



# Country Operations Business Plan

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September 2008

Tonga  
2009–2011

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 8 July 2008)

Currency Unit	–	pa'anga (T\$)
T\$1.00	–	US\$0.5551
US\$1.00	–	T\$1.8015

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
CPS	–	country partnership strategy
GI	–	general intervention
ID	–	institutional development
JSF	–	Japan Special Fund
OCR	–	ordinary capital resources
PARD	–	Pacific Department
SDP-8	–	Strategic Development Plan Eight 2006/2007–2008/2009
SPSO	–	Pacific Subregional Office
TA	–	technical assistance

## NOTE

The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY 2008 ends on 30 June 2008.

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## I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. The Board of Directors of the Asian Development Bank (ADB) approved the 2007–2012 country partnership strategy (CPS) for Tonga on 14 November 2007.<sup>1</sup> It was prepared in close coordination with development partners, and supports implementation of the Government's Strategic Development Plan Eight 2006/07–2008/09 (SDP-8) in alignment with the objectives of the 2005 Paris Declaration on Aid Effectiveness.

2. The CPS focus on poverty reduction is based on three intervention pillars to address binding constraints on growth: (i) pro-poor, environmentally sustainable integrated urban infrastructure development; (ii) financing of pro-poor policies through effective, prudent macroeconomic and fiscal management; and (iii) private sector development. Priority sectors and themes are (i) multisector (urban development), (ii) financial governance and promoting macroeconomic stability, and (iii) private sector development. Capacity strengthening and institution building will be among the key outcomes of the results-based CPS. The strategy is fully consistent with ADB's long-term strategic framework 2008–2010 (Strategy 2020);<sup>2</sup> Medium Term Strategy II 2006–2008;<sup>3</sup> and Pacific Strategy 2005–2009, which underwent midterm review in 2007. The strategy supports Tonga's continued economic and social development, and achievement of the Millennium Development Goals. It promotes the use of ADB's knowledge products and expertise, staff-based policy dialogue, and technical assistance (TA) for developing strategic road maps for implementing the SDP-8. The objectives are to (i) build capacity and credibility among government agencies on policy implementation, (ii) ensure strong development partner commitment to the SDP-8, and (iii) avoid increasing Tonga's debt burden. The CPS outcomes expected are improved fiscal governance, improved social services delivery in urban areas, and an improved private sector-enabling environment.

3. The 2009–2011 country operations business plan is consistent with the current CPS and priority sectors and themes. The ongoing assistance program for lending and nonlending products for the current year are in Appendix 1, Tables A1.1 and A1.2.

## II. INDICATIVE ASSISTANCE PROGRAMS

4. The country-specific Asian Development Fund (ADF) allocations are based on the results of the 2007 country performance assessment, after applying the performance-based allocation formula. The ADF assistance program for 2009–2011 is tentative, with actual ADF assistance subject to the results of the 2008 country performance assessment, changes in the country's risk of debt distress, and the available commitment authority. On the basis of the latest debt sustainability assessment,<sup>4</sup> Tonga is classified as a country with a high risk of debt distress. As such, funding for 2009 to 2010 is expected to be entirely in the form of grants. For planning purposes, the 3-year allocation for 2009–2011 is set at US\$9.6 million. An indicative assistance pipeline for ADF grant products for 2009–2011 is in Appendix 2, Table A2.1.

5. For 2009–2011, a second phase of the Integrated Urban Development Sector Project is included in the assistance program for US\$9.5 million in grant funding. The project, scheduled

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<sup>1</sup> ADB. 2007. *Country Partnership Strategy 2007–2012: Tonga*. Manila.

<sup>2</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

<sup>3</sup> ADB. 2006. *Medium-Term Strategy II 2006–2008*. Manila.

<sup>4</sup> Intentional Monetary Fund. 2007. *Tonga: 2007 Article IV Consultation, Staff Report*. Washington, DC (30 August).

for approval in 2011, will address specific urban needs of the country's capital island of Tongatapu, including high-priority physical components for roads, drainage, sanitation, and coastal protection. It will have a strong focus on climate risk management, giving highest priority to mobilizing available resources for climate change adaptation. Other development partners will be approached to explore opportunities for cofinancing.

6. ADB is considering indicative annual TA support for 2009–2011 at around US\$900,000. Based on an agreement reached with the Government, the TA pipeline for 2009–2011 will focus on (i) project preparation, (ii) macroeconomic and fiscal management, (iii) urban infrastructure planning and development, and (iv) private sector development. Assistance for private sector development will be provided through the regional technical assistance, Private Sector Development Initiative, and address (i) support for reducing the role of the Government in the economy by developing a public utilities multisector regulator and pursuing rationalization of public enterprises, and (ii) development of a private sector enabling environment. An indicative assistance pipeline for nonlending products for 2009–2011 is in Appendix 2, Table A2.2.

### III. SUMMARY OF CHANGES TO ASSISTANCE PROGRAMS

7. The years covered by this business plan do not overlap with those covered by the country operations business plan 2007–2009 incorporated in the CPS 2007–2012, Appendix 10 (footnote 1), except for 2009. The plan does not include any projects, and therefore does not require any changes to the 2009 ADF grant program.

8. The 2009 TA program includes the following changes developed with the agreement of the Government:

- (i) The Fiscal Governance and Macroeconomic Capacity Building TA and the Support for Organizational Development Strategy of the Reserve Bank of Tonga TA, initially programmed for 2008, have been merged into a single cluster TA to be implemented over 3 years. The total financing is increased from US\$1 million to US\$1.5 million. The TA cluster will provide support for the next phase of economic and public sector reforms, currently being prepared under the TA supporting implementation of the SDP-8,<sup>5</sup> to be implemented with harmonized support from ADB, Australian Agency for International Development and New Zealand's International Aid & Development Agency.
- (ii) The assistance provided by the Rationalization of Public Enterprises, Phase IV, TA and Support for Private Sector Development TA cluster, programmed for 2009, will be financed under the regional technical assistance for the Private Sector Development Initiative and cover the private sector development areas described in para. 6.

9. Additional information on the proposed TA project for 2009 is in Appendix 3.

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<sup>5</sup> ADB. 2006. *Technical Assistance to the Kingdom of Tonga for Support for the Implementation of the Strategic Development Plan 2006/07–2008/09*. Manila.

#### **IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS**

10. The following internal staff resources are expected to be required for timely delivery of the operations under the proposed business plan: (i) in 2009, 11.0 person-months of professional staff and 5.5 person-months of supporting staff; (ii) in 2010, 12.5 person-months of professional staff and 6.5 person-months of supporting staff; and (iii) in 2011, 14.0 person-months of professional staff and 7.0 person-months of supporting staff.

#### **V. RESULTS-BASED MONITORING**

11. No changes were made to the country partnership strategy results framework included in the 2007–2012 CPS.

## ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A1.1: Assistance Pipeline for ADF Grant Products (2008)

Sector Project/ Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Cost (US\$ million)						Grant Approval Date	Signing	Effecti- vity	Orig/ Revised Closing	Age (Years)
					ADB			ADF							
					Total	OCR	Loans	Grants	Total	Gov't					
<b>Multisector Integrated Urban Development Sector Program</b>	GI	ENV	PAHQ		0.00	0.00	11.30	11.30	0.00	0.00	21 May 08	11 Jul 08	30 Jun 13	5.0	
<b>Total</b>					<b>0.00</b>	<b>0.00</b>	<b>11.30</b>	<b>11.30</b>	<b>0.00</b>	<b>0.00</b>					

ADB = Asian Development Bank, ADF = Asian Development Fund, ENV = environmental sustainability, GI = general intervention, Gov't = government, OCR = ordinary capital resources, PAHQ = Pacific Operations Division.

Source: Asian Development Bank staff estimates.

**Table A1.2: Assistance Pipeline for Nonlending Products and Services (2008)**

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (US\$'000)
			ADB		Others		
			Source	Amount (US\$'000)	Source	Amount (US\$'000)	
<b>Multisector</b>							
Tonga Urban Planning and Management System	PAHQ	ID	JSF	700.0			700.0
Youth Microenterprise	SPSO	ID	JSF	250.0			250.0
<b>Law, Economic Management, and Public Policy</b>							
Support for Implementation of the Strategy Development Plan	SPSO	ID	TASF	510.0			510.0
Rationalization of Public Enterprise	SPSO	ID	JSF	400.0	—	—	400.0
<b>Total</b>				<b>1,860.0</b>			<b>1,860.0</b>

ADB = Asian Development Bank, ID = institutional development, JSF = Japan Special Fund, PAHQ = Pacific Operations Division, TASF = Technical Assistance Special Fund, SPSO = Pacific Subregional Office.  
Source: Asian Development Bank estimates.

## INDICATIVE ASSISTANCE PIPELINE

Table A2.1: Indicative Assistance Pipeline for ADF Grant Products (2009–2011)

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (US\$ million)					
						OCR	ADB		Total	Gov't.	Co- financing
							ADF				
							Loans	Grants			
<b>2011 Firm Loans/Grants</b>											
<b>Multisector</b>											
Integrated Urban Development Project, Phase II	GI	ENV	PAHQ	2010	0.00	0.00	9.50	TBD	0.00	TBD	
<b>Total</b>						<b>0.00</b>	<b>0.00</b>	<b>9.50</b>	<b>TBD</b>	<b>0.00</b>	<b>TBD</b>

ADB = Asian Development Bank, ADF = Asian Development Fund, ENV = environmental sustainability, GI = general intervention, Gov't = government, OCR = ordinary capital resources, TBD = to be determined, PAHQ = Pacific Operations Division.

Source: Asian Development Bank estimates.

**Table A2.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2009–2011**

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (US\$'000)
			ADB		Others		
			Source	Amount (US\$'000)	Source	Amount (US\$'000)	
<b>2009</b>							
<b>Law, Economic Management, and Public Policy</b>							
Support for Economic and Public Sector Reforms Technical Assistance Cluster	SPSO	PATA	JSF	1,500.0		0.00	1,500.0
<b>2010</b>							
<b>Multisector</b>							
Preparing the Integrated Urban Development Sector Project, Phase II	PAHQ	PPTA	JSF	700.0		0.00	700.0
<b>2011</b>							
<b>Multisector</b>							
Urban Infrastructure Planning and Development	PAHQ	CDTA	JSF	500.0		0.00	500.0
<b>Total</b>				<b>2,700.0</b>		<b>0.00</b>	<b>2,700.0</b>

ADB = Asian Development Bank, ID = institutional development, JSF = Japan Special Fund, PAHQ = Pacific Operations Division, PP = project preparation, SPSO = Pacific Subregional Office.

Source: Asian Development Bank estimates.

## SUMMARY INFORMATION ON PROPOSED INDICATIVE NONLENDING PRODUCTS AND SERVICES FOR 2009

Project Name	Description
<b>Support for Economic and Public Sector Reforms TA Cluster</b>	<p><b>Impact</b></p> <p>To achieve macroeconomic stability, aggregate fiscal discipline, and exchange rate stability, the Government plans to complete the reform processes commenced in 2001 under the Economic and Public Sector Reform Program<sup>a</sup> that led to implementation of tax reform and promulgation of reform legislation to improve public financial management, implement public enterprise reform, create a performance-oriented public service, and facilitate private sector development and environmental management. The technical assistance (TA) cluster will address the specific targets of this second phase of economic and public sector reforms aiming to improve fiscal governance and macroeconomic management.</p> <p><b>Major Components</b></p> <p>The TA cluster will provide support for the preparation and implementation of the remaining reforms in the areas of (i) fiscal and macroeconomic management, (ii) public service, and (iii) monetary policy. It will aim to build appropriate capacity in, and support institutional development of, the Ministry of Finance and National Planning, and the National Reserve Bank of Tonga. The Government and development partners, including the Asian Development Bank, Australian Agency for International Development, and New Zealand's International Aid &amp; Development Agency have agreed on coordinated design and management of the TA. As its first stage, this will include the ongoing TA for Support for the Implementation of the Strategic Development Plan 2006-07–2008-09 to be followed by the TA cluster.</p> <p><b>Expected Outputs and Outcomes</b></p> <p>With a carefully designed two-stage capacity development strategy, the Ministry of Finance and National Planning, and the National Reserve Bank of Tonga will upgrade capacity in the areas of macroeconomic forecasting, fiscal planning and expenditure process, debt management, and management of monetary policy and instruments. The program supports achievement of fiscal and economic stability through (i) completion of economic and public sector reforms; and (ii) development of the institutional capacity to manage economic development both by the Ministry of Finance and National Planning, and the National Reserve Bank of Tonga.</p>

<sup>a</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Kingdom of Tonga for the Economic and Public Sector Reform Program*. Manila. Source: Asian Development Bank.