

# **ASIAN DEVELOPMENT BANK**

## **COUNTRY STRATEGY AND PROGRAM UPDATE (2003 – 2005)**

**TONGA**

**July 2002**

## CURRENCY EQUIVALENTS

(As of 30 June 2002)

Currency Unit	–	pa'anga (T\$)
T\$1.00	=	\$0.4647
\$1.00	=	T\$2.152

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	Advisory technical assistance
DOE	–	Department of Environment
EIA	–	environmental impact assessment
EPSRP	–	Economic and Public Sector Reform Program
GDP	–	gross domestic product
MDG	–	Millenium Development Goal
NGO	–	nongovernment organization
NPRS	–	National Poverty Reduction Strategy
NRBT	–	National Reserve Bank of Tonga
PDMC	–	Pacific Developing Member Country
PPTA	–	project preparatory technical assistance
SDP7	–	Tonga's Strategic Development Plan 7, 2001-2003
SME	–	small and medium enterprises
TA	–	technical assistance
WDC	–	Women's Development Center

## NOTE

The fiscal year (FY) of the Government ends on 30 June.

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## I. COUNTRY STRATEGY

1. The Government's overall development goal, stated in its *Strategic Development Plan Seven, 2001 – 2003*,<sup>1</sup> (SDP7) is improving the quality and standard of living for all Tongans. The means to achieve this goal are through a stable macroeconomic environment, sustainable economic growth led by private sector development and supported by an efficient and well-structured public sector, maintenance of physical infrastructure, and protection of the environment. Achievement in the above areas will generate economic benefits that will be shared equitably and permit higher expenditure on health and education. The economic and fiscal objectives were reaffirmed in the Government's comprehensive Economic and Public Sector Reform Program (EPSRP) approved by the Cabinet in early 2002.

2. The *Pacific Strategy for the New Millennium*<sup>2</sup> of the Asian Development Bank (ADB) focuses on the core objectives of (i) continuing support for economic growth, good governance, and public sector reform; (ii) promoting private sector development as the engine for growth; and (iii) supporting sustainable environmental management and equitable social development. The Pacific strategic objectives are consistent with the medium-term goals contained in ADB's Medium-Term Strategic Framework and take account of the specific conditions and challenges facing ADB's Pacific developing member countries (PDMCs). This regional strategy for the Pacific, together with the Government's development objectives, is the guiding instrument for the country strategy for Tonga.

3. ADB's strategy for Tonga supports the Government's development goals. The focus of assistance in the period 2003–2005 will be (i) continuing assistance to the Government's reform program to enhance the efficiency and effectiveness of the public sector; (ii) improving the regulatory environment to enable private sector growth; and (iii) improving the policy environment and physical facilities to provide better and timely market information, and to improve market access to smallholders and agricultural private businesses. The summary statement of strategy is in Appendix 1.

## II. CURRENT DEVELOPMENT TRENDS AND ISSUES

### A. Recent Political Developments

4. The appointment of the reform minded minister for finance by the Privy Council in 2001 to support a similarly minded Prime Minister has improved the impetus for the EPSRP. The Prime Minister and the minister of finance steered cabinet endorsement of the EPSRP in early 2002. The EPSRP is supported by the recently approved ADB program loan<sup>3</sup> for US\$10 million as well as complementary support from other funding agencies.

5. The result of the March 2002 election does not change the composition of Parliament nor improve its influence on policy decision-making processes. However, the Government is conscious of the increasing need to inform and involve the community in the implementation of its reform agenda, as evidenced by the establishment of the Social Impact Monitoring Unit as part of the EPSRP. Also, in April 2002, the Government formally launched its reform program,

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<sup>1</sup> The preparation and publication of the *Strategic Development Plan Eight* is progressing under the acting Director of Planning, Department of Planning.

<sup>2</sup> ADB. 2000. *A Pacific Strategy for the New Millennium*. Manila.

<sup>3</sup> ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to Tonga for the Economic and Public Sector Reform Program*. Manila.

providing details of the key reform objectives and activities to the community through the media and civil society representatives.

6. The Government is taking legal action in the US courts against the former court jester to recover Tonga Trust Fund monies that were lost in various risky investments. Additionally, following adverse publicity against Tongan-registered ships being involved in illegal arms transport and people smuggling, the Government shut down the ship registry business in May 2002.

## **B. Economic Assessment and Outlook**

7. Real gross domestic product (GDP) growth at 2.7% in FY1994/95 was followed by 2 years of recession/stagnation and then acceleration to 6.2% in FY1999/2000 mainly due to the impact of the millennium celebrations. Growth slowed to an estimated 3.0% in FY2000/01. Two factors were noteworthy for the period 1993–2000: consumption substantially exceeded domestic production, with the domestic saving ratio averaging minus 21.6%; and government administration and community services became increasingly important in the monetary economy (an annual growth rate of 5.0% and accounting for 18.2% of GDP in FY2000/01). The continued growth of government spending was not sustainable, as it relied on rising taxes and/or deficit financing, neither of which was limitless. The inflation rate accelerated to 6.3% in FY2000/01 (and stood at around 10.5% by the end of 2001) due to expansionary fiscal and monetary policies and substantial currency depreciation.

8. The fiscal situation deteriorated in 2001, largely reflecting a civil service wage rise, a shortfall in nontax revenue, and a substantial increase in total net lending to support some ailing public enterprises. The wages share of current expenditure reached 57%, and the current budget was in deficit of about 0.5% of GDP. The overall budget deficit was 2.6% of GDP, which was largely financed by advances from the domestic banking system and also by some bond issues. The public domestic debt outstanding rose to around T\$40.0 million by the end of 2001. There was in addition an estimated T\$32 million unfunded liability arising from the civil servants' retirement scheme introduced in 1999. By mid-2001, the assets of the Tonga Trust Fund, which is held mainly offshore and maintained separately from the budget and official foreign reserves, had been almost depleted due to poor (and possibly fraudulent) management. The remaining funds (estimated at less than T\$6 million) are frozen pending an investigation.

9. Broad money rose by an estimated 26.5% in FY2000/01. Domestic credit expanded by 31.3%, with private sector credit increasing by 24.8% (partly reflecting a large loan for importation of telecommunications equipment), and net credit to Government rising more than five-fold to finance the fiscal deficit. Credit to nonfinancial public enterprises more than doubled. The effectiveness of the monetary policy remained constrained by the weakness of the central bank's balance sheet, and increased reliance was placed on credit ceilings. The weighted average deposit rate dropped marginally to 4.7% in 2001. The base lending rate was stable at 9.0%, so that the interest rate spread increased slightly. With the acceleration in the inflation rate, the real deposit rate became negative.

10. The trade deficit shrank to approximately one third of GDP in 2001 as merchandise exports, consisting primarily of squash and fish, increased 3.7%, and imports declined 4.3% due to weak domestic demand. Net private transfers from Tongans living abroad continued to be the major source of foreign exchange at about four times the value of exports. Remittances continued to increase post-September 2001 to around T\$120 million, an increase of 20% over a year earlier. However, the services account turned negative due to payments made to Australia

in connection with aircraft leasing arrangements, and net investment income flows were also negative. The current account recorded a deficit equivalent to 8.2% of GDP. The capital account surplus fell further from a historically low level in 2000 due to an increase in Tongans' overseas investments and the purchase of a foreign-owned supermarket. The level of official foreign reserves by the end of 2001 was around T\$30 million, or 2.8 months of imports. The official external debt (including that of public corporations) stood at 44.6% of GDP. The debt service ratio was 19.5% of exports of goods and services. The pa'anga depreciated 11.0% in nominal terms and 6.8% in real effective terms.

11. An update of the Tongan economic outlook was presented at the Consultative Group meeting in April 2002, in which the Government acknowledged worsening economic prospects, given that the economy recorded virtual zero growth for FY2001/02 and the annual inflation rate was around 10.7% at the end of January 2002. However the measures taken by the Government since mid-2001 to contain public sector expenditure appear to be successful, as the budget deficit for FY2001/02 was expected to be broadly the same as that for FY2000/01 at around 2.5% of GDP. The upward trend of overseas remittances continuing into the first two months of 2002 helped to keep foreign reserves at T\$25 million at the end of February and at around 2.6 months of import cover compared with the National Reserve Bank's target of 3 months. Tonga's country economic indicators are in Appendix 2, Table A2.1.

### **C. Implications for Country Strategy and Program**

12. SDP7 identifies three key themes to achieve its strategic objectives by 2025: restructuring for higher sustainable economic growth, ensuring financial stability, and investing in Tonga's people. The recently published Pacific island economic report for Tonga<sup>4</sup> confirms that the agriculture, fishery, and tourism sectors are the areas with the greatest potential to contribute to economic growth. This growth is expected to come from private sector investment, with the Government providing support infrastructure and an improved policy environment. As part of its reform strategy the Government has already initiated changes to the relevant legislation to provide incentives for the development of small and medium enterprises (SMEs): implementing a more predictable business licensing system, improving the clarity of visa requirements and predictability in the granting of visas to foreign investors, and legislating a new foreign investment act.

13. ADB approved the US\$10 million loan to support two important elements of the comprehensive reform program: to achieve fiscal balance by FY2004/05, and to improve public service efficiency and effectiveness. Given the virtual zero growth since September 2001, it is important that urgent actions are undertaken to kickstart economic growth through assisting the development of private businesses. Rationalization of public enterprises also needs to accelerate to ensure that government demand on the rest of the economy is shrinking; and where appropriate, commercial activities should be transferred to the private sector through privatization.

14. The increased remittances from expatriate Tongans post-September 2001, the strength of certain agricultural exports, and a slightly better than expected budget deficit for FY2001/02 provide breathing space for the Government to speed up its comprehensive reform program. The Government intends to push ahead with its reform activities as far as practicable, taking into account external assistance and government resources (particularly staff capacity).

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<sup>4</sup> ADB. 2002. *Tonga: Natural Resource Use and Sustainable Socioeconomic Development*. Manila.

### III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

#### A. Progress Toward a Poverty Partnership

15. The Government has been invited to conclude a poverty partnership agreement with the ADB. The poverty partnership agreement will seek the Government's commitment to analyze the concept of poverty, design appropriate strategies to reduce it, and incorporate these strategies into the country's strategic development plan. Both the Government's current priorities and ADB's proposed assistance program are broadly in line with the poverty reduction thrust. A draft of the proposed poverty partnership agreement was discussed with the Government in June 2002.

16. Tonga faces major challenges in achieving the millennium development goals (MDGs). In meeting these goals a comprehensive poverty reduction strategy is required to address poor growth, improved and expanded access to social services, and creation of jobs. Assessment of progress towards achieving the MDGs (Appendix 2, Table A2.2) is made difficult by the paucity of data on selected indicators. The poverty analysis of the household income and expenditure surveys data supported by an existing small-scale technical assistance TA<sup>5</sup> will be carried out in 2002. Through regional technical assistance<sup>6</sup> ADB will assist Tonga in 2003 in the preparation of a country-owned national poverty reduction strategy (NPRS) involving all stakeholders in a participatory process. It is proposed that such NPRS will be based on Strategic Development Plan Eight currently being prepared by the Department of Planning. ADB's current TA on statistics (footnote 4) will assist Tonga to derive baseline data to measure MDG achievements in the future.

#### B. Progress in the Country Strategy and Program Focus Areas

##### 1. Agriculture Sector Development

17. ADB assistance in 2003–2005 will focus on (i) public sector reform, (ii) private sector-led growth, and (iii) agriculture sector development. The economic report released in April 2002, with its focus on agriculture, fisheries, and tourism development, provides the Government and its development partners with relevant information for the formulation of strategies to stimulate economic growth. The parallel implementation of public sector reforms and private sector development initiatives is expected to produce modest growth of around 3% per annum instead of the low historical rate of just over 1%. The Government indicated that agriculture is a natural candidate for assistance to ensure achievement of the expected economic growth. Given the sector's performance in the past, assistance to conduct a review of the administrative, marketing, and policy arrangements of the sector is planned for 2004 to eliminate duplication of functions and to encourage a customer service orientation. The key objective of the proposed review is to enhance services to smallholders and to facilitate a more cooperative and effective approach to product promotion and market access. The review will also examine the feasibility of value added processing of agricultural production, and transport issues.

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<sup>5</sup> ADB. 2000. *Technical Assistance to Tonga for Poverty Assessment*. Manila.

<sup>6</sup> ADB. 2000. *Regional Technical Assistance for Poverty Assessment in PDMCs*. Manila.

## 2. Economic and Public Sector Reform

18. The implementation of the economic and public sector reform program will continue in 2003 and subsequent years. Enactment of the proposed Public Finance Management Act in late 2002 will strengthen the authority of the minister of finance to enforce stricter fiscal discipline to ensure that the objective of balancing current costs with government revenues will be achieved by FY2004/2005. Improvement in service delivery will also depend on the successful implementation of the performance-oriented public service reform so that the expected reduction in personnel costs will enable the transfer of savings to nonpersonnel costs, which have been underfunded in recent years.

19. Some of the fiscal difficulties experienced in recent years arose from transfers and subsidies to state-owned enterprises. The Government intends to undertake a fundamental re-examination of the role of the state and its national purpose in engaging in activities and businesses that, in normal circumstances, are better left to the private sector. The outcome of the review should be clearly articulated in a policy framework that underpins a new public enterprise bill so as to ensure that only public enterprises and government investments that meet the criteria will remain in public ownership. The new bill together with the privatization of noncore public enterprises, and an appropriate regulatory framework, will go a long way towards facilitating the development of private sector businesses. The Government has indicated that reform of the public enterprise sector is its priority in the medium term. Given the lack of accounting and financial policy skills and of commercial knowledge in the Government Investment Unit of the Ministry of Finance, TA in this area will be needed to ensure that the financial status of key enterprises is ascertained, and appropriate policy measures will be formulated to achieve the best outcome for the community.

20. The urgent priority of the reform program is improved tax administration so as to increase compliance and enhance collection in the next 3 years. Assistance is expected to be forthcoming from Australia. The Government also intends to implement more comprehensive tax reform towards the end of 2004. The implementation of the tax reform agenda will create a level playing field in the area of corporate tax, exclude thousands of low income earners from personal income tax, and shift the present reliance in import levies in favor of a broad-based consumption tax. This reform measure will be important in creating an environment more conducive to economic development. The Pacific Financial Technical Assistance Centre is assisting the Government with the drafting of legislation and then its implementation towards the end of FY2004/05.

21. The Pacific Human Development Report 1999 placed Tonga fourth among the PDMCs in terms of the human development index, with a high literacy rate, high gross enrolment rate in primary and secondary schools, high life expectancy, and relatively high GDP per capita. However the lack of vocational training and of a support network for poor rural and urban youth has to be addressed before it becomes a social problem as is the case in other countries. The Government has requested ADB assistance to provide financial training to improve understanding of family financial issues, how to better manage limited monetary resources and social obligations; and to teach basic office and business skills for establishing and maintaining very small enterprises for family nonmonetary benefits as well as generating supplementary income. A training project is included in the ADB TA program for 2003. In addition the Government has received assistance from New Zealand to review the education sector to focus on the emerging needs of a more streamlined public sector and those of private businesses.

### **3. Governance**

22. The Government is implementing a comprehensive reform program that rests on four pillars; it addresses many of the issues raised in the governance assessment undertaken in June 2001. First, the Government intends to promote a wide-ranging public service reform by redefining core government functions, and in the process downsizing the public service. Second, through an analysis of its commercial functions, the Government will divest itself of noncore public enterprises, and introduce financial and managerial discipline to those that are not privatized. Third, the Government will initiate policy proposals to strengthen the role and effectiveness of the National Reserve Bank of Tonga (NRBT), and to improve the transparency of transactions between the Government and NRBT. Fourth, the Government also intends to reduce barriers to private sector development, and to encourage trade and foreign direct investment. To achieve these goals, the Government will need support for institution building and capacity development. This support is forthcoming from the aid community including ADB.

23. The participation of civil society in political debates and actions is another aspect of good governance. The Government has taken steps to involve nongovernment organizations (NGOs) in the reform program as well as improving its communication with the community on important economic and social issues.

### **4. Private Sector Development**

24. A key economic goal of SDP7 is to build a dynamic and competitive economy driven mainly by the private sector and supported by an efficient public sector. The Government is committed to this objective and is working to reduce barriers to foreign investors and to facilitate investment in the agriculture, fisheries, and tourism sectors.

25. A consultative committee was established in 1998 as a formal forum to facilitate dialogue between the Government and the private sector to (i) strengthen coordination, (ii) discuss impediments to private sector development, and (iii) comment on the impact of proposed legislation on private enterprises. General consensus about the benefits of the consultative committee includes recognition of room for improvement in terms of speed of action and the consultation mechanism in the legislative drafting process. As part of the reform program, the Government has received assistance from the Foreign Investment Advisory Service and ADB to review existing policies, regulations, and practices that impede foreign and domestic investment; propose measures to overcome the identified barriers; and assess the effectiveness of current promotional efforts.

26. As is the case with many Pacific island countries, Tonga has only a small private sector with the vast majority of its enterprises being of small or micro size, and many economic activities being carried out in the informal sector. While the reform program will remove some of the barriers, the existence of a large public enterprise sector, inadequate business regulations to ensure that equal rules apply, and lack of certain skills will need to be addressed before a viable SME sector will become a reality. The Government has undertaken initial steps to reduce the size of the public enterprise sector and to remove barriers to private investments under the reform program. These initiatives will be reinforced in the next few years as the reform program progresses.

## **5. Gender and Development**

27. SDP7 presents a vision that includes the achievement of gender equity, defined as all men, women, and children having equal access to economic, social, political, and religious opportunities and benefits. Policy objectives and actions that aim to address gender inequities in access to productive resources, health, education, and employment are presented in the national policy on gender and development. The gender and development policy and programs are mainstreamed through integration into the strategic development planning process. The Women's Development Centre (WDC) in the Prime Minister's department works with line ministries and other agencies to identify and formulate projects and programs that are submitted via a Gender and Development Committee to the Central Planning Department to identify financing. WDC monitors the implementation of gender-related projects and programs by line ministries and other agencies.

28. The public service reform TA supported by ADB provides indirect support for gender mainstreaming by ensuring greater consistency between policy priorities and resource allocation, and by building a merit-based public service. The EPSRP, recognizing the likely uneven impact of any rightsizing actions on women and youth, has established a unit in the Prime Minister's department to monitor such impact, and has earmarked funding for mitigation measures. The Government has also recognized the impact of lack of training and employment opportunities for poor rural and urban youth; it is proposing a training scheme to teach this target group basic business skills to enhance their employment prospects to meet the needs of a growing private sector.

## **6. Environmental Protection**

29. Tonga's limited land resources, combined with high urban population movement, are placing increasing pressures on the country's natural resources and worsening its environmental problems. Unregulated fishing, as well as the introduction of more efficient fishing technology, has resulted in coastal and near-coastal fisheries being overexploited and traditional marine species and much of the near-shore fisheries being gradually depleted.

30. SDP7 places special emphasis on environmental conservation and careful management of natural resources for sustainable economic development and the continued welfare of all Tongans. The Government recognizes the need to develop awareness through education, and to provide adequate legislation to ensure conservation of the environment, sustainable utilization of natural resources, and protection from natural disasters.

31. The decision in July 2001 to upgrade environment to a full department rather than a division of the Ministry of Lands, Survey and Natural Resources is recognition of the importance of the environment to Tonga's sustainable economic development. The Department of Environment (DOE) is responsible for coordinating the activities of other ministries where those activities have implications for management of the environment. A number of ministries have environmental responsibilities under various acts, and it is the role of DOE to monitor compliance with their requirements. The DOE has a range of staffing expertise including a strong environmental monitoring team. However the department's effectiveness is currently constrained by the absence of environmental impact assessment (EIA) legislation. The delay was due to a full legislative timetable arising from the comprehensive economic and public sector reform agenda. The Government should be encouraged to enact the EIA bill as soon as possible so that new development projects can be subjected to EIA requirements and previous

mistakes avoided. Social and environmental indicators are in Appendix 2, Tables A2.3 and A2.4, respectively.

### **C. Highlights in Coordination of External Funding and Partnership Arrangements**

32. The recent approval of the EPSRP loan indicates ADB's commitment to assist the Government in implementing necessary and essential reforms to create an environment conducive to private sector development and growth. At the same time, ADB's efforts are being coordinated with assistance provided by other major agencies to ensure that the comprehensive reform program will be successfully implemented.

33. ADB continues to strengthen its ties with other bilateral and multilateral assistance agencies, particularly Australia, New Zealand, and the World Bank, in the area of overall aid coordination. ADB also provided assistance in the organization of the first Consultative Group meeting for Tonga in April 2002. The meeting focused primarily on reforms arising from the EPSRP and on future activities (and assistance) needed to reinforce the reform agenda and to crystallize its benefits.

34. One feature of aid coordination in Tonga since the mid 1980s has been the arrangement whereby the major bilateral aid agencies concentrate their efforts in geographical areas: the European Union on Va'vau, Australia on Ha'apai, and New Zealand on Eua and the Niuaus. This arrangement does not preclude the countries from participating in sector assistance such as the Australian Agency for International Development's current assistance in health and New Zealand Official Development Assistance's in education. Aid coordination has been an issue in developing countries, and Tonga is not different in this respect. Currently there are at least three government agencies involved in coordination: the Central Planning Department looks after all bilateral, and regional organizations; the UNDP, and the World Health Organization; the Foreign Affairs Department deals with the People Republic of China and the European Union; and the Ministry of Finance coordinates with ADB and World Bank program assistance to ensure achievement of the expected economic growth. In addition, some assistance goes directly to NGOs, for example the Canadian Fund, the United Nations Children's Fund, and the United Nations Educational, Scientific and Cultural Organization. The Government recognizes the need to review aid coordination arrangements to avoid overlapping and to ensure complementarity of assistance. Appendix 2 Table A2.5 provides a picture of external assistance for the period under consideration.

## **IV. PORTFOLIO MANAGEMENT ISSUES**

### **A. Portfolio Performance**

35. As of 31 December 2001, cumulative lending by ADB since Tonga joined ADB in 1972 had totaled 13 loans (excluding the terminated Loan 1497-TON) with a value of US\$42.9 million, all from the Asian Development Fund (ADF). Project completion reports have been prepared for all 13 projects, 9 of which have been postevaluated. Of the nine postevaluated projects, eight were rated generally successful and one project in the finance sector was rated partly successful. Since 1972, a total of US\$11.4 million in TA grants has been provided for 44 activities (excluding one supplementary TA and one cancelled TA). One project preparatory technical assistance (PPTA), one advisory and operational technical assistance (AOTA), and one small-scale TA are currently active: the PPTA is to assist in the preparation of the loan for the EPSRP, the AOTA was attached to the Fisheries Development Project Loan and for assistance in privatizing the government-owned fisheries company, and the small-scale TA is to

help in analyzing and interpreting data collected in the household income and expenditure surveys conducted by the Statistics Department in 1992 and 2000. Discussion is underway to review the scope of this TA to ascertain Tonga's needs in this area and to facilitate consensus on the process to arrive at a national poverty reduction strategy. Details of the portfolio performance are shown in Appendix 2, Table A2.6.

36. ADB changed its operational emphasis in 1992 when TAs began to focus on the macroeconomic policy environment, the investment climate, and public sector performance. Progress has been slow in implementing any reform activities emanating from these TAs since 1992. Lessons learned from them include the needs for (i) integration of existing disparate reform measures in the various areas related to the EPSRP, from both the Government and aid agencies; (ii) greater emphasis on aid coordination; (iii) greater involvement of the Government in the design of TAs and projects to ensure government ownership; and (iv) less externally driven reform agenda. These lessons have been incorporated in the preparation of this Country Strategy and Program Update. Appendix 2, Table A2.7 shows the details of the project implementation status.

## **B. Performance Monitoring and Evaluation**

37. The EPSRP loan includes a number of measures to monitor timely reporting on the implementation of reform activities. The Government has also committed to continuing such reporting to ADB after the loan closure date, given that the reform program will be implemented over a time frame longer than the loan period.

## **V. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS**

### **A. Lending Level Proposed**

38. Consistent with ADB's policy on performance-based allocations for ADF funding, the level of ADF funds allocated to Tonga is linked to the country's performance with respect to policy, institutional reforms, and portfolio management. Accordingly the proposed base case 3-year rolling allocation is fixed at US\$9.7 million for 2003–2005. As Tonga is classified as a B1 country, it also has limited access to ordinary capital resources lending; an amount of US\$2 million is available for the same period.

39. The exact allocation of ADF resources will depend on performance against agreed upon parameters (triggers). Key parameters include continued progress in economic management, fiscal policy, and public sector reform. Three scenarios of ADB's lending and the proposed lending triggers are presented in Appendix 2, Table A2.8. The base case scenario for 2003–2005 is for an allocation of US\$9.7 million. In the case of performance deteriorated to the lower scenario, the allocation would be US\$6 million; in the case of performance improved to satisfy the upper case triggers, the allocation could increase to US\$13 million. For 2003–2005, two loans of US\$5 million each, and five TAs valued at US\$2.5 million have been included in the program for Tonga. Details of the lending program are shown in Appendix 2, Table A2.9.

### **B. Nonlending Program**

40. The nonlending assistance for the period 2003–2005 focuses on (i) continuing the economic and public sector reform agenda through a PPTA on Public Enterprise Sector Rationalization in 2003, and (ii) facilitating economic growth through an agriculture sector development PPTA in 2004. Two TAs are also proposed for 2003: one is for the provision of

business services to support Tongan owned small and micro enterprises, and the second is to provide training to improve financial management skills to householders affected by the public sector reform program, and to teach poor rural and urban youth basic office and other business skills to improve their employment prospects in the private sector. Details of the nonlending program are shown in Appendix 2, Table A2.10.

### **C. Summary of Changes to Lending and Nonlending Program**

41. The ADB program of assistance to Tonga continues the strategy of fiscal and public sector reform underpinned by private sector-led growth. Assistance to the Government in implementing the EPSRP continues to be a cornerstone of ADB's program for the next 3 years. A program loan of US\$5 million is included in 2004 to provide adequate funding to assist the implementation of public enterprise rationalization recommendations, and to implement the performance monitoring regime applicable to public enterprises remaining in public ownership. A sector development program loan valued at US\$5 million has been included in the lending program for 2005 for the agriculture sector. The loan will be needed to implement the recommendations arising from the agriculture sector review: product promotion, market access arrangements, and value-added processing facilities.

42. An additional TA has been proposed for 2005 to assist in the adjustment process arising from the EPSRP. Appendixes 3 and 4 provide the concept papers for the assistance pipeline for 2003–2005.

## SUMMARY STATEMENT OF STRATEGY

<b>Objectives</b>	To build local capacities for sound economic and public sector management	To improve living standards to achieve inclusive social development	To create an enabling environment for private sector development
<b>Strategic Focus/Key Result Areas</b>	<ul style="list-style-type: none"> <li>• Rationalize/strengthen public sector management.</li> <li>• Improve public expenditure management.</li> <li>• Enhance management of public sector enterprises.</li> <li>• Improve governance</li> </ul>	<ul style="list-style-type: none"> <li>• Improve quality and accessibility of essential services.</li> <li>• Provide sustainable social security.</li> <li>• Improve the environment.</li> </ul>	<ul style="list-style-type: none"> <li>• Establish sound policy frameworks and support services.</li> <li>• Ensure adequate physical infrastructure to support private sector growth.</li> </ul>
<b>Ongoing/Proposed Loans</b>	<ul style="list-style-type: none"> <li>• Economic and Public Sector Reform Program (2002)</li> <li>• Public Enterprise Sector Rationalization (2004)</li> <li>• Agriculture Sector Development (2005)</li> </ul>		<ul style="list-style-type: none"> <li>• Public Enterprise Sector Rationalization (2004)</li> <li>• Agriculture Sector Development (2005)</li> </ul>
<b>Ongoing/Proposed TAs</b>	<ul style="list-style-type: none"> <li>• Building a Performance-Oriented Public Service (2002 - 2004)</li> </ul>		
	<ul style="list-style-type: none"> <li>• Public Sector Adjustment- Phase II (2005)</li> </ul>	<ul style="list-style-type: none"> <li>• Employment Creation and Community-Based Financial Management Training (2003)</li> <li>• Analysis of household income and expenditure surveys data for Socioeconomic Equity Assessment (2002)</li> </ul>	<ul style="list-style-type: none"> <li>• Public Enterprise Sector Rationalization (2003)</li> <li>• Business Development Services (2003)</li> <li>• Agriculture Sector Development (2004)</li> </ul>
<b>Other Assistance</b>	<ul style="list-style-type: none"> <li>• Participation in regional technical assistance (RETA) on Gender-Sensitive Public Expenditure Management</li> <li>• Participation in RETA on Pacific Governance Strategy</li> </ul>	<ul style="list-style-type: none"> <li>• Participation in RETA on Pacific Environmental Strategy.</li> </ul>	<ul style="list-style-type: none"> <li>• Participation under Private Sector Group RETA for Private Sector Development Strategy</li> </ul>
<b>Target Outcomes</b>	<ul style="list-style-type: none"> <li>• Agree on a National Poverty Reduction Strategy in 2003.</li> <li>• Enhanced capacity of central agencies for better economic and financial management</li> <li>• More efficient and smaller public enterprise sector.</li> <li>• A performance-oriented public service.</li> </ul>	<ul style="list-style-type: none"> <li>• Enhanced public services to the community.</li> </ul>	<ul style="list-style-type: none"> <li>• Remove barriers to domestic and direct foreign investment.</li> <li>• Reduction of number of public enterprises</li> <li>• Enhanced corporate governance, efficiency and profitability of public enterprises</li> <li>• Micro and Small enterprises created in the agriculture sector</li> <li>• Increased agricultural exports</li> </ul>

Table A2.1: Economic Indicators

Item	1997	1998	1999	2000	2001
<b>A. Income and Growth</b>					
1. GDP per Capita (US\$, current)	1,714	1,634	1,505	1,585	1,407
2. GDP Growth (% , in constant prices)	0.2	1.6	3.1	6.2	3.0
Agriculture	3.8	-0.1	-3.1	10.8	1.3
Industry	-11.7	6.8	12.4	3.0	5.4
Services	0.9	3.2	4.1	5.6	3.8
<b>B. Saving and Investment (current market prices)</b>					
	(percent of GDP)				
1. Gross Domestic Investment	...	...	...	...	...
2. Gross Domestic Saving	...	...	...	...	...
<b>C. Money and Inflation</b>					
	(annual percent change)				
1. Consumer Prices (annual average)	1.8	2.9	3.9	4.9	6.3
2. Broad Money (M2)	14.1	2.4	15.0	8.4	26.5
<b>D. Government Finance</b>					
	(percent of GDP)				
1. Total Revenue and Grants	31.8	30.4	26.6	27.3	27.9
2. Total Expenditure and Net Lending	36.7	32.9	26.9	27.6	30.6
3. Overall Surplus/Deficit (-)	-4.9	-2.5	-0.2	-0.4	-2.6
<b>E. Balance of Payments</b>					
1. Merchandise Trade Balance (% of GDP)	-27.8	-40.8	-28.9	-32.5	-34.2
2. Current Account Balance (% of GDP)	-0.9	-11.2	-0.6	-6.3	-8.2
3. Export (US\$) growth (annual percent change)	3.9	-9.8	1.7	-9.9	3.7
4. Import (US\$) growth (annual percent change)	-9.5	29.7	-28.9	12.8	-4.3
<b>F. External Payments Indicators</b>					
1. International Reserves (US\$ million, end of period)	26.2	14.2	21.4	15.6	30.0
- months of imports	3.2	2.4	3.3	2.3	2.8
2. External Debt Service (% of exports of goods & services)	10.7	8.2	4.0	12.1	19.5
3. External Debt (% of GDP)	35.6	36.3	43.9	40.7	44.6
<b>G. Memorandum Items</b>					
GDP (current prices, US\$ million)	168.9	162.2	150.2	159.2	142.1
GDP (current prices, T\$ million <i>local currency</i> )	207.8	218.9	237.3	261.1	277.1
Exchange Rate (T\$ per dollar, annual average)	1.2300	1.3500	1.5800	1.6400	1.9500
Population (million)	0.09859	0.09926	0.09982	0.10042	0.10102

GDP=gross domestic product

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

Note: Years are fiscal year ending 30 June.

Table A2.2: Progress Toward the Millenium Development Goals and Targets

MDGs and Targets	1990	1995	Latest Year
<b>Goal 1. Eradicate Extreme Poverty and Hunger</b>			
<b>Target 1: Reduce incidence of extreme poverty by half from 1990 to 2015</b>			
People living on below US\$1-a-day, 1985 PPP (%)	...	...	...
Population in poverty (% of population falling below the poverty line)	...	...	...
<b>Target 2: Reduce the proportion of people who suffer from hunger by half from 1990 to 2015</b>			
Prevalence of child malnutrition (% of children under age 5)	...	...	2.0 (1997)
<b>Goal 2. Achieve Universal Primary Education</b>			
<b>Target 3: Attain 100 percent primary school enrolment by 2015.</b>			
Net primary enrollment ratio (% of relevant age group)	...	98.0 (1994)	95.0 (1994-2000) <sup>a</sup>
<b>Goal 3. Promote Gender Equality and Empower Women</b>			
<b>Target 4: Eliminate gender disparities in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015</b>			
Ratio of girls to boys in primary and secondary education (%)	92.0	...	...
<b>Goal 4. Reduce Child Mortality</b>			
<b>Target 5: Reduce infant and child mortality by two thirds from 1990 to 2015</b>			
Infant mortality rate (per '000 live births)	25.0	19.0 (1995-97) <sup>a</sup>	13.1 (2000)
Under-5 mortality rate (per 1,000 live births)	...	18.0 ('99) 21.0 (1995-97) <sup>a</sup>	13.8 (2000)
<b>Goal 5. Improve Maternal Health</b>			
<b>Target 6: Reduce maternal mortality rate by three quarters between 1990 and 2015</b>			
Maternal mortality rate (per 100,000 live births)	...	160.0 (1995-97) <sup>a</sup>	81.0 (2000)
Births attended by skilled health staff (% of live births)	...	94.0 (1995-97) <sup>a</sup>	92.1 (2000)
<b>Goal 6. Combat HIV/AIDS, Malaria and Other Diseases</b>			
<b>Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS</b>			
HIV prevalence rate (% age 15-49 years old)	...	...	...
Contraceptive prevalence rate (% of women aged 15-49)	...	32.0 (1997-98) <sup>a</sup>	33.9 (2000)
<b>Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases</b>			
Prevalence of malaria (per 100,000 people)	...	...	...
Prevalence of tuberculosis (per 100,000 people)	...	...	21.9 (2000)

MDGs and Targets	1990	1995	Latest Year
<b>Goal 7. Ensure Environmental Sustainability</b>			
<b>Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources</b>			
Status of national environmental action plans	...	...	Completed
Forest area (% of total land area)	...	...	...
Nationally protected areas (% of total land area)	...	...	1.1 (1999)
GDP per unit of energy use (PPP \$ per kg oil equivalent)	...	...	...
Carbon dioxide emissions (per capita metric tons)	...	...	1.2 (1997)
<b>Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water</b>			
Access to safe water (% of population)	...	95.0 (1995-97) <sup>a</sup>	96.2 (2000)
<b>Target 11: By 2010, achieve a significant improvement in the lives of at least 100 million slum dwellers</b>			
Access to sanitation (% of population)	...	85.0 (1995-97) <sup>a</sup>	93.7 (2000)
PPP=purchasing power parity, HIV/AIDS=human immunodeficiency virus/acquired immune deficiency syndrome, GDP=gross domestic product, MDG=millennium development goal.			
<sup>a</sup> Refers to most recent available data within the stated period.			
Sources: ADB, Basic Statistics of DMCs including MDGs (May 2002); ADB, Medium-Term Strategy (2001-2005); ADB, Key Indicators 2001; UNDP, Pacific Human Development Report (1994, 1999); WHO, Western Pacific Region Health Data Bank (rev. 2001).			

Table A2.3: Poverty and Social Indicators

Item	Period			
	1990	1994	Latest Year	
<b>A. Population Indicators</b>				
1. Total Population (million)	96.4	97.1	100.4	(2000)
2. Annual Population Growth Rate (% change)	0.4	0.3	0.6	
<b>B. Social Indicators</b>				
1. Total Fertility Rate (births/woman)	4.2	5.2	3.3	(2000)
2. Maternal Mortality Rate (per 100,000 live births)	–	–	–	
3. Infant Mortality Rate (below 1 yr/1,000 live births)	–	–	–	
4. Life Expectancy at Birth (years)	–	69.0	70.0	(1999)
Female	71.0	–	71.0	(1999)
Male	67.0	–	70.0	(1999)
5. Adult Literacy (%)	–	98.5	99.0	(1999)
Female	–	(1996) 98.7	99.0	(1998)
Male	–	98.4	99.0	(1998)
6. Primary School Gross Enrollment (%)	–	–	90.0	(1998)
7. Secondary School Gross Enrollment (%)	–	84.0	67.0	(1998)
8. Child Malnutrition (% below age 5)	–	–	–	
9. Population Below Poverty Line (International, %)	–	–	–	
10. Population with Access to Safe Water (%)	–	–	–	
11. Population with Access to Sanitation (%)	–	–	–	
12. Public Education Expenditure (% of GDP)	4.0	4.7	4.8	(1998)
13. Human Development Index	–	0.723	0.647	(1998)
PDMC Rank	–	2	4	
14. Gender-Related Development Index	–	–	–	
Rank	–	–	–	
<b>C. Poverty Indicators</b>				
1. Poverty Incidence	–	–	–	
2. Percent of Poor to Total Population	–	–	–	
Region A	–	–	–	
Region B	–	–	–	
(etc.)	–	–	–	
3. Poverty Gap	–	–	–	
4. Poverty Severity Index	–	–	–	
5. Inequality (Theil L Index)	–	–	–	
6. Human Poverty Index	–	–	5.9	(1998)
Rank	–	–	1	

– = not available, GDP=gross domestic product, PDMC=Pacific developing member countries.

Sources: ADB. 2001. *Regional Technical Assistance for Discussion Papers*. Manila; ADB. 1994 and 1999. *Key Indicators*. Manila; UNDP. 1994 and 1999. *Pacific Human Development Report* (1994, 1999); WHO. 2001. *Western Pacific Regional Health Data Bank*.

**Table A2.4: Environment Indicators**

Item	1990	Latest Year
<b>1. Energy Efficiency of Emissions</b>		
Traditional Fuel Use (% of total energy use)	–	–
<b>2. Water Pollution</b>		
Water Bodies Exceeding Contact Recreation Standards		
Biological Oxygen Demand	–	–
Chemical Oxygen Demand	–	–
<b>3. Air Pollution</b>		
Carbon Dioxide Emissions		
Total (millions of metric tons)	–	0.1 (1998)
Sulfur Dioxide Emissions		
Per Capita (kilograms)	–	–
<b>4. Land Use and Deforestation</b>		
Total Land Area square kilometer	699.0	699.0
Average Annual Deforestation		
Area (remaining square kilometer)	–	40.0 (2000)
% change	–	0.0 (2000)
Arable Land (% of total land)	24.0 (1993)	–
Cropland, Permanent (% of total land)	43.0 (1993)	43.1 (1998)
Pastures, Permanent (% of total land)	6.0 (1993)	–
Population Density, Rural (people per square kilometer)	–	367 (1998)
<b>5. Biodiversity and Protected Areas</b>		
Nationally Protected Area(s)		
Area (square kilometer)	–	47.1 (1998)
Number	–	11 (1998)
World Heritage Sites (number)	–	–
Mammal Species		
Total Known	–	–
Threatened	–	0 (1998)
Bird Species		
Total Known	–	0 (1998)
Threatened	–	0 (1998)
<b>6. Urban Areas</b>		
Urban Population		
% of total population	36.0 (1996)	36.9 (1998)

– =no data available.

Source: CIA. 2001. *The World Factbook*. Tonga; SPC. 1997. *Pacific Island Populations Data Sheet*, SPREP. 1999-2002. *Action Strategy for Nature Conservation in the Pacific Islands Region*; World Bank. 2002. *World Development Indicators Database*; World Bank. 2000. *The Little Green Data Book*.

**Table A2.5: Development Coordination Matrix**

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
A. Economic and Public Sector Reform	<p><b>Ongoing:</b></p> <ul style="list-style-type: none"> <li>• Economic and Public Sector Reform Program</li> <li>• Reforming public service to improve accountability and performance</li> <li>• Public financial management improvement</li> </ul> <p><b>Programmed:</b></p> <ul style="list-style-type: none"> <li>• Rationalization of public enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Program budgeting (AusAID)</li> <li>• Improved tax administration (AusAID)</li> <li>• Strengthening the statistics department (AusAID)</li> <li>• Tax policy reform (PFTAC)</li> <li>• Introduction of the Public Service Commission and other reform measures (NZAID)</li> <li>• Government Investment Unit (NZAID)</li> <li>• Tonga Development Bank (NZAID)</li> </ul>
B. Private Sector Development	<p><b>Programmed:</b></p> <ul style="list-style-type: none"> <li>• Support for micro and small scale private enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Forestry privatization (NZAID)</li> <li>• Small Business Development Center (NZAID)</li> </ul>
C. Education		<ul style="list-style-type: none"> <li>• Long-term training (AusAID/NZAID)</li> <li>• Third country training (AusAID/NZ)</li> <li>• In-country training (AusAID/NZAID)</li> <li>• Other: <ul style="list-style-type: none"> <li>– Distance education (AusAID)</li> <li>– New program called "Education Assistance" (NZAID)</li> <li>– Short term training in New Zealand for both private and public sector personnel (NZAID)</li> <li>– Training of French language teachers through Alliance Française in Suva (France)</li> <li>– Training in linguistics and political science for Tongan diplomats (France)</li> <li>– Reconstruction of Tonga High School in 2001 (France)</li> <li>– Focus on school assistance in Va'vau (EU)</li> <li>– Building of Ha'apai High School, completed end 2001 (PRC)</li> <li>– Short-term training in selected fields (economics and administration, monsoon meteorology, and radio and television technology) (PRC)</li> </ul> </li> </ul>
D. Health		<ul style="list-style-type: none"> <li>• Strengthening health and planning and management (AusAID)</li> <li>• Medical treatment scheme (NZAID)</li> </ul>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
		<ul style="list-style-type: none"> <li>• General assistance in health issues: a liaison office in Nuku'alofa (WHO)</li> <li>• Reproductive health (UN Fund for Population)</li> <li>• 3 components: (World Bank) <ul style="list-style-type: none"> <li>– refurbishment of Nuku'alofa referral hospital; estimated cost \$17 million;</li> <li>– health care financing: user charge for private use of public facilities;</li> <li>– national healthcare data: collection of all expenditure on health care in Tonga including private health expenditure on traditional practices</li> </ul> </li> </ul>
E. Gender/Youth	<p><b>Programmed:</b></p> <ul style="list-style-type: none"> <li>• Office and basic business skill training to poor urban/rural youth.</li> </ul>	
<p>F. Infrastructure</p> <p>1. Energy</p> <p>2. Water Supply and Sanitation</p>		<ul style="list-style-type: none"> <li>• Electrification –assistance through the Central Planning Department, to provide affordable and sustainable electricity supply for the outer islands of Ha'apai (AusAID)</li> <li>• Electrification–To provide reliable electricity supply for the outer islands of the Niuaus (NZAID)</li> <li>• Village Water Supplies (NZ AID)</li> <li>• Water Supply Infrastructure–To upgrade water supply for 'Eua islands (NZ AID)</li> <li>• Water Supply Infrastructure – Upgrading water testing laboratory of the Tonga Water Board (France)</li> <li>• Water Supply Infrastructure – Water upgrade in Nuku'alofa (JICA)</li> </ul>
G. Environment		<ul style="list-style-type: none"> <li>• Waste management – Relocation of Popua Dump (AusAID)</li> <li>• Popua Dump Rehabilitation (NZ AID)</li> </ul>
H. Agriculture, Forestry and Fisheries	<p><b>Programmed;</b></p> <ul style="list-style-type: none"> <li>• Agriculture Sector Development</li> </ul>	<ul style="list-style-type: none"> <li>• Fisheries management: To provide assistance to ensure socioeconomic development and well-being of the community and their marine environment through sustainable development of commercial and community based responsibilities (AusAID)</li> </ul>

Sector/Thematic/Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
I. Other		<ul style="list-style-type: none"> <li>• Strengthening administration of court system (AusAID)</li> <li>• Development fund facility (through Central Planning Department) to provide funding for small-scale community self-help projects for poverty reduction in Ha'apai (AusAID)</li> <li>• Nature tourism–To promote eco-tourism in 'Eua and Vava'u (NZAID)</li> <li>• Tourism Development, Phase II (AusAID)</li> <li>• Community development facility to promote funding for small-scale development projects in 'Eua and Niua (NZAID)</li> <li>• Construction of private/community dwellings damaged by cyclone Waka – estimated cost \$4.5 million (WB)</li> <li>• National Disaster Management Capacity – estimated cost \$1.2 million (World Bank)</li> <li>• Community development through Central Planning Department to provide funding for small-scale self-help projects to reduce poverty (AusAID)</li> <li>• Technical assistance to provide timely access to high level strategic advice, particularly on issues of economic reform and governance (AusAID)</li> <li>• Through the Prime Minister's Office: short term assistance on human resources issues and to build local capacity in the work place. (AusAID)</li> </ul>

AusAID=Australian Agency for International Development, EU=European Union, JICA=Japan International Cooperation Agency, NZAID=New Zealand Agency for International Development, PFTAC=Pacific Financial Technical Assistance Centre, PRC=People's Republic of China, UN=United Nations, WHO=World Health Organization

**Table A2.6: Portfolio Indicators – Amounts and Ratings,  
Disbursements, and Net Transfers of Resources**  
(Public Sector Loans, as of 31 December 2001)

A. Project Portfolio	Net Loan Amount		Total		Rating <sup>a</sup>												
	US\$ million		No.	%	HS		S		PS		U		PP		At Risk		
	million	%			No.	%	No.	%	No.	%	No.	%	No.	%	No.	%	
Agriculture and Natural Resources	3.28	25.2	1	50.0	-	-	1	100.0	-	-	-	-	-	-	-	-	-
Energy	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Finance	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Social Infrastructure	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
Transport and Communications	9.73	74.8	1	50.0	-	-	1	100.0	-	-	-	-	-	-	-	-	-
Multisector	-	-	-	0.0	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>	<b>13.01</b>	<b>100.0</b>	<b>2</b>	<b>100.0</b>	-	-	2	100.0	-	-	-	-	-	-	-	-	-

  

B. Disbursements and Transfers	OCR	ADF	Total
Disbursements <sup>b</sup>			
Total Funds Available for Withdrawal (US\$ million)	-	3.27	3.27
Disbursed Amount (US\$ million, cumulative)	-	3.27	3.27
Percentage Disbursed (disbursed amt/total available)	-	100.00	100.00
Disbursements (US\$ million, 2001)	-	0.22	0.22
Disbursement Ratio (%) <sup>c</sup>	-	96.02	96.02

  

C. Net Transfer of Resources (US\$ million)	OCR	ADF	Total
1997	-	1.60	1.60
1998	-	4.30	4.30
1999	-	1.50	1.50
2000	-	2.20	2.20
2001	-	(0.61)	(0.61)

ADF = Asian Development Fund, HS=highly satisfactory, OCR=ordinary capital resources, PP=potential problem, PS=partly satisfactory, S=satisfactory, US=unsatisfactory,

- =zero

<sup>a</sup> One rating for implementation progress and development objectives, based on the lower rating of either.

<sup>b</sup> Includes ongoing loans and loans with disbursements in 2001.

<sup>c</sup> Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

**Table A2.7: Portfolio Implementation Status**  
(Public Sector Loans, as of 31 December 2001)

No.	Sector	Loan No.	Seg	Title	Net Loan Amount		Approval Date	Effective Date	Closing Date		Progress
					OCR	ADF			Original	Revised	
					(\$ million)	(\$ million)	(dd/mm/yy)	(dd/mm/yy)	(dd/mm/yy)	(dd/mm/yy)	(%complete)
1	T&C	1303		Transport Infrastructure Project		9.729	28-Jun-94	02-Aug-95	31-Dec-99	30-Jun-00	100
2	AGR	1412		Outer Islands Agriculture Development Project		3.279	12-Dec-95	23-Dec-96	30-Jun-01		98

**Total**

ADF=Asian Development Fund, AGR= agriculture and natural resources, OCR=ordinary capital resources, Seg=segment (pertaining to loans with more than one withdrawal authority), T&C=transport and communications.

**Table A2.8: Performance Triggers And Lending Scenarios  
(CPM 2003-2005)**

Low Case	Base Case	High Case
<ul style="list-style-type: none"> <li>• Macroeconomic instability and decline in real GDP</li> </ul>	<ul style="list-style-type: none"> <li>• Maintenance of macroeconomic stability, and positive economic growth</li> </ul>	<ul style="list-style-type: none"> <li>• Sustainable macroeconomic stability and strong economic growth above 4% per annum rate</li> </ul>
<ul style="list-style-type: none"> <li>• Large and unsustainable overall budget deficit</li> </ul>	<ul style="list-style-type: none"> <li>• Balanced current budget by 2004-2005</li> </ul>	<ul style="list-style-type: none"> <li>• Surplus in current account along with sustainable overall budget deficit</li> </ul>
<ul style="list-style-type: none"> <li>• Financial sector instability</li> </ul>	<ul style="list-style-type: none"> <li>• Financial sector stability</li> </ul>	<ul style="list-style-type: none"> <li>• Foreign exchange cover above 3 months imports</li> </ul>
<ul style="list-style-type: none"> <li>• Deterioration in performance of public enterprises</li> </ul>	<ul style="list-style-type: none"> <li>• Improvements in performance of public enterprises through a reduction in subsidies/transfers.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in pace of public enterprise reforms through corporatization and privatization. (Cabinet approval of a policy framework on public enterprises, performance monitoring regime, and a properly sequenced action plan on privatization)</li> </ul>
<ul style="list-style-type: none"> <li>• Deterioration of export performance</li> </ul>	<ul style="list-style-type: none"> <li>• Growth in export sector</li> </ul>	<ul style="list-style-type: none"> <li>• Significant growth in export sector</li> </ul>
<ul style="list-style-type: none"> <li>• Stagnation in private sector investment</li> </ul>	<ul style="list-style-type: none"> <li>• Some progress in reform of legal and regulatory framework to facilitate private sector development.</li> </ul>	<ul style="list-style-type: none"> <li>• Significant progress in reform of legal and regulatory framework and growth in private businesses</li> <li>• Undertake a study on current government policy on rent review to improve predictability and security of long-term land leases for private businesses.</li> </ul>
<ul style="list-style-type: none"> <li>• Significant delay in implementation of EPSRP actions</li> </ul>	<ul style="list-style-type: none"> <li>• Timely implementation of EPSRP in accordance with plan.</li> </ul>	<ul style="list-style-type: none"> <li>• Increase in pace of reforms especially in relation to facilitating private sector growth (tax reform, renegotiation of business licences on tax and other incentives to improve government revenue)</li> </ul>

GDP=gross domestic product

**Table A2.9: Assistance Pipeline for Lending Products, 2003-2004**

Sector Project/Program Name	Poverty Classification	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$million)				
						ADB			Gov't	Cofinancing
						OCR	ADF	Total		
<b>2003 Loan Pipeline</b>										
<b>Total</b>										
<b>2004 Loan Pipeline</b>										
<b>Others</b>										
Public Enterprise Sector Rationalization	ODI	GG & PSD	PAHQ	2003	5.0		5.0	5.0	0.0	0.0
<b>2005 Loan Pipeline</b>										
<b>Agriculture and Natural Resources</b>										
Agriculture Sector Development	PI	PI/Infras- tructure	PAHQ	2004	5.0		5.0	5.0	0.0	0.0

ADB=Asian Development Bank, ADF=Asian Development Fund, OCR=ordinary capital resources, PI=poverty intervention; ODI=other development interventions, GG=good governance; PSD=private sector development  
Source: Asian Development Bank.

Table A2.10: Assistance Pipeline for Nonlending Products and Services, 2003-2005

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding		Total (US\$000)
			ADB Source	Others Amount (US000)	
<b>2003</b>					
<b>Sector: Others</b>					
1. Public Enterprise Sector Rationalization	PAHQ	PPTA	500.0		500.0
2. Business Development Services	PAHQ	ADTA	250.0		250.0
3. Employment Creation and Community-Based Financial Management Training	PAHQ	ADTA		800.0	800.0
<b>Total</b>					<b>1,550.0</b>
<b>2004</b>					
<b>Sector: Others</b>					
1. Agriculture Sector Development	PAHQ	PPTA	500.0		500.0
<b>Total</b>					<b>500.0</b>
<b>2005</b>					
<b>Sector: Others</b>					
1. Public Sector Adjustment-Phase II (Capacity Building in Accounting and Auditing)	PAHQ	ADTA	500.0		500.0
<b>Total</b>					<b>500.0</b>

ADTA=advisory technical assistance, PAHQ=Pacific Operations Division, PPTA=project preparatory technical assistance.

## CONCEPT PAPERS FOR LENDING PRODUCTS

### Title: Public Enterprise Sector Rationalization Loan

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Other: Multisector</p> <p><input type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="margin-left: 40px;">Other than project preparatory</p> <p style="margin-left: 20px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 20px;"><input type="checkbox"/> Institutional development</p> <p style="margin-left: 40px;">Other</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>		
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Others Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Economic growth  <input type="checkbox"/> Gender and development  <input type="checkbox"/> Environmental protection  <input type="checkbox"/> Regional cooperation  <input type="checkbox"/> Other: Multisector         </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Human development  <input checked="" type="checkbox"/> Good governance  <input checked="" type="checkbox"/> Private sector development  <input type="checkbox"/> Social protection         </td> </tr> </table>	<input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: Multisector	<input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection
<input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other: Multisector	<input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>		
<p><b>4. Responsible division/department:</b> PAHQ/PARD</p>		
<p><b>5. Responsible ADB officer(s):</b> Thuy Mellor</p>		
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Tonga has embarked on a comprehensive economic and public sector reform program (EPSRP) in 2002 to address deteriorating economic prospects, a large and inefficient public enterprise sector, and deteriorating public services. One aspect of the fiscal reform is to seek an improvement in efficiency and effectiveness of resource use in the public enterprise sector as increasing budget support for this sector has contributed to the worsening fiscal situation. Limited assistance has been provided by NZODA in recent years to create a database on public enterprises' financial position and ad hoc reviews. During the CPM in April 2002 the Government requested ADB assistance to accelerate reforms in this sector to reduce the subsidy burden on the budget, and, where appropriate, to transfer some of these enterprises to the private sector.</p> <p><b>b. Goal and purpose:</b> Economic growth through a more efficient public enterprise sector, leaving room for private businesses to grow</p> <p><b>c. Components and outputs:</b> The loan will enable the Government to implement recommendations arising from the related TA: equity injection to those public enterprises that meet public ownership criteria to ensure they will be accountable for performance, and to provide funding to those enterprises that will be liquidated/privatized to enable them to meet their redundancy/pension obligations.</p>		

**d. Expected results and deliverables:** A smaller, more efficient and financially accountable public enterprise sector

**e. Social or environmental issues or concerns:** Training and other measures will be needed to mitigate the impact of redundancy. However given recent activities in this area (public service reform under the EPSRP), this should not be an issue.

**f. Plans for disseminating results/deliverables:** not applicable

**7. Proposed executing/implementing agencies:** Ministry of Finance as executing agency.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** The related TA will examine all public enterprises and government investments in commercial businesses to derive an action plan with respect to each agency/investment. Relevant ministers and control ministries will be consulted on timetable and sequencing of actions.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- b. Expected date of submission for approval
  - Lending: April 2004
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory):
  - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
  - Lending: 18 months from July 2004
  - Nonlending:
  - Activities financed by JFICT or JFPR:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - Ordinary capital resources
  - Asian Development Fund
  - Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing): US\$5 million

- b. For nonlending
  - No resources required, other than ADB staff
  - ADB's administrative budget
  - Grant TA funds
  - TA Special Fund:
    - Japan Special Fund
    - Other (specify, e.g., bilateral and multilateral trust funds)

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
  - JFICT:
  - JFPR:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CPM=country programming mission, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, NZODA=New Zealand Official Development Assistance, PAHQ=Pacific Operations Division, PARD=Pacific Department, TA = technical assistance.

**Title: Agriculture Sector Development Loan**

<p><b>1. Type/modality of assistance</b></p> <p><input checked="" type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input checked="" type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p>Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input checked="" type="checkbox"/> Other: Multisector</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input checked="" type="checkbox"/> Other: Multisector	
<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input checked="" type="checkbox"/> Other: Multisector										
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> TBD</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Past assistance in this sector has focused on strengthening the Ministry of Agriculture's capacity to drive growth in agricultural production and on improving export earnings. However the perception is that there is duplication of work between the ministry and other agencies, and poor performance by the ministry in developing market access, diversifying export products, and identifying value adding opportunities. The public service reform program in 2003 will restructure the ministry to provide it with a clear mission and objectives. During the CPM in April 2002 the Government requested assistance to refocus the ministry to ensure that agriculture will be the source of economic growth in the future.</p> <p><b>b. Goal and purpose:</b> Economic growth to provide employment and reduce poverty in Tonga</p> <p><b>c. Components and outputs:</b> The loan will provide funding to implement recommendations arising out of the related PPTA. It is expected that the recommendations will include policy changes to improve promotion and market access arrangements as well as providing physical infrastructure to support increased exports and value-added processing as appropriate.</p> <p><b>d. Expected results and deliverables:</b> The loan will provide much needed support to promote Tonga's agricultural produce, improved market access, and better information on market trends as well as physical</p>										

infrastructure to further develop agricultural exports.

**e. Social or environmental issues or concerns:** Consideration should be given to ensure that development will be sustainable in the longer term within the constraints caused by the absence of the environmental impact assessment legislation.

**f. Plans for disseminating results/deliverables:** not applicable

**7. Proposed executing/implementing agencies:** Ministry of Agriculture

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** The TA will seek input from smallholders and agriculture businesses involving in import and export of agricultural products and foodstuffs.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- c. Expected date of submission for approval
  - Lending: May2005
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory):
  - Activities financed by JFICT or JFPR:
- c. Period and duration of assistance
  - Lending: 18 months
  - Nonlending:
  - Activities financed by JFICT or JFPR:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - Ordinary capital resources
  - Asian Development Fund
  - Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):US\$5 million

- b. For nonlending
  - No resources required, other than ADB staff
  - ADB's administrative budget
  - Grant TA funds
    - TA Special Fund:
    - Japan Special Fund
    - Other (specify, e.g., bilateral and multilateral trust funds)

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
  - JFICT:
  - JFPR:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CPM=country programming mission, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, PAHQ=Pacific Operations Division, PARD=Pacific Department, PPTA=project preparatory technical assistance, TA = technical assistance, TBD=to be determined

## CONCEPT PAPERS FOR NONLENDING PRODUCTS

### Title: Public Enterprise Sector Rationalization

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Sector development program loan</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Project preparatory</p> <p style="margin-left: 20px;"><input type="checkbox"/> Other than project preparatory</p> <p style="margin-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 40px;"><input type="checkbox"/> Institutional development</p> <p style="margin-left: 40px;"><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>		
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Public Enterprise Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Core poverty intervention</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Economic growth  <input type="checkbox"/> Gender and development  <input type="checkbox"/> Environmental protection  <input type="checkbox"/> Regional cooperation  <input type="checkbox"/> Other:         </td> <td style="width: 50%; vertical-align: top;"> <input type="checkbox"/> Human development  <input checked="" type="checkbox"/> Good governance  <input checked="" type="checkbox"/> Private sector development  <input type="checkbox"/> Social protection         </td> </tr> </table>	<input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection
<input type="checkbox"/> Economic growth <input type="checkbox"/> Gender and development <input type="checkbox"/> Environmental protection <input type="checkbox"/> Regional cooperation <input type="checkbox"/> Other:	<input type="checkbox"/> Human development <input checked="" type="checkbox"/> Good governance <input checked="" type="checkbox"/> Private sector development <input type="checkbox"/> Social protection	
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>		
<p><b>4. Responsible division/department:</b> Pacific Department</p>		
<p><b>5. Responsible ADB officer(s):</b> Thuy Mellor</p>		
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Tonga has embarked on a comprehensive economic and public sector reform program (EPSRP) in 2002 to address deteriorating economic prospects due to a growing budget deficit, a large and inefficient public enterprise sector, and deteriorating public services. One aspect of the fiscal reform is to seek an improvement in the efficiency and effectiveness of resource use in the public enterprise sector; budget support for this sector has been increasing in recent years contributing to the worsening fiscal situation. Limited assistance has been provided by NZODA in recent years, to create a database on public enterprises financial position and ad hoc review. During the CPM in April 2002, the Government requested ADB to assist in accelerating reforms to significantly improve the efficiency of public enterprises so as to reduce the subsidy burden on the budget, and, where appropriate, to transfer some of these enterprises to the private sector.</p> <p><b>b. Goal and purpose:</b> Economic growth through a more efficient public enterprise sector leaving room for private businesses to grow</p>		

**c. Components and outputs:** Assistance will be provided to enable the Government to undertake an analysis of its commercial functions leading to a comprehensive policy in which the government will divest itself of noncore public enterprises, and introduce financial and managerial discipline to those that are not privatized within a sound regulatory regime. Outputs of the TA are expected to include a comprehensive policy framework covering objective public interest criteria to guide decisions on retention/privatization of public enterprises, details of corporate governance and financial performance requirements, process and timetable of privatization/liquidation of noncore public enterprises.

**d. Expected results and deliverables:** The TA will assist the Government to accelerate reforms in this sector with a coherent policy framework for decision making on privatization of noncore businesses, financial and managerial discipline to be imposed on retained businesses leading to elimination of subsidy, financial returns on government investments, and actual privatization/liquidation of enterprises that would be better off in the private sector.

**e. Social or environmental issues or concerns:** not applicable

**f. Plans for disseminating results/deliverables:** not applicable

**7. Proposed executing/implementing agencies:** Ministry of Finance

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:** Communicate to employees of these enterprises, and to the community at large, the rationale of government policy, the commercialization and privatization process, expected impact (positive and negative) on individuals and groups, and mitigation measures to help individuals to cope with these changes.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- b. Expected date of submission for approval  
 Lending:  
 Nonlending (project preparatory): March 2003  
 Nonlending (other than project preparatory):  
 Activities financed by JFICT or JFPR:
- c. Period and duration of assistance  
 Lending:  
 Nonlending: 12 months from April 2003  
 Activities financed by JFICT or JFPR:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
- Ordinary capital resources:
  - Asian Development Fund:
  - Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
  - ADB's administrative budget:
  - Grant TA funds
    - TA Special Fund: \$ 500,000
    - Japan Special Fund:
    - Other (specify, e.g., bilateral and multilateral trust funds):

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

c. For projects financed by

JFICT:

JFPR:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, [CPM=country programming mission](#), CSP = country strategy and program, EPSRP=Economic and Public Sector Reform Program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, NZODA=New Zealand Official Development Assistance, TA = technical assistance

**Title: Business Development Services**

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input checked="" type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Private Sector Subsector: Micro and Small Enterprises</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
<input type="checkbox"/> Economic growth	<input type="checkbox"/> Human development									
<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance									
<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development									
<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection									
<input type="checkbox"/> Other:										
<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p><b>4. Responsible division/department:</b> Pacific Department</p>										
<p><b>5. Responsible ADB officer(s):</b> Andrea Iffland</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The Government is implementing an Economic and Public Sector Reform Program (EPSRP) to ensure overall macroeconomic stability and to enhance private sector-led economic growth. The reform program will address the overall investment climate through the removal of administrative barriers and improvement of the legislative and regulatory framework for foreign and local investments.</p> <p>The private sector in Tonga, as in all PDMCs, comprises a few medium to large-scale enterprises and a large number of micro and small-scale businesses. A wide range of business support services is available to medium and large-scale enterprises and foreign investors. In contrast, micro and small-scale businesses, predominately Tongan-owned, have no support structure, and business support services tailored to their needs are not available. There is an urgent need to address this situation to realize the growth potential of existing micro and small enterprises (MSE) in Tonga.</p> <p><b>b. Goal and purpose:</b> To enhance private sector-led growth by providing access to existing nonfinancial business development services to micro and small enterprises.</p>										

**c. Components and outputs:** The ADTA will (i) set up an information system of available business development services (BDS); (ii) design a strategy to deepen the market for existing BDS; (iii) facilitate linkages between BDS providers and MSEs; and (iv) provide access to BDS through a cost-sharing arrangements, e.g., vouchers.

**d. Expected results and deliverables:** At least 50% of retrenched civil servants and early retirees will have received technical, business management training and/or had access to other nonfinancial business support services.

At least 500 micro and small entrepreneurs will have improved their business performance through various business advisory services (means of verification - business records).

**e. Social or environmental issues or concerns:** not applicable

**f. Plans for disseminating results/deliverables:** not applicable

**7. Proposed executing/implementing agencies:** Department of Labor, Commerce and Industries (EA), private sector association.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

A Government-Private Sector Consultative Group has identified the core problem. The Chamber of Commerce and the Tonga Small Business Association are active members of the Consultative Group, participating in its discussions. An assessment of business support services is being carried out under RETA 5963 for Private Sector Development. This comprises conferences, and qualitative and quantitative surveys of BDS.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory): February 2003
  - Activities financed by JFICT or JFPR
- c. Period and duration of assistance
  - Lending
  - Nonlending: 2/2003 – 8/2005, duration 2.5 years
  - Activities financed by JFICT or JFPR:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
  - Ordinary capital resources:
  - Asian Development Fund:
  - Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
  - No resources required, other than ADB staff
  - ADB's administrative budget:
  - Grant TA funds
    - TA Special Fund: \$250,000
    - Japan Special Fund:
    - Other (specify, e.g., bilateral and multilateral trust funds):

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

c. For projects financed by

JFICT:

JFPR:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, [ADTA=advisory technical assistance](#), [BDS=business development services](#), CSP = country strategy and program, EA=executing agencies, EPSRP=Economic and Public Sector Reform Program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, MSE=micro and small enterprise, PDMC=Pacific developing member countries, RETA=regional technical assistance, TA = technical assistance.

## Title: Employment Creation and Community-based Financial Management Training

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input type="checkbox"/> Nonlending</p> <p><input type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Education Subsector: Adult/Vocational Education</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input type="checkbox"/> Economic growth</td> <td><input checked="" type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input type="checkbox"/> Other:</td> <td></td> </tr> </table>	<input type="checkbox"/> Economic growth	<input checked="" type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input type="checkbox"/> Other:	
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<p><b>3. Coverage</b></p> <p><input checked="" type="checkbox"/> Country                      <input type="checkbox"/> Subregional                      <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>										
<p><b>4. Responsible division/department:</b> Pacific Department</p>										
<p><b>5. Responsible ADB officer(s):</b> Andrea Iffland</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> The Government is implementing an Economic and Public Sector Reform Program (EPSRP) to ensure overall macroeconomic stability and to enhance private sector-led economic growth. This includes reforming and rightsizing of the public service. The EPSRP envisages (i) enforcement of the retirement age of 60, (ii) provision of lump sum incentive payments to encourage employees over 50 to take early retirement, and (iii) retrenchment of selected public servants with lump sum compensation packages.</p> <p>The major socioeconomic impacts of the EPSRP over the next 3-5 years are likely to be a reduction in incomes of approximately 500 households. Lump sum payments for retirees and retrenched public servants are unlikely to provide long-term social security. Not only are they modest, but they will also be quickly spent. It is a cultural tradition to redistribute resources by giving gifts. In a mainly subsistence-based economy this worked well. Surplus produce could not be stored for long, and was converted into social capital by various distributive mechanisms. But in a money-based economy, traditional economic practices discourage savings and modern investments and encourage consumption.</p>										

Exposed to social pressures to meet family demands and to make generous donations to the church, the funds will be spent quickly. This cultural factor also undermines the efforts of many Tongans to operate private enterprises, and discourages others from starting new enterprises.

The reduction of the public service also reduces employment opportunities for Tongan youths. Geared towards academic achievement and focused on getting a job in the public service, youth will find it increasingly difficult to find employment. Vocational education has been ignored by the education system. Only a few vocational training institutions exist, and the possible enrollments fall substantially short of the expected increasing demand.

**b. Goal and purpose:** To mitigate the short and medium-term impacts of the reform by addressing (i) customary communal obligations through community-based financial management training, and (ii) providing vocational education to youths unable to find employment in the public sector. This will directly impact on poverty in urban centers and rural communities.

**c. Components and outputs:** The ADTA will introduce community-based financial management training in rural and urban areas. It comprises (i) developing training materials appropriate for (a) adults, and (b) primary and secondary schools; (ii) training of trainers/facilitators and selected primary and secondary school teachers in the use of these training materials; and (iii) production of radio and television programs on management of household incomes. The capacity of selected government and nongovernment vocational training centers will be increased to cater for the increasing demand for vocational education. Short-term courses and long-term training programs will be based on competency-based training modules.

**d. Expected results and deliverables:** All public servants directly affected by the reform and their immediate family members will have participated in the community-based financial management training. At least 100 training courses will be conducted in rural areas. At least 20% of all secondary and primary schools will have access to the training materials.

At least one vocational training provider in each of the outer islands and 4-6 training providers on the main island Tongatapu, will have increased their student enrollment by at least 20 % by 2/2006.

**e. Social or environmental issues or concerns:** not applicable

**f. Plans for disseminating results/deliverables:** not applicable

**7. Proposed executing/implementing agencies:** Department of Education as executing agency; NGOs will be part of implementation.

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**

NGOs, churches, and government training providers have been contacted. A detailed training needs analysis and intuitional assessment of training providers will be carried in cooperation with the Department of Education. A participatory planning workshop/ZOPP will be conducted to finalize project scope and implementation arrangements.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- b. Expected date of submission for approval
  - Lending:
  - Nonlending (project preparatory):
  - Nonlending (other than project preparatory):
  - Activities financed by JFICT or JFPR: March 2003
- c. Period and duration of assistance
  - Lending
  - Nonlending:
  - Activities financed by JFICT or JFPR: 3/2003 – 2/2006 duration 3 years

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

## a. For lending

- Ordinary capital resources:
- Asian Development Fund:
- Other:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

## b. For nonlending

- No resources required, other than ADB staff
- ADB's administrative budget:
- Grant TA funds
  - TA Special Fund:
  - Japan Special Fund:
  - Other (specify, e.g., bilateral and multilateral trust funds):

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

## c. For projects financed by

- JFICT:
- JFPR: US\$800,000

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, [ADTA=advisory technical assistance](#), CSP = country strategy and program, EPSRP=Economic and Public Sector Reform Program, JFICT = Japan Fund for Information and Communication Technology, NGO=nongovernment organization, JFPR = Japan Fund for Poverty Reduction, TA = technical assistance, ZOPP=objectives oriented project planning

**Title: Agriculture Sector Development**

<p><b>1. Type/modality of assistance</b></p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p>Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p>Other</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p>										
<p><b>2. Assistance Focus</b></p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Others Subsector:</p> <p>b. For project preparatory and lending, classification</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input type="checkbox"/> Poverty intervention</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input checked="" type="checkbox"/> Economic growth</td> <td><input type="checkbox"/> Human development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input type="checkbox"/> Good governance</td> </tr> <tr> <td><input type="checkbox"/> Environmental protection</td> <td><input checked="" type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Regional cooperation</td> <td><input type="checkbox"/> Social protection</td> </tr> <tr> <td><input checked="" type="checkbox"/> Other: Multisector</td> <td></td> </tr> </table>	<input checked="" type="checkbox"/> Economic growth	<input type="checkbox"/> Human development	<input type="checkbox"/> Gender and development	<input type="checkbox"/> Good governance	<input type="checkbox"/> Environmental protection	<input checked="" type="checkbox"/> Private sector development	<input type="checkbox"/> Regional cooperation	<input type="checkbox"/> Social protection	<input checked="" type="checkbox"/> Other: Multisector	
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<p><b>4. Responsible division/department:</b> PAHQ/PARD</p>										
<p><b>5. Responsible ADB officer(s):</b> TBD</p>										
<p><b>6. Description of assistance(s)</b></p> <p><b>a. Background/linkage to country/regional strategy:</b> Past assistance in this sector has focused on strengthening the Ministry of Agriculture's capacity to drive growth in agricultural production and improving export earnings. However the perception is that there is duplication of work between the ministry and other agencies, and poor performance by the ministry in developing market access, diversifying export products, and identifying value-adding opportunities. The public service reform program in 2003 will restructure the ministry to provide it with a clear mission and objectives. During the CPM in April 2002 the Government requested assistance to refocus the ministry to ensure that agriculture will be the source of economic growth in the future.</p> <p><b>b. Goal and purpose:</b> Economic growth to provide employment and reduce poverty in Tonga.</p> <p><b>c. Components and outputs:</b> The TA will review the administrative, marketing, and policy arrangements of the sector to eliminate duplication of functions and to encourage a customer service orientation. The key objectives of the TA will be to (i) enhance services to smallholders; (ii) develop a cooperative and effective approach to product promotion, market access, and identification of potential new products/markets; and (iii) assess the feasibility of value-added processing of agricultural exports and necessary infrastructure to support same.</p> <p><b>d. Expected results and deliverables:</b> The TA will provide recommendations and an action plan for</p>										

developing the agriculture sector to provide much needed economic growth and employment to compensate for the reduced role of the public sector in the future.

**e. Social or environmental issues or concerns:** Consideration should be given to ensure that development will be sustainable in the longer term within the constraints caused by the absence of the environmental impact assessment legislation.

**f. Plans for disseminating results/deliverables:** not applicable

**7. Proposed executing/implementing agencies:** Ministry of Agriculture

**8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance:**  
The TA will seek input from smallholders and agricultural businesses involved in import and export of agricultural products and foodstuff.

**9. Timetable for assistance design, processing, and implementation**

- a. Year included in CSP update: 2002
- d. Expected date of submission for approval  
Lending:  
Nonlending (project preparatory): April 2004  
Nonlending (other than project preparatory):  
Activities financed by JFICT or JFPR:
- c. Period and duration of assistance  
Lending:  
Nonlending: 8 months to end 2004  
Activities financed by JFICT or JFPR:

**10. Financing Plan** (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)

- a. For lending
- Ordinary capital resources
  - Asian Development Fund
  - Other

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- b. For nonlending
- No resources required, other than ADB staff
  - ADB's administrative budget
  - Grant TA funds
  - TA Special Fund: US\$500,000
  - Japan Special Fund
  - Other (specify, e.g., bilateral and multilateral trust funds)

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

- c. For projects financed by
- JFICT:
  - JFPR:

If cofinancing is required indicate sources, and amount sought:

If known, provide cost estimates and financing arrangements. (e.g., total cost, ADB financing, other financing, and government financing):

ADB = Asian Development Bank, CPM=country programming mission, CSP = country strategy and program, JFICT = Japan Fund for Information and Communication Technology, JFPR = Japan Fund for Poverty Reduction, PAHQ=Pacific Operations Division, PARD=Pacific Department, TA = technical assistance, TBD=to be determined.