detailed design has yet to be developed, the EPSRP is expected to address policies to strengthen public sector management, improve the delivery of basic public services, promote private sector-led economic growth, enhance social security, and improve financial sector efficiency.

27. ADB's new *Pacific Strategy for the New Millennium* continues to support reform in the areas of economic policy, public sector management, governance, and private sector development. In this context, ADB's strategy is fully compatible with Government's own development strategy. The proposed EPSRP will constitute the cornerstone of ADB's program of assistance for Tonga for the next three years.

B. Progress in Implementation

28. There was no new lending and technical assistance provided by ADB from 1996 to 2000, pending the Government's decision to undertake in depth economic and public sector reforms. A breakthrough has been achieved in the policy dialogue between ADB and the Government when Privy Council approved in December 1999, the concept of an *Economic and Public Sector Reform Program (EPSRP)* for Tonga. EPSRP is proposed to be the cornerstone of ADB's program for Tonga for the next three years.

C. Poverty Partnership Agreement

29. A small scale TA is being implemented to assist in the design, implementation, and analysis of data of a household income and expenditure survey. This survey will provide the data required for an assessment of living standards in Tonga, and will also permit improvement of national accounts and rebasing of the consumer price index. The TA will be implemented by the Statistics Department and will provide the basis for dialog with the Government towards a Poverty Partnership Agreement.

III. Sector Strategies

A. Agriculture

30. The focus of ADB activities in Tonga for the next three years will be in support of reforms in the areas of economic policy, public sector management, governance, and private sector development. Most of ADB's assistance will be through the EPSRP and associated technical assistance. However, the agriculture, fisheries and tourism sectors have been identified as those with the greatest potential for contributing to economic growth. In view of its significance to the Tongan economy, the agriculture sector will be the focus of the proposed Pacific Island Economic Report (PIER) in 2000. The PIER is expected to provide much needed information and policy guidance in this area. The Bank will continue to pursue opportunities in the agriculture sector, mostly through promotion of private sector development in the sector.

B. Governance Dimensions of ADB Operations

31. In Tonga the relatively large public sector is characterized by low productivity and inefficiencies. The proposed EPSRP is expected to address a number of governance issues, particularly related to transparency and efficiency in the public sector and improvements in regulations to promote private sector growth. The EPSRP will promote the development of a sound macroeconomic framework to encourage efficient and productive domestic investment and keep inflation low to protect real incomes of the poor. It will aim to improve public expenditure management to achieve better fiscal discipline, and promote economic growth and equity. Some of the specific reform areas that will be explored as part of the preparation of the EPSRP include:

- **private sector promotion:** (i) tax, tariff and customs reforms; (ii) changes in the Industrial Development Incentives Act (IDIA); (iii) foreign investment, licensing regime and competition policy; (iv) sector policies review in terms of their contribution to private sector investment; (v) public sector enterprise (PSE) reforms.
- **rationalization/strengthening of public sector management:** (i) strengthening fiscal discipline and transparency; (ii) legislative reform for public sector strengthening and rationalization, including review of the Public Finance Act and the Government Act (including the associated civil service regulations); (iii) rightsizing of, and introducing results-oriented management to, the public service; (iv) capacity building and institutional strengthening; (v) reviewing terms and conditions of employment in particular the incentive system (salary, etc); and (vi) consideration of establishing a Fiscal Reform Stabilization Fund.
- **financial sector reform:** (i) strengthening the ability of the National Reserve Bank of Tonga (NRBT) to conduct monetary policy using market based instruments; (ii)

strengthening prudential supervision of financial institutions; (iii) review of financial sector regulatory and legal frameworks (including Financial Institutional Act of 1996); (iv) Tonga Development Bank (TDB) restructuring.

- establishment of a **sustainable social security service**: (i) civil service contributory pension scheme; (ii) medical referral scheme.

C. Gender Dimensions of ADB Operations

32. The ADBs' Gender and Development policy seeks to promote gender equity by mainstreaming gender considerations in all ADB operations. Investments in women also make good economic sense, enhancing productivity, economic efficiency and growth prospects. Active effort to promote the participation of women throughout the development process is recognized as crucial to achieving sustainable development. In Tonga, a recent study¹⁰ has highlighted the potential that exists to improve the gender-related development impacts of all ADB-supported programs. These recommendations will be addressed in future programming, as well as in the monitoring and implementation of ongoing activities. One stark example of the potential for improvement has been in the ADB's support for the provision of credit by the Tonga Development Bank (TDB). Women received only six out of a total of 74 loans disbursed in 1996. The fact that few women overall have benefited from this project is the result of design factors that have not created an enabling environment for women borrowers, such as the nature of the targeted projects (capital/structural development) and the large minimum loan size.

D. Private Sector Development

33. The objective of the proposed EPSRP will be to encourage private sector-led economic growth by (a) creating a policy environment conducive to increased investment and employment by the private sector; and (b) improving the efficiency and effectiveness of service delivery by the public sector.

IV. Regional Cooperation

34. ADB continues to support a substantial Regional Technical Assistance (RETA) program for the Pacific in which Tonga benefits significantly. The program aims at encouraging regional approaches/solutions to economic and sector work, and capacity building initiatives, as well as supporting the sharing of experiences and knowledge between countries in the Pacific region. Regional approaches have also the benefit of lowering the high transaction cost associated with external assistance flows to the small states in the Region. The RETA program currently covers the following areas: (i) judicial training; (ii) financial sector review; (iii) management fisheries resources; (iv) support to Pacific Finance Technical Assistance Centre (PFTAC); (v) support to regional NGOs; and (vi) capacity building in Supreme Audit Institutions. Additional RETA assistance planned for 2000/2001 include: (i) assessment of poverty in the Pacific; (ii) Management Training for Senior Sector Managers; (iii) management of coastal resources; and (iv) options for cooperative arrangements in civil aviations.

V. Donor Activities and Aid Coordination

35. The aid programs in the Pacific remain largely donor-driven, are often uncoordinated, and place pressure on the absorptive capacities of PDMCs. This has led to a culture of aid-

¹⁰ Bain, A.H. *Women in Tonga*, ADB Briefing Paper, December 1998.

dependence for financing of the capital budget and associated downstream problems, particularly inadequate recurrent budgeting for operations and maintenance. The challenge for governments is to take over the driver's seat by formulating public investment programs that are meaningfully integrated with annual budgets, and which provide effective guidance to external funding agencies on how each can fit into the national "game plan". The challenge for donor agencies is to communicate effectively, sharing knowledge and plans, and thus turning the rhetoric of external agency coordination into reality. In this regard, ADB is further strengthening its ties with other donors – particularly with the UNDP, the World Bank, Australia, and New Zealand -- in the areas of overall aid coordination and cofinancing activities. In Tonga, ADB in conjunction with the Government will ensure coordination throughout the design and implementation stages of the EPSRP.

VI. Cofinancing and Catalyzing External Resources

36. To date, cofinancing possibilities have been limited, as projects are relatively small. However, the ADB maintains regular dialogue with other donors on potential cofinancing opportunities. The EPSRP will provide additional opportunities for cofinancing, and parallel financing and technical assistance.

VII. ADB's Operational Program

37. The planned loan and technical assistance program for the period of 2001-2003 is summarized in Table 1. The detailed list of projects is in Appendix 4 and lending by poverty classification, crosscutting operational priorities and sector is summarized in Appendix 5. The major proposed ADB lending operation is the EPSRP (2001). The initial formulation of the project is to be developed under an ADB Project Preparatory TA (PPTA) in 2000.

Table 1: Lending and Technical Assistance Program, 2000 - 2003

A. Public Sector Lending Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending program	-	-	-	-	1	10.0	-	-	-	-
ADF	-	-	-	-	1	10.0	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline	-	-	-	-	-	-	-	-	-	-
ADF	-	-	-	-	-	-	-	-	-	-
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program										
	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program	-	-	2	271.0	1	600.0	-	-	1	600.0
TA Pipeline	-	-	-	-	-	-	-	-	-	-

^a The Program is comprised of the firm projects.

^b The Pipeline consists of the Program (firm projects) and standby projects.

VIII. Economic and Sector Work Program

38. An economic report on Tonga in the *Pacific Islands Economic Report* (PIER) series was published in 1996 and an update will be undertaken in 2000. A review of the public and financial sectors will be undertaken in conjunction with the implementation of technical assistance for EPSRP.

IX. Local Cost Financing

39. There is limited capacity for domestic resource mobilization due to the variable and often low returns to investment in Tonga. Therefore, the ADB will continue to provide finance for local currency costs as justified and without adversely affecting the exchange rate or the domestic investment environment.

TONGA
COUNTRY PERFORMANCE INDICATORS

Item	1995	1996	1997	1998	1999	2000 ^a
ECONOMIC INDICATORS						
A. Income and Growth						
1. GDP per Capita (dollars, current)	1,592.0	1,709.0	1,748.0	1,667.0	1,529.0	1,585.0
2. GDP Growth (% in constant prices)	3.2	-0.2	0.6	2.5	4.6	6.1
Agriculture	1.9	-8.2	2.4	0.3	-3.0	9.0
Industry	8.1	12.0	-1.6	4.3	12.3	7.2
Services	2.9	1.7	0.9	4.4	3.8	5.1
B. Saving and Investment (current market prices)						
	(percent of GDP)					
1. Gross Domestic Investment	14.0	...	...	...	...	...
2. Gross Domestic Saving	-15.0	...	...	...	...	...
C. Money and Inflation						
	(annual percent change)					
1. Consumer Prices (annual average)	1.3	3.1	2.1	3.3	4.4	...
2. Broad Money (M2)	17.0	6.4	8.2	15.0	11.9	...
D. Government Finance						
	(percent of GDP)					
1. Total Revenue	29.2	29.9	28.8	29.5	31.0	34.6
2. Total Expenditure and Net Lending	27.9	30.8	29.4	30.4	29.9	34.3
3. Overall Surplus/Deficit (-)	1.3	-0.9	0.6	-0.9	1.1	0.3
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	-32.6	-38.3	-30.0	-110.0	-28.6	...
2. Current Account Balance (% of GDP)	-29.7	-24.9	-8.1	-15.9	-15.8	...
3. Export (\$) growth (annual percent change)	-18.6	-5.6	-20.6	-8.9	22.0	...
4. Import (\$) growth (annual percent change)	35.4	-9.9	-10.0	31.8	...	...
F. External Payments Indicators (T\$ million)						
1. International Reserves (million dollars, end of period)	30.1	29.8	32.8	21.3	35.0	...
- months of imports	3.8	3.8	4.4	2.5	4.2	...
2. External Debt Service (% of exports of goods & services)	18.1	20.7	28.4	33.0	34.2	...
3. External Debt (% of GDP)	34.9	33.6	30.7	34.9	36.2	37.4
Memorandum Items:						
GDP (current prices, \$ million)	163.5	173.8	172.9	185.3	205.5	213.6
GDP (current prices, million local currency)	199.0	209.8	210.2	221.4	242.6	251.1
Exchange Rate (local currency per dollar, annual average)	1.2833	1.2561	1.2259	1.3497	1.6077	1.6000
Population (thousand)	97.4	97.7	98.1	98.4	98.7	...

^a Estimates.

Source: Ministry of Finance, Tonga, National Reserve Bank of Tonga.

Note: Years are fiscal year ending 30 June.

TONGA
COUNTRY PERFORMANCE INDICATORS

	1985	1990	Latest Year
POPULATION INDICATORS			
Total Population ('000)	94.6	...	98.7
Annual Population Growth Rate (% change)	0.50	...	0.30
SOCIAL INDICATORS			
Total Fertility Rate (births per woman)	4.2	...	4.3
Maternal Mortality Rate (per hundred thousand live births)	...	...	160.0
Infant Mortality Rate (below 1 year; per '000 live births)	20.4	12.2	19
Life Expectancy at Birth (years)	65	...	68
Female	67	...	71
Male	63	...	65
Adult Literacy (%)	99.6	...	99.3
Primary School Enrollment (% of school age population)	...	...	90
Female	...	...	91
Secondary School Enrollment (% of school age population)	...	...	67
Female	...	...	71
Child Malnutrition (% of under age 5)	...	...	2
Population Below Poverty Line (%)	...	...	...
Income Ratio of Highest 20% to Lowest 20%	...	...	...
Population with Access to Safe Water (%)	99	...	95
Population with Access to Sanitation (%)	...	...	85
Public Education Expenditure as % of GNP	...	...	4.6
Public Health Expenditure as % of GDP	...	...	N.A.
Human Development Index	...	...	0.647
Human Development Ranking	...	...	107
Human Poverty Index	...	...	5.9
ENVIRONMENTAL INDICATORS			
Forestry			
Deforestation			
Total Area	...	...	...
Annual deforestation	...	...	...
Biodiversity			
Nationally protected area			
Area	...	...	...
Number	...	...	...
As % of land area	...	...	...
Biosphere reserves			
Area	...	...	...
Number	...	...	...
World Heritage sites (number)	...	...	...
Wetlands of international importance			
Area	...	...	...
Number	...	...	...
Land Use			
Cropland; permanent pasture	...	...	...
Air Pollution (Ambient concentrations)			
Particulates	...	...	...
SO ₂	...	...	...
Water Pollution (concentration of pollutants in water bodies)			
Biochemical Oxygen Demand (BOD)	...	...	...
Chemical Oxygen Demand (COD)	...	...	...
Global Environmental Problems			
CO ₂ emissions (total and per capita)	...	...	...

Source: Pacific Human Development Report

TONGA

PORTFOLIO PERFORMANCE

Table 1 : Implementation, Disbursement Performance and Postevaluation Results

Public Sector Projects only

(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million %		Rating (No.) ^a										
			Total		Implementation Progress				Development Objectives				
			No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	5.80	37.1	2	66.7	0	2	0	0	0	0	1	1	0
Energy	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Finance and Industry	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Social Infrastructure	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Transport and Communications	9.83	62.9	1	33.3	0	1	0	0	0	0	1	0	0
Others/Multisector	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Total	15.63	100.0	3	100.0	0	3	0	0	0	0	2	1	0

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	0.0	15.6	15.6
(2) Disbursed amount (\$ mn, cumulative, active loans only)	0.0	2.4	2.4
(3) Percentage disbursed [(2)/(1)] (%)		15%	
(4) Disbursements (\$mn, active loans only, latest year)	0.0	12.1	12.1
(5) Disbursement ratio (%) ^b		77.3	77.3

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1995	0.0	5.1	5.1
Net transfer in 1996	0.0	2.4	2.4
Net transfer in 1997	0.0	1.5	1.5
Net transfer in 1998	0.0	4.3	4.3
Net transfer in 1999	0.0	1.5	1.5

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999			
	No.	%	No.	%	No.	%	No.	%		
1. Postevaluation Rating (as of 31 December 1999)										
Rated Generally Successful (GS)	0		3	75.0	4	100.0	7	87.5		
Rated Partly Successful (PS)	0		1	25.0	0		1	12.5		
Rated Unsuccessful (US)	0		0		0		0			
No Rating	0		0		0		0			
Total			4	100.0	4	100.0	8	100.0		
2. Postevaluation Rating by Sector 1968-99 (as of 31 December 1999)										
	GS		PS		US		NR		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0		0		0		0		0	
Energy	0		0		0		0		0	
Finance and Industry	3	42.9	1	100.0	0		0		4	50.0
Social Infrastructure	0		0		0		0		0	0.0
Transport and Communications	1	14.3	0		0		0		1	12.5
Others/Multisector	3	42.9	0		0		0		3	37.5
Total	7	100.0	1	100.0	0	0.0	0	0.0	8	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory^b Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.^c Includes private sector projects for countries with private sector operations.

Source : Programs (A), CTD (B & C), OEO (D)

TONGA
PORTFOLIO PERFORMANCE
Table 2: Status of Project Implementation
Public Sector Projects Only
(As of 31 December 1999)

Sector ^a	Project Title	Net Loan Amount		Approval Date (mm/yy)	Effectivity Date (mm/yy)	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR (\$ million)	ADF			Original (mm/yy)	Revised (mm/yy)				Implementation Progress	Development Objective
T&C	Transport Infrastructure		9.9	Jun-94	Aug-95	Dec-99		97%	9.4	7.2	S	S
AGR	Outer Island Agriculture Development		3.3	Dec-95	Dec-96	Jun-01		75%	3.1	2.4	S	S
Total		0.0	13.2						12.5	9.6		

^a Sector:
 AGR: Agriculture & Natural Resources
 ENE: Energy
 F&I: Finance and Industry
 SOC: Social Infrastructure
 T&C: Transport and Communications
 OTH: Others/Multisector

^b HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

TONGA
OVERALL EXTERNAL ASSISTANCE
(in \$ million)

External Source	Past 3-5 Years (annual average)		1999 Approvals	
	Loan/Credit	TA	Loan/Credit	TA
A. Multilateral Assistance				
ADB		2.2		9.6
UNDP		0.4		0.1
World Bank				
Subtotal	0.0	2.6	0.0	9.7
B. Bilateral Assistance				
Australia		9.1		6.3
Canada		0.1		0.2
France		2.0		0.1
Germany		0.6		0.1
Italy		...		...
Japan		10.0		6.1
United Kingdom		0.1		0.1
United States		0.1		0.2
Subtotal	0.0	21.9	0.0	13.0
Total	0.0	24.5	0.0	22.7
Memo Items: External Assistance as % of Current Expenditures External Assistance as % of Capital Expenditures				

Sources: POHQ Estimates and Government of Tonga

TONGA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Poverty Classification ^a	Crosscutting Operational Priority ^b	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank			Gov't	Cofinancing (Others)
						OCR	ADF	Total		
2001 FIRM LOANS										
Others/Multisector										
1 Economic and Public Sector Reform	ODI	GG & PSD	POHQ	2000	10.0		10.0	10.0		
Subtotal					10.0	0.0	10.0	10.0	0.0	0.0
Total					10.0	0.0	10.0	10.0	0.0	0.0
2002 LOAN PIPELINE										
NONE										
2003 LOAN PIPELINE										
NONE IDENTIFIED										

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

^{*} This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

TONGA
LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
2001 TECHNICAL ASSISTANCE PROGRAM					
Others/Multisector					
1 Economic and Public Sector Reform Phase I	POHQ	AD	600.0		600.0
	Subtotal		<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Total			600.0	0.0	600.0
2002 TECHNICAL ASSISTANCE PROGRAM					
NONE IDENTIFIED					
2003 TECHNICAL ASSISTANCE PROGRAM					
Others/Multisector					
1 Economic and Public Sector Reform Phase II	POHQ	AD	600.0		600.0
	Subtotal		<u>600.0</u>	<u>0.0</u>	<u>600.0</u>
Total			600.0	0.0	600.0

TONGA
LENDING PROGRAM, 2001-2003
BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR

Classification	2001 (Firm)		2002-2003	
	No.	%	No.	%
I. By Poverty Classification *				
A. Core Poverty Intervention		0.0		
B. Poverty Intervention (Non-core)		0.0		
C. Other Development Interventions	1	100.0		
Total	1	100.0	0	0.0
II. By Crosscutting Operational Priority				
A. Environment		0.0		
B. Gender and Development		0.0		
C. Good Governance	1	100.0		
D. Human Development		0.0		
E. Private Sector Development		0.0		
F. Regional Cooperation		0.0		
Total	1	100.0	0	0.0
III. By Sector				
A. Agriculture and Natural Resources		0.0		
B. Energy		0.0		
C. Finance and Industry		0.0		
D. Social Infrastructure		0.0		
E. Transport and Communications		0.0		
F. Others/Multisector	1	100.0		
Total	1	100.0	0	0.0

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

TONGA

PROJECT PROFILE					
1. Project Name: Economic Policy and Public Sector Reform Program (EPSRP)			2. Sector/Subsector: Others/Public Sector Reform		
3. Poverty Classification: ^a ODI			4. Crosscutting Operational Priority: ^b GG & PSG		
5. Rationale & Objectives: Recent adverse economic developments in Tonga have raised concern within the Government about the need to introduce measures to ensure macroeconomic stability, expedite the pace of public sector reform, enhance the quality of government services, facilitate private sector development, promote human resource development and minimize the drain on foreign reserves. Experience of other PDMC's undertaking comprehensive reform programs has prompted the Government to approach the Bank for assistance in formulating the proposed EPSRP.			6. Beneficiary Participation/Consultation Needs: Government Ministries, private sector representatives, key community leaders and other relevant stakeholders will be consulted in the process of EPSRP formulation.		
7. Scope: The objective is to enhance private sector-led growth by promoting policies that create a conducive environment for increased investment and employment by the private sector and improving the policy framework through which government services to the private sector are being delivered. The project will comprise four primary components: (i) private sector promotion; (ii) financial sector reforms; (iii) rationalization and strengthening of public sector management; and (iv) establishment of a sustainable social security system.					
8. Estimated Cost & Financing Plan:			Remarks:		
Loan Project Cost (\$m)					
Financing (Source)	FC	LC			Total
ADB	10.0				10.0
Co-financing					
Borrower					
Sub-borrowers					-
Total	10.0		10.0		
9. Estimated Benefits and Beneficiary Groups: After the initial adjustment period, benefits from the EPSRP are expected to arise from faster economic growth and improved private sector employment opportunities, leading to higher levels of income.					
10. Executing Agency: Ministry of Finance P.O. Box 87, Vuna Road, Nuku'alofa, Tonga			11. Project Implementation Period: Start: TBD End: TBD		
12. Environment Category:			13. Processing Year:		
TBD			2001		

^a CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

^b ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.