



## Asian Development Bank & Tonga

### FACT SHEET

**Table 1. Tonga: Development Indicators**

Non-MDG	
Population in millions	0.10 (2008)
Annual population growth rate (%)	0.3 (2006–2008)
Adult literacy rate (%)	99.2 (2007)
Percent of population in urban areas	24.5 (2007)
MDG	
Percent of population living on less than \$1.25 a day	...
Percent of population living below the national poverty line	22.3 (2002)
Under-5 mortality rate per 1,000 live births	23 (2007)
Percent of population using an improved drinking water source	100 (2006)

... = data not available, MDG = Millennium Development Goal.

Sources: ADB. 2009. *Basic Statistics 2009*. Manila.

UNESCO. 2009. Institute for Statistics Data Centre.

World Bank. 2009. World Development Indicators Online.

The system of government in Tonga is changing. Pressure for political freedom and a more democratic form of government had been mounting for some years. In July–September 2005, the majority of the civil service went on strike to support their demands for increased pay—this strike also reflected an increasing discontent with the Government. The strike was eventually resolved when the civil servants were granted large pay rises. Shortly after the death of King Tupou IV on 10 September 2006, rioters ransacked and burned most of the Capital's central business district. This politically inspired unrest has had a profound impact on Tonga. While most Tongan's wish to retain the monarchy, most also want a more inclusive form of government.

The April 2007 National Economic Summit was a key step toward addressing the concerns of Tongans. The communiqué from the Summit identified six goals for economic growth: partnership between the Government and the private sector; focus on export growth, including remittances (corollary is import substitution) and tourism; maximize existing aid funding and provide additional government funding to grow the economy; develop market opportunities by facilitating trade; enhance access to capital markets and fully utilize the existing natural and human resources by improving access to capital to develop activities to achieve economic growth; and develop the labor market to ensure full and gainful employment to maximize the potential for economic growth.

Following the summit in July 2007, the Government established a tripartite committee to develop a road map to political reform. The next election, to be held in 2010, will see the number of people's representatives increase from nine to 17. Another fundamental change is that the Prime Minister and Ministers will no longer be appointed for life by the King. In future, all but four will be selected by Parliament. Also, in July 2007, the Government established the National Economic Development Council, which will advise Cabinet on measures to stimulate economic growth, particularly in policy initiatives to strengthen the role of the private sector in the economy.

The growth rate of the Tonga economy remains low. Over the last 5 years, it has averaged just over 1% annually. For fiscal year (FY)2008 (ending on 30 June 2008), gross domestic product (GDP) grew by an estimated 1%. While this is an improvement over the previous fiscal year when the economy contracted by 3.9%, it remains a disappointing outcome. During the year, the value of remittances continued to be high but exports fell, and the combined impact of the strengthening New Zealand dollar and large increases in fuel prices constrained economic growth.

The short-term outlook for FY2009 is more positive. The global credit crisis has undermined the value of the New Zealand dollar which, in turn, has reduced the cost of most imports into Tonga. In addition, the dramatic fall in the international price of petroleum has also significantly reduced costs. To date, the flow of remittances has not been seriously affected. In the medium to longer term, it is likely that remittances will decline with consequent negative effects on the Tonga economy.

Tonga's 2008–2009 budget focuses on restraining government expenditure, stimulating business recovery, and strengthening the private sector.

## Relationship with ADB

Tonga has received \$57.79 million in loans since joining the Asian Development Bank (ADB) in 1972. ADB changed its operational emphasis in 1992 when technical assistance (TA) began to focus on macroeconomic policies, the investment climate, and public sector performance. A reform program to enhance sound economic and public sector management was initiated in 2002 through the Economic and Public Sector Reform Program (EPSRP).

The Country Partnership Strategy (CPS) 2007–2012 for Tonga, approved in November 2007, defined as its main objectives: (i) the provision of infrastructure for the poor through urban development; (ii) financing of pro-poor policies through effective and prudent macroeconomic and fiscal management; and (iii) private sector development.

## Impact of Assistance

The national strategic vision aims for a higher standard of living for all Tongans. To date, progress toward achieving this objective has been disappointing.

The outcome reflects the past policy and governance environments that have discouraged private sector investment, and the crowding-out effects of a relatively large public sector. Considerable effort by ADB and bilateral aid agencies in the past to support reforms yielded disappointing results, which were attributed to a lack of political will. Amid continued demand for effective reforms, ADB approved, in 2002, the EPSRP, and a program loan was completed by the end of 2003.

The completion report for the program concluded it was partly successful. While a number of targets were achieved, these did not lead to a sustainable fiscal balance and improved public service delivery to the private sector and the general public. However, the EPSRP has been instrumental in supporting the prudent economic policy stance of the Government in the context of challenging conditions characterized by the

**Table 2. Tonga: Economic Indicators, 2004–2008**

Economic Indicator	2004	2005	2006	2007	2008
Per capita GNI, Atlas method (\$)	1,800	2,080	2,300	2,320	...
GDP growth (% change per year)	1.4	2.3	0.8	-3.5	1.2
CPI (% change per year)	11.8	10.0	7.2	5.1	9.9
Unemployment rate (%)	...	...	...	...	...
Fiscal balance (% of GDP)	-2.0	0.7	-4.3	1.4	2.0
Export growth (% change per year)	-21.1	15.9	-4.0	-13.9	-7.0
Import growth (% change per year)	11.5	27.5	15.8	-11.4	27.4
Current account balance (% of GDP)	4.0	-2.7	-9.6	-10.1	-10.8
External debt (% of GNI)	45.5	37.3	35.6	38.8	...

... = data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income.

Sources: ADB. 2009. *Asian Development Outlook 2009*. Manila.  
ADB staff estimates.  
World Bank. 2008. World Development Indicators Online.

**Table 3. Tonga: 2008 Loan, TA, and Grant Approvals (\$ million)**

Loans		TA	Grants	Total
Sovereign	Nonsovereign			
–	–	0.7	11.3	12.0

– = nil.

Cumulative Lending (as of 31 Dec 2008) : \$57.8 million  
Cumulative Disbursements (as of 31 Dec 2008) : \$52.3 million

civil service strike in 2005 and the riot of 2006. This can be seen in (i) the role played by the foreign exchange reserves, in part supplied through the proceeds of the program loan; (ii) the reduction in the pressure on the foreign exchange fluctuation as the Tongan Reserve Bank moved to protect its reserves against volatility in the money supply and from import growth; (iii) the alleviation of pressure on the budget when the Government faced a large civil service redundancy payout at the end of FY2005–2006; and (iv) the implementation of the reform initiatives that paved the way for improvements in the business environment, particularly tax reform that contributed to the aligning of the trade regime with Tonga's obligations under various trade agreements.

ADB has provided three phases of TA supporting the Rationalization of Public Enterprises. Phase three is directly supporting the rationalization of the five public enterprises, and achievements to date include the sale of shares for the Leiola Group and the tendering for sale of assets of Tongatapu Machinery Pool.

## Future Directions

ADB's CPS 2007–2012 supports the overarching goal of poverty reduction, is fully consistent with ADB's Pacific Strategy 2005–2009, and supports Tonga's economic and social development and achievement of the Millennium Development Goals.

The intended outcomes of the CPS are improved fiscal governance, an enhanced private sector-enabling environment, and better social services delivery in urban areas. It will emphasize the benefits of ADB's expertise, staff-based policy dialogue, and TA in

**Table 4. Tonga: Cumulative ADB Lending as of 31 December 2008**

Sector	Loans (no.)	Amount (\$ million)	% <sup>a</sup>
Agriculture and Natural Resources	1	2.40	4.15
Energy	2	12.20	21.11
Finance	2	6.50	11.25
Industry and Trade	1	0.37	0.64
Law, Economic Management, and Public Policy	1	10.00	17.31
Multisector	6	15.02	25.98
Transport and Communications	2	11.30	19.56
<b>Total</b>	<b>15</b>	<b>57.79</b>	<b>100.00</b>

<sup>a</sup> Total may not add up because of rounding.

**Table 5. Tonga: Project Success Rates**

By Sector	Percentage <sup>a</sup>	No. of Rated Projects/Programs
Agriculture and Natural Resources	0.0	1
Energy	100.0	1
Finance	0.0	2
Industry and Trade	100.0	1
Law, Economic Management, and Public Policy	0.0	1
Multisector	85.7	7
Transport and Communications	100.0	2
<b>Total</b>	<b>66.7</b>	<b>15</b>
By Year of Approval		
1970s	75.0	4
1980s	83.3	6
1990s	50.0	4
2000s	0.0	1

<sup>a</sup> Based on aggregate results of project/program completion reports (PCRs), PCR validation reports (PCRVRs), and project/program evaluation reports (PPERs) using PCRVR or PPER ratings in all cases where PCR and PCRVR/PPER ratings are available.

Sources: PCRs, PCRVRs, and PPERs containing a rating circulated as of 31 December 2008.

the development of strategic road maps for implementing the Eighth Strategic Development Plan 2006/2007–2008/2009 (SDP–8), with the objectives of building capacity and credibility among government agencies on policy implementation, ensuring strong development partner commitment to SDP–8, and avoiding exacerbation of Tonga’s debt burden. Future assistance is likely to focus on macroeconomic stability, fiscal governance, and private sector development, as well as urban development.

## Operational Challenges

Restoring political stability, maintaining macroeconomic stability, improving the governance environment, and achieving faster, sustained private sector-led economic and employment growth, while maintaining education and health standards, are the major medium-term challenges facing the Government of the Kingdom of Tonga.

An immediate challenge is the reconstruction of the Nuku’alofa central business district. Support for this effort is being provided under the Integrated Urban Development Sector Project, a joint Australian Agency for International Development (AusAID)/New Zealand’s International Aid and Development Agency (NZAID) business support facility and a substantial concessional loan from the People’s Republic of China. It is expected that the reconstruction work will significantly boost economic activity in the short to medium term. In the longer term, it is important that the reform of state-owned enterprises be pursued and efforts to address land tenure issues be implemented.

Table 6. Cumulative Nonsovereign Operations Portfolio Distribution by Top Countries, 1983–2008<sup>a,b</sup>

Country	No. of Projects	Total ADB Approvals (\$ million)
India	37	2,268
People’s Republic of China	21	1,694
Indonesia	15	879
Philippines	28	768
Pakistan	27	721
Kazakhstan	5	550
Thailand	10	319
Viet Nam	8	305
Sri Lanka	13	280
Bangladesh	8	242
Afghanistan	6	208
Lao People’s Democratic Republic	1	100
Other DMCs	13	87
Azerbaijan	4	66
Nepal	4	59
Regional	36	930

DMC = developing member country.

<sup>a</sup> Includes nonsovereign projects processed by the Private Sector Operations Department and various regional operations departments of ADB. Regional operations departments started nonsovereign operations in 2007.

<sup>b</sup> Net of facilities cancelled in full before signing.

Source: Private Sector Operations Department.

## Partnership

The preparation of CPS 2007–2012 was undertaken in coordination with the preparation of AusAID and NZAID new country programs, and in alignment with SDP–8 priorities. A Joint Tonga Programming Mission was conducted by ADB, AusAID, and NZAID in early 2007. ADB is also improving coordination with the World Bank in Tonga through a regional assistance focused on enhancing engagement in Tonga and other Pacific countries and better coordinating the country performance assessment processes of both organizations. This will be achieved with the establishment of a joint office and the engagement of a national officer for a period of 3 years. ADB and the World Bank Group are jointly supporting the Government of Tonga in the reform of the enabling business environment. This involves reforming company law (ADB) and modernizing the company registry (World Bank Group).

In October 2007, Tonga and its main development partners (ADB, AusAID, and NZAID) signed the draft “Declaration between the Government of Tonga and Development Partners”. In this Declaration, the signatories agree to apply the principles of the Paris Declaration on Aid Effectiveness at the country level. The objective of the Declaration is to set out areas of joint agreement for effective coordination in development cooperation work in Tonga. The document incorporates an action plan that defines concrete coordinated actions by the Government and development partners to improve aid effectiveness.

## Cofinancing and Procurement

Cofinancing operations enable ADB’s financing partners—government or their agencies, multilateral financing institutions, and commercial organizations—to participate in financing of ADB projects. The additional funds are provided in the form of grants, official loans, or credit enhancement products.

As of year-end 2008, cumulative value-added cofinancing for Tonga amounted to \$1.0 million for one investment project and \$0.2 million for two TA projects.

As of 31 December 2008, 10,330 consultant contracts were awarded under ADB loan projects worth \$4.17 billion, of which one contract was awarded to consultant from Tonga worth \$0.8 million.

From 1 January 1985 to 31 December 2008, 18,104 consultant contracts were awarded under ADB technical assistance projects worth \$2.33 billion, of which 14 contracts were awarded to consultants from Tonga worth \$0.53 million.

Table 7. Tonga: Top individual consultants involved in ADB technical assistance projects, 1 January 2004–31 December 2008

Consultant	Number of Times Contracted	Contract Amount (\$ million)
Individual Consultants from Tonga*	10	0.30

\* Consultant may have one or more contracts within the period covered.

## About Tonga and ADB

Tonga is the 37<sup>th</sup> largest shareholder among regional members and the 45<sup>th</sup> largest shareholder overall. It shares both positions with Kiribati, Maldives, Federated States of Micronesia, and Nauru.

### ADB Membership

Joined	1972
Shares held	142 (0.004%)
Votes	13,374 (0.30%)

**Ceppie K. Sumadilaga** is the Executive Director and **CJ (Stan) Vandersyp** is the Alternate Executive Director representing Tonga on the ADB Board of Directors.

The Pacific Subregional Office (SPSO) was opened in 2004 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. SPSO engages in policy dialogue and acts as a knowledge base on development issues in Tonga, Cook Islands, Fiji Islands, Kiribati, Samoa, and Tuvalu.

**R. Keith Leonard** is the Regional Director of SPSO.

The Tonga government agency handling ADB affairs is the Ministry of Finance and Planning.

## About the Asian Development Bank

ADB is a multilateral development bank owned by 67 members, 48 from the region and 19 from other parts of the world. ADB's main instruments for helping its developing member countries are policy dialogue, loans, equity investments, guarantees, grants, and technical assistance (TA). In 2008, lending volume was \$10.49 billion (86 projects), with TA at \$274.5 million (299 projects) and grant-financed projects at \$811.4 million (49 projects). This also generated \$1.65 billion in direct value-added cofinancing from financing partnerships operations. Over the last 5 years (2004–2008), ADB's annual lending volume averaged \$7.70 billion, with TA averaging \$231.5 million and grant-financed projects \$655.1 million. As of 31 December 2008, the cumulative totals were \$143.53 billion in loans for 2,147 projects in 41 countries, \$4.08 billion for 263 grant projects, and \$3.55 billion for 6,599 TA projects.

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### Useful ADB websites

Asian Development Bank  
[www.adb.org](http://www.adb.org)

### Country website

[www.adb.org/tonga](http://www.adb.org/tonga)

### Asian Development Outlook

[www.adb.org/Documents/Books/ADO/2009/SMALL-PAC.pdf](http://www.adb.org/Documents/Books/ADO/2009/SMALL-PAC.pdf)

### Annual Report

[www.adb.org/Documents/reports/annual\\_report/2008/](http://www.adb.org/Documents/reports/annual_report/2008/)