



Technical Assistance Report

Project Number: 40261
November 2006

Kingdom of Tonga: Support for the Implementation of the Strategic Development Plan 2006/07–2008/09

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 October 2006)

Currency Unit	–	pa'anga
T\$1.00	–	\$2.012
\$1.00	–	T\$0.497

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
CPD	–	Central Planning Department
CT	–	consumption tax
EPSRP	–	Economic and Public Sector Reform Program
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MFEP	–	Ministry of Finance and Economic Planning
NRBT	–	National Reserve Bank of Tonga
NZAID	–	New Zealand's International Aid & Development Agency
PARD	–	Pacific Department
PFTAC	–	Pacific Financial Technical Assistance Centre
SDP-8	–	Strategic Development Plan Eight, 2006/07—2008/09
TA	–	technical assistance
TDB	–	Tonga Development Bank
UNDP	–	United Nations Development Programme

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sector	–	Law, economic management, and public policy
Subsector	–	Economic management
Themes	–	Governance, capacity development
Subthemes	–	Public governance and civil society participation, institutional development

NOTES

- (i) In this report, "\$" refers to US dollars.
- (ii) The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2006 ends on 30 June 2006.

Vice President	C. L. Greenwood, Operations Group 2
Director General	P. Erquiaga, Pacific Department (PARD)
Regional Director	S. Jarvenpaa, South Pacific Subregional Office, PARD
Team Leader	Fernando Garcia, Principal Country Programs Specialist, PARD

I. INTRODUCTION

1. The Government of Tonga has approved its Strategic Development Plan Eight, 2006/07–2008/09 (SDP-8), prepared with the support of technical assistance funded by the Asian Development Bank (ADB).¹ The Plan presents a development vision and medium-term national development goals for Tonga. During the Country Contact Mission (18–20 March 2006), the Government requested further ADB TA support for implementing SDP-8. This assistance will build on the achievements of ADB's previous work that included a \$10 million Economic and Public Sector Reform Program (EPSRP) loan,² TA for preparing and implementing the EPSRP in 2002–2005,³ and TA in 2005–2006 for formulating SDP-8. During the Development Partners' Forum in July 2006, the Government, ADB, the Australian Agency for International Development (AusAID), the New Zealand Agency for International Aid and Development (NZAID), and the Pacific Financial Technical Assistance Centre (PFTAC) of the International Monetary Fund (IMF) reached understanding on the scope of the TA, cost estimates, implementation arrangements, and the detailed terms of reference. The proposed TA has been included in the revised TA program for 2006 and is consistent with the strategic objectives of *The Pacific Strategy for the Asian Development Bank 2005–2009*.⁴ The concept paper for the TA was approved by the Vice President (Operations 2) on 7 July 2006. The TA framework is in Appendix 1.⁵

II. ISSUES

2. Tonga has made substantial progress in human development since the 1950s and ranks 54th among the 177 developing countries covered by the United Nations Development Programme (UNDP)'s 2005 *Human Development Report*.⁶ Tonga has also made “good and steady progress” toward the Millennium Development Goals (MDGs).⁷

3. However, the real gross domestic product (GDP) has grown slowly over the past several decades (1.5–2.0%) with GDP per capita measuring only 27% of the average for the countries ranking high in the human development index. Slow output growth has been mirrored by slow employment growth and an increase in youth unemployment—associated with growing problems of crime and drug abuse. The Household Income and Expenditure Survey 2000/01⁸ revealed significant inequality in income distribution among households, with approximately 5% of the families lying below the national food poverty line level and 22% below the basic needs poverty line.⁹

¹ ADB. 2004. *Technical Assistance to the Kingdom of Tonga for Integrated Strategic Planning, Medium-Term Fiscal Framework and Budgeting*. Manila (TA 4510-TON approved for \$300,000 in December).

² ADB. 2002. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Kingdom of Tonga for the Economic and Public Sector Reform Program*. Manila (L1904-TON [SF], approved for SDR 8,020,000 in May).

³ ADB. 2001. *Technical Assistance to the Kingdom of Tonga for Economic and Public Sector Reform Program*. Manila. (TA3705-TON approved for \$650,000 in August).

⁴ ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005–2009*. Manila.

⁵ The TA first appeared in *ADB Business Opportunities* on 17 July 2006.

⁶ UNDP. 2005. *2005 Human Development Report*. New York, USA.

⁷ Government of Tonga. 2005. *Tonga 1st National Status Report: Millennium Development Goals Today and Tomorrow*. Nuku'alofa, Tonga.

⁸ Statistics Department. 2003. *Report on the Household Income and Expenditure Survey 2000/01*. Nuku'alofa, Tonga.

⁹ ADB. 2003. *Hardship and Poverty Status Discussion Paper*. Manila (p.19).

4. From early 2002, the Government has been addressing the slow economic growth, inequality in income distribution, unemployment, and poverty through the design and implementation of the EPSRP. The objectives of the EPSRP were to (i) achieve sustainable fiscal balance by strengthening public expenditure management, enhancing revenue generation, and improving efficiency and effectiveness of resource management in the public enterprise sector; (ii) improve public service delivery to the private sector and the general public by establishing an institutional framework for a performance-oriented civil service and promoting efficient and effective performance management; (iii) improve financial sector performance by raising the effectiveness of monetary policy and management and enhancing financial intermediation by the Tonga Development Bank (TDB); (iv) facilitate private sector-led growth by improving the legal and regulatory environment for local and foreign investment and by introducing and progressively implementing tax reform; and (v) mitigate the economic and social impact of the reform program by improving the quality of socioeconomic data production and dissemination and by establishing in the Central Planning Department (CPD) a unit for monitoring economic and social impact.

5. Significant progress was achieved under the EPSRP in 2002–2005, particularly in creating institutional and legislative frameworks for public financial management, public enterprise management, and public service delivery. Key legislation passed included the Public Finance Management Act 2002, the Revenue Services Administration Act 2002, the Public Enterprises Act 2002, and the Public Service Act 2002. Corporate planning was introduced in the public service, along with a code of conduct, performance agreements for department heads, and a merit-based remuneration and a performance evaluation system. Also, legislation was introduced to improve financial sector performance,¹⁰ and TDB achieved a stronger financial and overall performance. A tax reform package intended to reduce reliance on trade taxes was approved in January 2002.¹¹ The Government's commitment to trade liberalization and trade facilitation continued, with the signing of the Pacific Island Countries Trade Agreement and the Pacific Agreement on Closer Economic Relations (PACER), progress on Tonga's accession to the World Trade Organization, and continued negotiations with the European Union on a new trade arrangement under the Economic Partnership Agreement. The legal and regulatory environment for local and foreign investment was improved with the passage of the Foreign Investment Act 2002 and the Business Licenses Act 2002, both contributing to the streamlining of business procedures.

6. However, the EPSRP was not fully implemented and, in late 2005, it required reformulation in light of the economic and political developments. Progress had been delayed in passing amendments to the National Reserve Bank of Tonga (NRBT) Act aimed at strengthening NRBT's capacity to conduct monetary policy; repealing the Industrial Development Incentives Act 1978 (IDIA); and implementing the full tax reform package.¹² Generally, preparation of regulations supporting the newly adopted legislations was slow and law enforcement remained weak due to resource constraints. Importantly, the issue of

¹⁰ The Money Laundering and Proceeds of Crime Act 2000 provided the legislative framework for combating money laundering and terrorist financing; an amendment to the Criminal Offences Act criminalizes financing of terrorism; and the new Financial Institutions Act 2004 brought the licensing and supervision of licensed financial institutions in line with internationally accepted standards.

¹¹ The package consisted of (i) the introduction of a broad-based single-rate consumption tax (CT) for large businesses (annual turnover above \$100,000), (ii) a simplified corporate income tax, (iii) a simplified personal income tax, (iv) a uniform customs duty rate, and (v) the repeal of tax incentives under the Industrial Development Incentives Act (IDIA) and their replacement by accelerated depreciation and investment allowances.

¹² Parliament ratified the CT in October 2003, and in April 2005, a 15% CT was introduced in place of the domestic sales tax and the port and services tax. Other tax reforms intended for early 2005 were deferred.

rightsizing the public service remained to be fully addressed and performance measures were still to yield a clear improvement in public service delivery. Finally, while the Economic and Social Impact Monitoring Unit was added to CPD's organizational structure, it remained understaffed; and improving the range, reliability and timeliness of statistics remained a challenge associated with significant capacity constraints.

7. Macroeconomic performance in 2002–2005 fell short of EPSRP targets for inflation and growth. The EPSRP annual target was GDP growth over 3%, and annual inflation target less than 5% annually. Real GDP growth accelerated to just over 3% in FY2002/03, but fell to 1.4% in FY2003/04, 2.3% in FY2004/05, and 1.9% in FY2005/06. During FY2002–FY2005, inflation remained at double-digit levels, coming down to 8% in FY2005/06.

8. Furthermore, the achievements in macroeconomic stability came under threat due to the large public service wage increase granted after a 6-week civil service strike in July–September 2005. Meeting the FY2005/06 salary payout required canceling the capital expenditure program, freezing the 899 vacancies in the public service establishment of about 5,500 (as of 1 July 2005), and severely cutting operating expenditures. Moreover, a major fiscal problem looms in FY2006/07, when the postponed payment balance of 40% of the salary increases has to be paid together with the full 100% of the salary increase for the fiscal year.

9. The Government responded to the civil service strikers' demands for political reform by establishing Tonga's National Committee on Political Reform, mandated to review the constitution and political system in a consultative manner in 2006, drawing on the views of the resident and overseas Tongans as well as on those of civil society organizations. Furthermore, for the first time, a People's Representative in Parliament was confirmed as Prime Minister.

10. The fiscal challenge was met as part of the finalization and endorsement of SDP-8 in June 2006. Formulated on the basis of a lengthy and extensive consultative process, SDP-8 presents eight medium-term national development goals: (i) creating a better governance environment (including political reform), (ii) ensuring macroeconomic stability, (iii) promoting sustained private sector-led economic growth, (iv) ensuring equitable distribution of the benefits of growth, (v) improving education standards, (vi) improving health standards, (vii) ensuring environmental sustainability and reduced disaster risk, and (viii) maintaining social cohesion and cultural identity. Actions contributing to the achievement of better governance and macroeconomic stability included a major restructuring of public administration and downsizing of the public service through a voluntary redundancy program, both initiated in the first half of 2006. The two actions are complemented by a set of integrated Government initiatives for further strengthening public sector governance, namely: (i) preparing a cabinet office manual backed with formal induction for the current and future cabinet ministers, (ii) employing consultative development planning in setting objectives and development strategies, (iii) strengthening the capacity of the Prime Minister's Office to support alignment of the Government's work program with SDP-8, (iv) formulating and implementing a leadership code and strengthening the Office of the Commissioner for Public Relations, (v) strengthening public financial management, and (vi) integrating and standardizing the assessment and approval of aid-funded and budget-funded expenditures in alignment with SDP-8.

11. SDP-8 sets out a comprehensive medium-term reform agenda to be implemented within the new government structure. The Government is committed to completing the implementation of the EPSRP and expanding EPSRP's objectives into a second phase of an economic and public sector reform program with technical assistance from development partners. Through this second phase, SDP-8 strategies will be implemented in ministries' corporate and annual

management plans and funded through a combination of support of annual budgets (preferably to be financed by development partners on a grant basis), and technical assistance.

12. The proposed TA will help implement SDP-8 in areas related to economic and public sector reforms. The TA will, in the context of a Medium-Term Fiscal Framework, estimate the cost of EPSRP-related road maps to achieve SDP-8 goals.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

13. The overall goal of the TA is to improve economic and public sector management in Tonga by ensuring that the Government is able to align its policies, strategies, expenditures, and work program with SDP-8, including recommending policies and measures for development partners' assistance to the Government. Appropriate capacity building will, therefore, be required to assure sustainable management of SDP-8 implementation. The expected TA outcome is that Government decision making—particularly on budgeting—will be consistent with SDP-8 priorities. Government agencies' will be more cost-effective through a better focus on service delivery, and the Government's development partners will have greater confidence that their support is being appropriately targeted. The expected TA outputs are reports that will assist the Government in implementing SDP-8—especially with economic and public sector management, community consultations, and participation activities to help align SDP-8 implementation with the aspirations that the stakeholders have expressed during the development of SDP-8. The policy measures and action programs will focus on the governance environment, macroeconomic stability, private sector-led development, and pro-poor policies. The aim will be to: (i) improve the Government's cost-effectiveness in achieving development results; (ii) mitigate negative social risks of the reforms; and (iii) conduct meaningful policy dialogue in a coordinated and comprehensive manner, within the Government and with stakeholders, and with Tonga's development partners. These activities will draw on outputs produced by previous TAs for the design and implementation of the first phase of the EPSRP and the formulation of SDP-8.

B. Methodology and Key Activities

14. The TA will use consultative and participatory processes with focus on ensuring: (i) the Government's sense of ownership of the components and results of the EPSRP in its second phase, (ii) harmonization among development partners on the content and financing of the EPSRP, and (iii) broad-based support of the program's objectives by the beneficiaries. Through this process, the TA will be implemented in close consultation with government officials, development partners, private sector organizations, and civil society organizations. The TA will build on findings from the previous and current assistance of ADB and other funding agencies in areas related to the EPSRP.

15. The key TA activities include: (i) assisting the Government with preparing a sustainable strategy for implementing SDP-8; (ii) preparing the second phase of the EPSRP in support of the SDP-8; and (iii) preparing and conducting consultative workshops and seminars with Government agencies, civil society, the private sector, development partners, and other relevant stakeholders.

C. Cost and Financing

16. The total cost of the TA will be \$637,500 equivalent. The Government has requested ADB to finance \$510,000. The TA will be financed on a grant basis from ADB's technical assistance funding program. The Government will provide \$127,500 equivalent, for local currency costs in the form of services and facilities, including counterpart staff, office accommodation, and transport and administrative resources. The detailed cost estimates and financing plan are in Appendix 2.

D. Implementation Arrangements

17. The TA is expected to begin in December 2006 and be completed by August 2007. The TA will require 20 person-months of international consulting services. The consultant team will comprise three experts (person-months are in parentheses): (i) a macroeconomics/public finance specialist (8), (ii) a monetary economics/financial sector specialist (8), and (iii) a private sector development/outsourcing specialist (4). The consultants will be recruited individually. The outline terms of reference for the consultants are in Appendix 3. The team of consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants*.

18. The Ministry of Finance and Economic Planning (MFEP) will be the Executing Agency for the TA. It will provide office space, adequate counterpart staff, workshop and seminar venues, and local transportation. The reform subcommittee of the Cabinet on Economic Affairs under the chairmanship of the Prime Minister will provide overall guidance in TA implementation. Workshops, conferences, and national hearings will be implemented by the secretariat of the reform subcommittee.

19. The consultants will prepare: (i) an inception report, (ii) an interim progress report, (iii) a draft final report, and (iv) a final report. The recommendations of the draft final report will be discussed at a consultative meeting involving ADB, MFEP and other government agencies, consultants, and relevant stakeholders. In particular, the deliverables required of the consultants will undergo substantive and timely review by Tonga's development partners, including AusAID, NZAID, and PFTAC/IMF. Detailed reporting requirements are outlined in Appendix 3.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$510,000 on a grant basis to the Government of Tonga for Support for the Implementation of the Strategic Development Plan 2006/07–2008/09, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Improve economic and public sector management in Tonga by ensuring that the Government is able to align its policies, strategies, expenditures and work program with SDP-8</p>	<ul style="list-style-type: none"> • SDP-8 substantially implemented • Macroeconomic indicators agreed upon under EPSRP II 	<ul style="list-style-type: none"> • Progress reports by steering committee • Official statistical indicators 	<p>Assumption</p> <ul style="list-style-type: none"> • Continued political support for the implementation of SDP-8, particularly for the program of economic and public sector reforms <p>Risks</p> <ul style="list-style-type: none"> • Opposition from public service organizations to changes proposed by the program • Financial crisis that distracts the Government from reform efforts
<p>Outcome Government decision making—particularly on budgeting—consistent with SDP-8 priorities</p>	<ul style="list-style-type: none"> • Designed action plans fully endorsed by the Government • Recommended policies and measures accepted and endorsed by stakeholders • Strengthened support of the stakeholder community for the SDP-8 implementation process 	<ul style="list-style-type: none"> • Steering committee progress reports • Diagnostic and survey studies vetted by development partners, government agencies, and civil society organizations 	<p>Assumption</p> <ul style="list-style-type: none"> • Continued political support for the program of economic and public sector reforms <p>Risks</p> <ul style="list-style-type: none"> • Opposition from public service organizations to changes proposed by the program • Financial crisis that distracts the Government from reform efforts
<p>Outputs Reports and action plans to assist the Government in implementing SDP-8, especially with economic and public sector management</p> <p>A program of community consultation and participation activities related with implementation of SDP-8</p>	<ul style="list-style-type: none"> • Submission of inception, midterm, and draft final and final reports, including a sector analysis, development partner coordination matrix, summary poverty reduction and social strategy, and summary poverty impact assessment of the proposed program 	<ul style="list-style-type: none"> • TA progress reports • Staff review reports • Workshop participant feedback 	<p>Assumptions</p> <ul style="list-style-type: none"> • Availability of qualified consultants familiar with economic and public reforms • Selection and availability of workshop participants who are relevant and resourceful • Capable counterpart staff <p>Risk</p> <ul style="list-style-type: none"> • Unavailability of senior government officials for discussion and/or specific information

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
	<ul style="list-style-type: none"> • Consultative workshops with stakeholders on the impact of the proposed program on economic and public sector management • Reports on the results of the workshops and feedback from participants 		
<p>Activities with Milestones</p> <ol style="list-style-type: none"> 1. Review of EPSRP Phase I (2002–2005) and related documents and data completed in month 1. 2. Preparation of inception, midterm, and final reports in months 1, 4, and 8. 3. Preparation and conduct of the consultative workshops in month 4. 4. Report on the results of workshops and feedback from participants in month 5. 			<p>Inputs</p> <ul style="list-style-type: none"> • Asian Development Bank: \$510,000 for consulting services (20 person-months international) • Government: \$127,500 in kind for office accommodation, local transportation, and counterpart staff per diem • Development Partners (AusAID, NZAID, PFTAC/IMF) • Consultants • Other stakeholders

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, EPSRP = Economic and Public Sector Reform Program, IMF = International Monetary Fund, NZAID = New Zealand's International Aid & Development Agency, PFTAC = Pacific Financial Technical Assistance Centre, SDP-8 = Strategic Development Plan Eight, 2006/07 – 2008/09, TA = technical assistance.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
A. Asian Development Bank (ADB) Financing^a	
1. Consultants	
a. Remuneration and Per Diem of International Consultants	410.0
b. International and Local Travel	37.0
c. Reports and Communications	4.0
2. Workshops and Seminars	6.0
3. Miscellaneous Administration and Support Costs	2.0
4. Contingencies	51.0
Subtotal (A)	510.0
B. Government Financing^b	
1. Office Accommodation and Transport	50.0
2. Remuneration and Per Diem of Counterpart Staff	60.0
3. Others	17.5
Subtotal (B)	127.5
Total	637.5

^a Financed by ADB's technical assistance funding program.

^b In kind, including counterpart staff, office accommodation and facilities, and transport and administrative resources.
Source: ADB estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Objectives

1. The overall goal of the technical assistance (TA) is to improve economic and public sector management in Tonga by ensuring that the Government is able to align its policies, strategies, expenditures, and work program with Strategic Development Plan Eight (SDP-8), including recommending policies and measures for development partners' assistance to the Government. Appropriate capacity building will therefore be required to ensure sustainable management of SDP-8 implementation. The expected TA outcome is that Government decision making—particularly on budgeting—will be consistent with SDP-8 priorities, Government agencies' will be more cost-effective through a better focus on service delivery, and the Government's development partners will have greater confidence that their support is appropriately targeted. The expected TA outputs are reports to assist the Government in implementing SDP-8—especially with economic and public sector management; and a program of community consultation and participation activities to help ensure that SDP-8 implementation is aligned with the aspirations that these stakeholders have expressed during the development of SDP-8. General aims of the policy measures and action programs that will focus on the governance environment, macroeconomic stability, private sector-led development and pro-poor policies are to (i) improve the Government's cost-effectiveness in achieving development results; (ii) mitigate negative social risks of the reforms; and (iii) conduct meaningful policy dialogue in a coordinated and comprehensive manner, within the Government and with the stakeholders, including Tonga's development partners. These activities will draw on outputs produced by previous TAs to the Government for the design and implementation of the first phase of the Economic and Public Sector Reform Program (EPSRP) and the formulation of SDP-8.

2. The TA will use a consultative and participatory process with focus on ensuring the Government's sense of ownership of the components and results of the EPSRP, harmonization among development partners on the content and costs of the EPSRP, and broad-based support of the program's objectives by the beneficiaries. Through this process, the TA tasks will be designed and implemented in close consultation with government officials, development partners, private sector organizations, and civil society organizations. The TA will build on findings from previous and current assistance supported by the Asian Development Bank (ADB) and other funding agencies in areas related to the EPSRP. The key TA activities include (i) assisting the Government with preparing a sustainable strategy for implementing SDP-8; (ii) preparing the second phase of the EPSRP, focusing on the implementation of SDP-8; and (iii) preparing and conducting consultative workshops and seminars with Government agencies, civil society, the private sector, development partners, and other relevant stakeholders.

3. The Ministry of Finance and Economic Planning (MFEP) will be the Executing Agency for the TA. It will provide office space, adequate counterpart staff, workshop and seminar venues, and local transportation. The reform subcommittee of the Cabinet on Economic Affairs under the chairmanship of the prime minister will provide overall guidance in TA implementation. Workshops, conferences, and national hearings will be implemented by the secretariat of the reform subcommittee.

4. The TA is expected to begin in December 2006 and be completed by August 2007. The TA will require 20 person-months of international consulting services. The consultant team will comprise three experts (person-months are in parentheses): (i) a macroeconomics/public

finance specialist (8), (ii) a monetary economics/financial sector specialist (8), and (iii) a private sector development/outsourcing specialist (4). Consultants will be recruited individually and engaged in accordance with ADB's *Guidelines on the Use of Consultants*.

B. Scope

5. To achieve the TA goal, the consultants will undertake the following activities in their areas of expertise:

- (i) Evaluate the first phase of the EPSRP (2002–2005), and additional relevant documents and data, including all policy work, proposals and plans prepared to implement and operationalize SDP-8.
- (ii) Review all documents and assessments relevant to the areas covered by the TA, including (a) SDP-8 and other national plans; (b) economic, financial, and governance assessments prepared by the Government, National Reserve Bank of Tonga, development partners, or other sources in the last 5 years; (c) EPSRP-related documents, and any others related with economic and public sector reforms; and (d) any other documents required for the purposes of the TA.
- (iii) Assist the Government to prepare a sustainable strategy for implementing SDP-8, including issues papers and road maps. Road maps will be linked to the relevant priority issues, goals, and strategies identified in SDP-8, and will spell out institutional reform prerequisites, expected reform benefits and estimated costs, respective stakeholders' responsibilities and inputs, time schedules, and risks and mitigating measures, including preparing a Medium-Term Budgetary Framework for implementing SDP-8.
- (iv) Considering the strategy for implementing SDP-8, prepare EPSRP Phase II for Government and development partners' endorsement and financing, including all necessary relevant documentation.
- (v) Consult with government agencies, and all relevant stakeholders on the EPSRP Phase II reform agenda.
- (vi) Incorporate all relevant development partners' activities and programs into road maps.
- (vii) Develop monitorable reform performance indicators and outcomes, including baseline data and time-bound performance milestones.
- (viii) Present papers and road maps as part of a policy dialogue with government officials, political leaders, development partners, the private sector, and civil society organizations so that responsible line ministries can achieve a sense of ownership of the recommended road maps for implementing SDP-8.
- (ix) Carry out additional analytical work, as required.
- (x) Prepare terms of reference for further advisory technical assistance to be provided by development partners in connection with the implementation of SDP-8 to (a) study unresolved policy issues or to strengthen the capacity of key sector institutions; (b) support policy components of the program, targeting capacity-building in macroeconomic management and private sector development areas under SDP-8 to support implementation of reforms; and (c) provide capacity building within the key government agencies responsible for implementing SDP-8 and developing the Government's own governance capacity in the areas of procurement and disbursement—thus strengthening and empowering the Government's own procedures, supporting the management of the program and the achievement of its objectives, and providing for the efficient use of program-enhancing efficiency and transparency. Private sector

development will focus on building institutional capacity in the area of private-public partnerships, state-owned enterprise portfolio improvement, capital and financial market improvement and efficient foreign exchange allocation mechanism; and enhancing financial governance with support to auditing and uptake of auditors' advice.

- (xi) Prepare and implement a program of community consultation activities in relation with the TA, including local-level consultations, meetings with relevant stakeholders, and consultative workshops with stakeholders on the impact of the proposed program on economic and public sector management
- (xii) Perform other tasks as required by ADB to ensure the quality and efficiency of SDP-8 implementation.

C. Reporting Requirements

6. The consultants will report to the designated ADB staff officer and MFEP and prepare and submit, in publishable English, the following reports to MFEP and ADB:

- (i) inception report, within 2 weeks of the start of the assignment;
- (ii) interim report, 4 months after the start of the assignment;
- (iii) draft final report, 7 months after the start of the assignment; and
- (iv) final report.

7. In addition to the major reports, the consultants will submit short monthly progress reports, summarizing TA activities, issues, and constraints for the duration of the TA. The reports will undergo substantive and timely review by Tonga's development partner group including the Australian Agency for International Development, the New Zealand's International Aid & Development Agency, and the Pacific Financial Technical Assistance Centre of the International Monetary Fund.

8. The Government, ADB, and the other members of the development partner group will comment on the draft final report. The final report will be submitted within 3 weeks after the tripartite meeting to discuss the draft final report.