

**ASIAN DEVELOPMENT BANK**

**TAR:TON 37151**

**TECHNICAL ASSISTANCE**  
(Financed by the Japan Special Fund)

**TO THE**

**KINGDOM OF TONGA**

**FOR**

**YOUTH MICROENTERPRISE DEVELOPMENT**

**December 2004**

## **CURRENCY EQUIVALENTS**

(as of 14 November 2004)

Currency Unit	–	pa'anga (T\$)
T\$1.00	=	US\$0.50789
US\$1.00	=	T\$1.96889

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
MLCIT	–	Ministry of Labour, Commerce & Industries and Tourism
MOF	–	Ministry of Finance
NGO	–	nongovernment organization
TA	–	technical assistance

## **TECHNICAL ASSISTANCE CLASSIFICATION**

<b>Targeting Classification</b>	–	Targeted intervention
<b>Sector</b>	–	Industry and trade
<b>Subsector</b>	–	Small and medium-scale enterprises
<b>Theme</b>	–	Inclusive social development
<b>Subtheme</b>	–	Human development

## **NOTE**

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

This report was prepared by H. Baxter, Pacific Department.

## I. INTRODUCTION

1. During the Country Programming Mission to Tonga in 2003, the Government requested Asian Development Bank (ADB) assistance to address the problem of young people's economic and social exclusion. The social indicators for unemployed youth, petty crime, teenage pregnancy, and substance abuse have been worsening for some time. ADB considered and responded to the Government's concerns and fielded a fact-finding mission in April 2004. This mission discussed the rationale, scope, cost estimates, implementation arrangements, and plan for financing the assistance with officials of the Central Planning Department, Ministry of Finance (MOF); Ministry of Health; Ministry of Labour, Commerce & Industries and Tourism (MLCIT); and various nongovernment organizations (NGOs) working with youth. The minister of finance reiterated his support for the technical assistance (TA) during the Country Programming Mission of 2004. The Government concurred with the goals, purpose, scope, implementation arrangements, cost, financing arrangements, and terms of reference. The project framework is in Appendix 1.<sup>1</sup>

2. The assistance will complement a number of initiatives of the national Government, civil society, and development partners. The TA will complement ADB-supported assistance for business development services that aims to contribute to private sector-led economic growth, increased income, and employment opportunities by promoting microenterprise development and small- and medium-sized enterprise development.

## II. ISSUES

3. The continuation of slow economic growth in Tonga over several years exacerbated the problem of inadequate employment opportunities, especially for students leaving school, and has added to the hardship reportedly experienced by 20% of households. The unemployment and underemployment of youth and the associated real and potential social exclusion of this group have been of concern to the Government for some time (see Initial Poverty and Social Analysis at Appendix 2). The formal sector in Tonga is small, and opportunities in the formal labor market are limited. While places in postsecondary education exist, a large number of youths are exiting the education system (either at completion of secondary schooling or as dropouts at different stages), and no opportunities exist in further education or employment for these individuals. The choices for this significant proportion of the youth population are for the most part limited to nonfinancial remunerated activities, such as housework and subsistence farming.

4. In 2003, the Government undertook (with ADB assistance) a participatory assessment of hardship.<sup>2</sup> This assessment included surveys and interviews with four communities on the main island of Tongatapu and 11 communities in the four outer island groups ('Eua, Ha'apai, Niua, and the Vava'u). The assessment identified lack of jobs and other ways to earn cash as the most critical issue for all communities in urban and rural areas. Youth were identified as experiencing hardship as a result of a lack of educational and income opportunities. The Government agreed with the findings of the survey and committed to actions in the 2004 budget to address key issues, especially support for unemployed youth, rural poor, and urban social services.

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* (Internet edition) on 16 June 2004.

<sup>2</sup> ADB. 2004. *Priorities of the People: Hardship in Tonga*. Manila.

5. A recent labor force survey<sup>3</sup> confirms that Tonga is a predominantly youthful country, with about 56% of the total population under 25 years of age and about 19% classified as youth (between 15–24 years of age). Fifty percent of youth are in the education system. Thirty nine percent of youth are classified as participants in the labor force.<sup>4</sup> The youth unemployment rate is 12%, and 5% of youth overall are considered to be formally unemployed. Most youths outside the education sector do not have access to either income-generating activities or meaningful developmental activities that would lead to income generation. Some variations exist between Tongatapu and the other administrative divisions. Labor force participation rates for youth are lowest in Tongatapu (about 38%) and highest in 'Eua and Ha'apai (about 45%). Youth unemployment rates are highest in the Niua (18%) and lowest in Vava'u (8%). A considerable gender difference also exists in the employment data, with female inactivity rates significantly higher than male inactivity rates.

6. The Government has undertaken a number of initiatives to promote the economic and social inclusion of young people. MLCIT provides a job search service, matching registered job seekers with vacancies. Assistance is provided to job seekers in presentation and interview skills. MLCIT recently established a new business development service that is aimed at improving the skills and productivity of employees, providing advice and training to small businesses, and promoting the development of business skills. Local service providers provide training in marketing, customer service, bookkeeping and accounting, stocktaking, and business management.

7. The education system includes some technical and vocational courses in the secondary curriculum in some schools, and 12 government-funded postsecondary institutions, along with the Tonga Institute of Science and Technology, are offering technical and trade training for maritime, mechanical, electrical, and carpentry trades.

8. Civil society has various schemes in place that support youth. The Tonga National Youth Congress, for example, does the following: (i) conducts the Pacific Star Lifeskills Program (funded by the United Nations Children's Fund [UNICEF]); (ii) organizes an annual youth parliament to promote youth civic participation and provide a forum for hearing youth views; (iii) initiated a future farmers program that is aimed at promoting farming as a viable option for youth, in collaboration with the Ministry of Agriculture, Forestry and Food and with Food and Agriculture Organization funding; (iv) offers a microfinance program (funded by the Government of the United Kingdom); and (v) runs the Tonga National Volunteer Service (funded by Australia, New Zealand, and United Nations Development Programme), a program modeled on the United States Peace Corps.

9. Feedback from the Government and from civil society working with youth indicates that young people are very interested in microenterprise development. The various schemes in existence that provide opportunities for youth are generally oversubscribed. A large unmet demand for income-generating opportunities exists from well-educated youth.

10. The microenterprise sector was surveyed extensively in 2002,<sup>5</sup> to identify the need for business development services. The survey showed considerable demand for a number of services, including accounting, marketing, legal, and training. In response to this demand, ADB

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<sup>3</sup> National Statistics Office. 2003. *Labor Force Survey*. Tonga.

<sup>4</sup> Labor force participation is defined as more than 1 hour in the survey week being spent in actual work. The definition does not mean employment in either the formal or informal sector.

<sup>5</sup> The survey covered 150 microenterprises and small and medium-sized enterprises in Ha'apai, Tongatapu, and Vava'u and all economic sectors.

is currently supporting microenterprise and small and medium-sized enterprise development in Tonga through TA for business development services<sup>6</sup> by, among other things, improving the performance of existing and budding and/or start-up microenterprises and small enterprises. In addition, the Government is committed to improving the environment for private sector growth, and, in support of this, an assessment of administrative barriers to private sector investments is being carried out in cooperation with the Foreign Investment Advisory Service, under the TA for private sector development in the Pacific.<sup>7</sup>

### III. THE TECHNICAL ASSISTANCE

#### A. Purpose and Output

11. The purpose of the assistance is to design a countrywide program for the development of youth microenterprises. The assistance will build, test, and evaluate models for the development of youth microenterprises that are capable of and ready for implementation on a larger scale. The models will be participatory, decentralized, skill-focused, and entrepreneurial activities in the agricultural, handicrafts, and service sectors. To address the greater exclusion from participation in economic opportunities for females, the models will ensure a balance of gender, and at least two pilot models will be for females only. While the definition of youth in Tonga can frequently include people that are 30 to 39 years of age, the target age group for participants will be 18 to 28 years of age. At least one pilot model each will be established in 'Eua, Ha'apai, Niuas, Nuku'alofa, and Vava'u.

12. Specific outputs will include (i) establishing pilot microenterprises in agriculture (e.g., raising chickens and growing vegetables, flowers, etc.) and producing handicrafts and providing services (e.g., processing facilities and tourism ventures, etc.); (ii) establishing a set of good practices in youth microenterprise development; (iii) developing training, skills, and experience for participating youth in technical expertise and business planning and operations; and (iv) creating an implementation plan for further rollout of microenterprises.

#### B. Methodology and Key Activities

13. The assistance will be undertaken in three phases. The first phase will consist of a study of international good and innovative practices in youth enterprise development in comparable economies. This phase will also include a study to identify and assess opportunities for commercial activities in agriculture, handicrafts, and services. The second phase will include the establishment of pilot microenterprises and training and evaluation. The third phase will produce the implementation plan for the countrywide rollout of youth microenterprises. The assistance will be provided over a 2-year period.

14. The first activity will be a desk study of international experience in youth enterprise development. Good and innovative practices will be identified and documented. The experiences of small island countries, in particular will be examined to identify models that are adaptable to the Tongan situation. The second activity will be a study to identify opportunities for entrepreneurial activities that are underexploited or untried in Tonga and likely to generate commercial success and attract the interest of unemployed youth. This study will use existing information in the Ministry of Agriculture, Fisheries and Food and other relevant organizations. It will include reviewing reports and aid agency initiatives in microenterprise and small enterprise

<sup>6</sup> ADB. 2003. *Technical Assistance to the Kingdom of Tonga for Business Development Services*. Manila.

<sup>7</sup> ADB. 2000. *Technical Assistance for Private Sector Development in the Pacific*. Manila.

development in Tonga and other countries with comparable experiences. A rapid assessment of the agribusiness sector, including input distribution, production, harvest, processing, and marketing, will identify constraints and potential areas for microenterprise development. An assessment of the artisan and handicraft sector will look at raw material production, manufacture, and marketing. The service sector will be similarly assessed. Identified opportunities will be rated according to a set of criteria, including likelihood of sustainability, interest of target youth, appropriateness to local communities, and suitability for pilot testing.

15. A framework for microenterprise establishment will be developed and include sample rules of operation, governance arrangements, criteria for participation, memorandum of understanding with the local community, and other undertakings necessary in regard to ownership and operations.

16. Kickoff workshops in the target communities will be undertaken to present and engender support for pilot microenterprises and gain commitment to inclusion in the pilot program. Communities, NGOs, and youth participants will identify the microenterprise opportunities they propose to pursue.

17. Training programs in technical expertise and entrepreneurship and business development will be identified, designed, delivered, and evaluated. The TA will not attempt to duplicate services that already exist and will take advantage of services and service providers operating in the labor market and business development service areas.

18. Each pilot microenterprise will be evaluated to identify strengths and weaknesses and long-term viability. Evaluation criteria will include commercial success and the contribution made to the employability and entrepreneurship of participants and the extent to which that particular model can be replicated. The program as a whole will be evaluated to identify lessons useful for future expansion of the program. The lessons learned will be incorporated into a set of good practices and will contribute to the design and formulation of the countrywide implementation program.

### **C. Cost and Financing**

19. The total cost of the TA is estimated at \$315,000 equivalent. ADB will finance \$250,000, and the balance of \$65,000 will be provided by the Government through the provision of counterpart staff, support services, office facilities, and seed supplies. The TA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. Detailed cost estimates and financing plan are in Appendix 3.

### **D. Implementation Arrangements**

20. MOF will be the Executing Agency. The TA will be implemented in close cooperation with MLCIT and the Ministry of Agriculture, Forestry and Food; NGOs working with youth; and development partners. MLCIT will chair the project steering committee, whose membership will comprise representatives from the Ministry of Agriculture, Forestry and Food and other relevant government agencies; business associations; and civil society organizations with interests in youth. To facilitate the smooth implementation of the TA, an advance payment facility will be established with MLCIT, in accordance with ADB's *Guidelines for Disbursement of TA Grants*. The advance amount will be up to \$118,000 equivalent, for the expenditures of equipment, training, conferences, surveys, and cost-shared services.

21. The TA will be implemented over a 24-month period, beginning in February 2005, and is expected to be completed by January 2007. The international consultant will have expertise in microenterprise development and provide 6 person-months of input. Moreover, this consultant will conduct the initial assessment of opportunities, design the framework for model microenterprises, provide guidance to domestic consultants, kick-start enterprises, lead a midterm project review of progress, conduct the evaluation, and contribute to the development of the countrywide implementation program. The international consultant will also provide an inception report within 2 months of the start date, a midterm progress report, a draft final report within 2 weeks of completion of the assignment, and a final report. One domestic consultant, a youth development specialist, will provide a total of 20 person-months of input. This consultant will also conduct the community kickoff workshops, provide ongoing mentoring and support to enterprises, arrange technical and entrepreneurial training, participate in the ongoing progress reviews, contribute to the evaluation, prepare information materials, and be responsible for project communication with local communities. The youth development specialist will provide bimonthly progress reports to the steering committee and ADB. Outline terms of reference are in Appendix 4. The consultants will be engaged by ADB on an individual basis in accordance with the *Guidelines on the Use of Consultants by Asian Development Bank and Its Borrowers* and other arrangements satisfactory to ADB for the engagement of domestic consultants.

22. The results of the assistance will be disseminated at a workshop in Tonga at completion. A report and video will be produced for dissemination throughout the Pacific developing member countries.

#### **IV. THE PRESIDENT'S DECISION**

23. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$250,000 on a grant basis to the Government of Tonga for Youth Microenterprise Development, and hereby reports this action to the Board.

### TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions
<p><b>Goal</b> Participation of young people in economic activity</p>	<p>PI: Youth microenterprise development program in operation</p> <p>PI: Reduction in youth unemployment rates</p> <p>PI: Reduction in youth social exclusion</p>	<p>Government budget statement</p> <p>Government labor market statistics</p> <p>Reports from NGOs working with youth (e.g., National Youth Congress)</p>	
<p><b>Purpose</b> Youth microenterprise development program based on proven models and capable of countrywide implementation</p>	<p>PI: Government endorsement of models, lessons learned, and expansion of program supported by the Government and NGOs by project completion</p>	<p>Government budget statement</p>	<p>Government commitment to rollout of youth microenterprise development program</p> <p>Economic downturn</p>
<p><b>Outputs</b></p> <p>1. Pilot microenterprises in agriculture sector established</p> <p>2. Young people with knowledge, skills, and experience in microenterprise development</p> <p>3. Set of good practices in youth microenterprise development program identified and disseminated</p> <p>4. Implementation plan for rollout of youth microenterprise development program</p>	<p>Target: 6–10 microenterprises in 'Eua, Ha'apai, Niuaus, Tongatapu, and Vava'u by project completion</p> <p>Target: 60–100 young people participating in pilot microenterprises and receiving training</p> <p>PI: Good practices published and disseminated by project completion</p> <p>PI: Implementation plan endorsed by the Government</p>	<p>Youth microenterprise development program financial statements and business plans; project reports; ADB mission reports; government department reports; NGO reports</p> <p>Before and after surveys of participants; project reports; ADB mission reports; government department reports; NGO reports</p> <p>Project reports; ADB mission reports; government department reports; NGO reports</p> <p>Project reports; ADB mission reports; government department reports</p>	<p>Changes in agriculture sector impact viability of enterprise (e.g., collapse in market price of produce)</p> <p>Youth participants remain involved long enough to evaluate success of training</p> <p>Government continues to consider youth issues a priority</p>

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Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions
<p><b>Activities</b></p> <p>1a. Study of international experience in youth enterprise development</p> <p>1b. Study of agriculture and other business opportunities</p> <p>1c. Design of framework for microenterprise model</p> <p>1d. Kickoff workshops in local communities</p> <p>1e. Selection of opportunities for microenterprise development</p> <p>2. Design, delivery, and evaluation of technical, entrepreneurial, and other related training and experience for participants and/or NGOs</p> <p>3a. Evaluation of microenterprise models</p> <p>3b. Development of good practices</p> <p>4. Development of implementation program</p>	<p>Study completed within 1 month of project start date</p> <p>Study completed within 2 months of project start date</p> <p>Framework designed and agreed with the Government within 3 months of project start date</p> <p>Workshops held within 3 months of project start date</p> <p>Opportunities selected within 2 months of project start date</p> <p>Training completed according to training program</p> <p>Evaluation completed 18 months after project start date</p> <p>Good practices developed 20 months after project start date</p> <p>Implementation program developed and endorsed by the Government 22 months after project start date</p>	<p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports</p> <p>Project reports; ADB mission reports; government department reports</p>	<p>Changes in agriculture sector impact viability of enterprises (e.g., collapse in market price of produce)</p> <p>Youth participants remain involved long enough to evaluate success of training</p> <p>Lack of specific technical expertise available in Tonga at time required</p> <p>Other priorities become more important for the Government to pursue</p>
<p><b>Inputs</b></p> <p>International consultant input of 4 person-months;</p>			

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<b>Design Summary</b>	<b>Performance Indicators/Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions</b>
Domestic consultant input of 24 person-months; Direction and support from steering committee; Office equipment and training programs and equipment, supplies, and materials.			

ADB = Asian Development Bank, NGO = nongovernment organization, PI = performance indicator.

## INITIAL POVERTY AND SOCIAL ANALYSIS

### A. Linkages to the Country Poverty Analysis

<b>Is the sector identified as a national priority in country poverty analysis?</b>	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No	<b>Is the sector identified as a national priority in country poverty partnership agreement?</b>	<input checked="" type="checkbox"/> Yes  <input type="checkbox"/> No
<p><b>Contribution of the sector or subsector to reduce poverty in Tonga:</b></p> <p>The Government expressed concern about a number of social indicators, including unemployed youth, rising petty crime, substance abuse, and increasing incidence of teenage pregnancies. Tonga and the Asian Development Bank (ADB) signed a poverty partnership agreement in November 2002. The agreement commits both parties to the development of a comprehensive strategy for poverty reduction that addresses pro-poor growth, improved and expanded access to social services, and job creation.</p> <p>ADB's strategy for Tonga supports the Government's development goals. The focus of assistance in 2005–2006 will be (i) continuing assistance to the Government's reform program to enhance the efficiency and effectiveness of the public sector; (ii) addressing the emerging deterioration in some social indicators through targeted interventions; and (iii) improving the policy environment and physical facilities to provide better and timely market information and improved market access to smallholders.</p>			

### B. Poverty Analysis intervention

**Targeting**      **Classification:**      Targeted

<b>What type of poverty analysis is needed?</b> None
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### C. Participation Process

<b>Is there a stakeholder analysis?</b>	<input checked="" type="checkbox"/> Yes <input type="checkbox"/> No
Through regional technical assistance in 2003, ADB helped Tonga prepare its National Poverty Reduction Strategy, which involved all stakeholders in a participatory process. The participatory process took place in 16 communities. The Government has agreed to the findings of the survey and has committed to actions in the 2004 budget to address key issues, especially support for unemployed youth and the rural poor.	
<b>Is there a participation strategy?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

### D. Gender Development

<b>Strategy to maximize impacts on women:</b> None	
<b>Has an output been prepared?</b>	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

### E. Social Safeguards and Other Social Risks

Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
<b>Resettlement</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Full <input type="checkbox"/> Short <input checked="" type="checkbox"/> None
<b>Affordability</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

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Item	Significant/ Not Significant/ None	Strategy to Address Issues	Plan Required
<b>Labor</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Indigenous Peoples</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
<b>Other Risks and/or Vulnerabilities</b>	<input type="checkbox"/> Significant <input type="checkbox"/> Not significant <input checked="" type="checkbox"/> None		<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	108.0	0.0	108.0
ii. Domestic Consultants	0.0	20.0	20.0
b. International and Local Travel	20.0	5.0	25.0
c. Reports and Communications	5.0	5.0	10.0
2. Equipment	0.0	4.0	4.0
3. Training, Seminars, and Conferences	0.0	6.0	6.0
4. Surveys	5.0	5.0	10.0
5. Miscellaneous Administration and Support Costs	0.0	37.0	37.0
6. Contingencies	20.0	10.0	30.0
<b>Subtotal (A)</b>	<b>158.0</b>	<b>92.0</b>	<b>250.0</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0.0	15.0	15.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	20.0	20.0
3. Others	0.0	30.0	30.0
<b>Subtotal (B)</b>	<b>0.0</b>	<b>65.0</b>	<b>65.0</b>
<b>Total</b>	<b>158.0</b>	<b>157.0</b>	<b>315.0</b>

<sup>a</sup> Financed by the Japan Special Fund, funded by the Government of Japan.  
Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

### A. **Microenterprise Development Specialist** (international, 6 person-months [intermittent])

1. The microenterprise development specialist will have expertise in microenterprise development in agriculture, agribusiness, and other related areas.
2. The specific responsibilities of the specialist include the following:
  - (i) prepare detailed project plan;
  - (ii) conduct survey of opportunities for entrepreneurial activities in agriculture, handicrafts, and service sectors;
  - (iii) prepare the framework for microenterprise establishment, including draft memorandum of agreement with local community, governance arrangements, participation criteria, and operational processes;
  - (iv) kick-start the establishment of pilot microenterprises;
  - (v) provide technical, business, and entrepreneurial advice to pilot microenterprises;
  - (vi) provide support and mentoring to domestic consultants;
  - (vii) support project communication activities;
  - (viii) provide an evaluation framework for capturing good practices; and
  - (ix) provide an inception report, a midterm progress report, and a final report to the Asian Development Bank.

### B. **Youth Development Specialist** (domestic, 20 person-months)

3. The youth development specialist will have expertise in youth development and microenterprise development.
4. The specific responsibilities of the specialist include the following:
  - (i) assist the microenterprise development specialist in preparing the framework for microenterprise establishment;
  - (ii) conduct community kickoff workshop;
  - (iii) arrange technical and entrepreneurial training;
  - (iv) assist in the establishment of pilot microenterprises;
  - (v) provide technical, business, and entrepreneurial advice to pilot microenterprises;
  - (vi) provide support and mentoring to youth participants;
  - (vii) support project communication activities; and
  - (viii) assist in the evaluation of the enterprises.