



Country Operations Business Plan

August 2007

Tonga
2007–2009

Asian Development Bank

CURRENCY EQUIVALENTS

(as of July 2007)

Currency Unit	–	pa'anga (T\$)
T\$1.00	–	\$0.5215
\$1.00	–	T\$1.9175

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
CPA	–	country performance assessment
CPS	–	country partnership strategy
CSPU	–	country strategy and program update
GI	–	general intervention
ID	–	institutional development
IUDP	–	Integrated Urban Development Project
JSF	–	Japan Special Fund
NZAID	–	New Zealand Agency for International Development
OCR	–	ordinary capital resources
PBA	–	performance-based allocation
PFTAC	–	Pacific Financial Technical Assistance Centre
PPTA	–	project preparatory technical assistance
SDP-8	–	Strategic Development Plan Eight 2006/2007–2008/2009
SPSO	–	South Pacific Subregional Office
TA	–	technical assistance
TASF	–	Technical Assistance Special Fund

NOTE

In this report, "\$" refers to US dollars.

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

1. The country strategy and program update (CSPU) 2005–2006 for Tonga¹ supported the Government's development goals set out in its Strategic Development Plan 7 by focusing on: (i) continuing assistance to the Government's Economic and Public Sector Reform Program to enhance sound economic and public sector management; (ii) addressing the emerging deterioration in some social indicators through targeted interventions that promote inclusive social development; and (iii) improving the enabling environment for private sector development.

2. Since the approval of the CSPU 2005–2006, the Government has had to address increasing demands for political reform, a major threat to macroeconomic stability arising from large civil service wage increases granted after a civil service strike in July–September 2005, and growing community concerns over a range of social problems. The Government's response to these and other development issues is presented in the Strategic Development Plan Eight 2006/7–2008/9 (SDP-8). The riots of November 2006, linked to the pro-democracy political struggle, inflicted severe economic losses on the country, including closing private businesses and extensive damage to urban infrastructure in the capital Nuku'alofa. Development partners and the Government agreed that in the post-riot situation, assistance would continue to be guided by SDP-8, focusing on reconstruction of urban infrastructure, business recovery, and improved fiscal governance.

3. A country partnership strategy (CPS) for Tonga is currently under preparation, and approval is tentatively scheduled for October 2007. The CPS 2007–2011 relies on a detailed assessment based on the draft Pacific Island Economic Report for Tonga and a private sector assessment. Together, these support the design of carefully sequenced assistance in close coordination with development partners. As agreed with the Government, the CPS 2007–2011 will support SDP-8 implementation in alignment with the objectives of the Paris Declaration on Aid Effectiveness of 2005. The CPS will focus on poverty reduction, with three pillars for intervention addressing the binding constraints for growth: (i) integrated urban infrastructure development that is pro-poor; (ii) financing of pro-poor policies, through effective and prudent macroeconomic and fiscal management; and (iii) private sector development. This provides continuity, but refines the strategic approach defined in the CSPU 2005–2006. This strategy is fully consistent with the Pacific Strategy 2005–2009² of the Asian Development Bank (ADB), and supports Tonga's continued economic and social development and achievement of the Millennium Development Goals.

4. Discussions leading to the preparation of the CPS confirmed that both the Government and the development partners recognize ADB's comparative advantage in specific areas of the priority sectors for Tonga: (i) fiscal governance, where a partnership has been agreed with the Australian Agency for International Development (AusAID), New Zealand Agency for International Development (NZAID), and Pacific Financial Technical Assistance Centre (PFTAC); (ii) urban development, where AusAID has agreed to work in coordination with ADB's interventions in the sector; and (iii) private sector development, where ADB will assist in specific areas such as public enterprise rationalization/privatization, business service development, and youth micro-enterprise, thus developing synergies with ongoing or planned assistance by the World Bank, AusAID, and NZAID. The expected outcomes of the CPS are: (i) improved fiscal

¹ ADB. 2004. *Country and Strategy Program Update 2005–2006*. Manila.

² ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.

governance, (ii) improved social services delivery in urban areas, and (ii) an improved private sector enabling environment.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

5. The country-specific Asian Development Fund (ADF) lending allocations were derived on the basis of the results of the 2005 country performance assessment (CPA) exercise, after applying the performance-based allocation (PBA) formula. ADF allocations for Tonga for 2007–2008 have been set at \$4.45 million. Additionally, an unused balance of \$8.13 million from 2005–2006 ADF allocations for Tonga could be carried over as allowed under the revised PBA policy.³ The ADF assistance program for 2009 is tentative, with actual ADF assistance levels subject to the results of the 2007 CPA exercise and outcome of the discussions on the next ADF replenishment. For planning purposes, the 3-year allocation for 2007–2009 has been set at \$15.33 million.⁴ An indicative assistance pipeline for lending products for 2007–2009 is in Table 1.

6. For 2007–2009, an Integrated Urban Development Project (IUDP) has been included in the assistance program for Tonga for \$11.32 million, including \$5.03 million in grants. The project, scheduled for approval in 2007, will address specific urban needs of the country's capital island of Tongatapu, including high priority physical components in the road, drainage, and sanitation sectors.

7. ADB is considering indicative annual technical assistance (TA) support for 2007–2009 at around \$900,000. Based on an agreement reached with the Government, ADB TA assistance will focus on: (i) improved fiscal governance, (ii) private sector development, (iii) further support for the rationalization of public enterprises, and (iv) preparation of an urban planning and management system. An indicative assistance pipeline for nonlending products for 2007–2009 is in Table 2.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

8. The years covered by this business plan do not overlap with those covered by the CSPU 2005–2006. The proposed lending and nonlending program is consistent with the ongoing discussions with the Government in view of the preparation of a CPS 2007–2011 for Tonga. Additional information on the proposed lending products for 2007 is in Table 3,⁵ and additional information on the proposed nonlending products for 2007 is in Table 4.

³ ADB. 2004. *Review of the Asian Development Bank's Policy on the Performance-Based Allocation of Asian Development Fund Resources*. Manila.

⁴ ADB is in the process of revising the framework for ADF grants. Approval of the new framework, which links grant eligibility to a country's debt situation, is still pending. The indicative grant program is based on the revised ADF grant framework as presented in the working paper considered by ADB's Board of Directors on 24 July 2007. The grant framework is still subject to further change, which may affect the indicative grant program. Submission of ADF grant projects for Board consideration prior to the approval of the revised grant framework will be on a conditional basis. Should ADB's Board approve such projects, the grant agreement will not be signed until the revised grant framework is approved.

⁵ The IMF Article IV Mission of April 2007 recommended that new debt should be highly selective and concessional, and address the binding constraints for growth.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

9. It is estimated that the following internal staff resources will be required for timely delivery of the operations under the proposed business plan: (i) in 2007, 16.5 person-months of professional staff and 8.5 person-months of supporting staff; (ii) in 2008, 15.0 person-months of professional staff and 7.5 person-months of supporting staff; and (iii) in 2009, 11 person-months of professional staff and 5.5 person-months of supporting staff.

V. RESULTS-BASED MONITORING

10. The CSPU 2005–2006 was not results-based, and its road maps had no medium-term goals and targets. A results-based CPS will be developed in 2007 in close coordination with the Government, development partners, and other stakeholders. Background thematic assessments are currently ongoing, and will provide the required information to prepare the results framework for the CPS.

Table 1: Indicative Assistance Pipeline for Lending Products, 2007–2009

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't.	Co- financing
							Loans	Grants			
2007 Firm Loans											
Multisector											
Integrated Urban Development Project	GI	ENV	PAHQ			0.00	6.29	5.03	11.32	0.00	0.00
Total						0.00	6.29	5.03	11.32	0.00	0.00

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

Source: Asian Development Bank staff estimates.

Table 2: Indicative Assistance Pipeline for Nonlending Products and Services, 2007–2009

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2007							
Multisector							
Tonga Urban Planning and Management System	PAHQ	ID	JSF	700.0		0.00	700.0
Subtotal				700.0		0.00	700.0
2008							
Law, Economic Management, and Public Policy							
Fiscal Governance and Macroeconomic Capacity Building	SPSO	ID	TASF	500.0		0.00	500.0
Support for Organizational Development Strategy of the Reserve Bank of Tonga	SPSO	ID	JSF	500.0		0.00	500.0
Subtotal				1,000.0		0.00	1,000.0
2009							
Law, Economic Management, and Public Policy							
Rationalization of Public Enterprises, Phase IV	SPSO	ID	JSF	700.0		0.00	700.0
Support for Private Sector Development	SPSO	ID	TASF	500.0		0.00	500.0
Subtotal				1,200.0		0.00	1,200.0
Total				2,900.0		0.00	2,900.0

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

Source: Asian Development Bank staff estimates.

Table 3: Summary Information on Proposed Indicative Lending Products for 2007

Project Name	Description
Integrated Urban Development Project	<p>Goal The proposed loan will assist the Government in addressing specific urban needs of the country's capital island of Tongatapu arising from the limited availability of land, low levels of public asset maintenance, and rapidly growing population. The overall goal is to improve environmental quality and public health in Nuku'alofa through improved urban infrastructure and urban management.</p> <p>Major Components The project will include: (i) improved roads and drains in the urban area; (ii) a major new drain to serve a low-lying inundated part of the urban area; and (iii) capacity building in urban planning and management, including preventative maintenance.</p> <p>Expected Outputs and Outcomes The proposed project will deliver the following outputs: (i) verification of detailed locations for the proposed infrastructure subprojects, (ii) design and construction of the infrastructure, (iii) capacity building and monitoring, and (iv) training of operators. The key overall outcomes will be (i) improved living conditions in urban and peri-urban areas, and (ii) improved and better coordinated urban planning and management.</p>

Source: Asian Development Bank.

Table 4: Summary Information on Proposed Indicative Nonlending Products and Services for 2007

<p>Tonga Urban Planning and Management System</p>	<p>Goal The technical assistance (TA) will address the specific target of the establishment of effective institutional and legislative frameworks for urban planning and management. It will complement the Integrated Urban Development Project (IUDP). The project preparatory TA (PPTA) for the IUDP identified the scope of the required legislative, procedural, and institutional changes required.</p> <p>Major Components The major components comprise: (i) new planning legislation and amendments to existing land legislation; (ii) new planning procedures for preparation of urban and strategic plans, and for the consideration of planning issues in land registration processes; and (iii) the establishment of a spatial planning and management unit.</p> <p>Expected Output and Outcomes The TA will design and provide adequate capacity building for the development of a sustainable urban planning and management for Tonga, leading to more efficient and equitable development of scarce land resources. The new urban planning and management system will result in: (i) planning and environmental considerations taken into account in all major development decisions; (ii) planning and development intentions publicized to help facilitate investment in Tonga; (iii) a clear spatial framework for the prioritization of infrastructure investments; (iv) better organization of land uses and infrastructure—particularly in urban areas; (v) identification of future development demands and provision of a rational framework for deciding where new developments should go; (vi) avoidance of inappropriate development—making sure neighboring sites are compatible; (vii) allocation of land space for future residential development (town allotments); (viii) protection of areas that need special attention, e.g., ecologically important sites, archaeological sites, religious sites; (ix) minimization of the adverse environmental impacts of economic development by integrating environmental considerations with economic and sector planning and policies; and (x) taking into account the needs of all groups in the community in the planning process.</p>
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Source: Asian Development Bank.