



**KINGDOM OF TONGA**

**TONGA STRATEGIC DEVELOPMENT FRAMEWORK  
(TSDF)**

**2011 - 2014**

**MINISTRY OF FINANCE AND NATIONAL PLANNING  
NUKU'ALOFA, TONGA - 2011**



## Acronyms:

ACP	African, Caribbean and Pacific countries	MOW	Ministry of Works
ADB	Asian Development Bank	NAPA	National Adaptation Plan of Action
EIA	Environment Impact Assessment	NCD	Non-Communicable Diseases
EPA	Economic Partnership Agreement	NEDC	National Economic Development Council
EPSRP	Economic Public Sector Reform Program	NES	National Export Strategy
EU	European Unions	NGOs	Non-Government Organisations
FY	Fiscal Year	NIIP	National Infrastructure Investment Plan
GDI	Gross Disposable Income	NRBT	National Reserve Bank of Tonga
GDP	Gross Domestic Products	NSPF	National Strategy Planning Framework
HDI	Human Development Index	PACER	Pacific Agreement on Closer Economic Relations
HIES	Household Income and Expenditure Survey	PEs	Public Enterprises
HPI	Human Poverty Index	PICTA	Pacific Island Countries Trade Agreement
HODs	Heads of Department	PMO	Prime Minister's Office
IMF	International Monetary Fund	PPP	Public-Private Partnership
MAFFF	Ministry of Agriculture, Food, Forestry and Fisheries	SDP8	Strategic Development Plan 8
MDG	Millennium Development Goals	TERM	Tonga Energy Road Map
MDGIs	Millennium Development Goal Indicators	TNQAB	Tonga National Qualification and Accreditation Board
MECC	Ministry of Environment and Climate Change	TSDF	Tonga Strategic Development Framework
MEWAC	Ministry of Education, Women Affairs and Culture	TVET	Technical & Vocational Education and Training
MLCI	Ministry of Labour, Commerce and Industries	UNDP	United Nations Development Programs
MOH	Ministry of Health	WB	World Bank
MOFNP	Ministry of Finance and National Planning	WTO	World Trade Organisation
MOTEYS	Ministry of Training, Employment, Youth and Sports	UNHDI	United Nations Human Development Index

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## Foreword

It gives me great pleasure to present the government's four year Tonga Strategic Development Framework (TSDF) and its development vision for the future: *"to develop and promote a just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony and prosperity, in meeting their aspirations in life"*. We are also committed to follow through with the achievement of all *Millennium Development Goal targets*. The Framework identifies nine key outcome objectives and four enabling themes, with a series of strategies that the government believes will guide us to the realisation of this vision.

The Ministry of Finance and National Planning led the preparation of the TSDF. I wish to recognise the contribution of the NSPF from the former administration and the associated national consultation for its preparation. The present administration has drawn upon this work, as well as the new dialogue arising from the first full parliamentary elections, to fine-tune the existing national objectives, such as recognising the importance of our cultural traditions, and the need for more equitable development of our communities. We also added three important new ones, recognising the importance of education to ensure the long term welfare of our people, the essential need for improved governance- the greater transparency and accountability that is now expected from a fully elected government - and the importance for ensuring rule of law and a safe environment in which people can go about their legal business.

The TSDF will:

- Guide the further formulation of the sector development plans, ministries' corporate and annual management plans and the annual budgets through which resources are allocated
- Inform the private sector and civil society of the government's policy intentions, laying a basis for further private/public consultations
- Provide the foundation on which the government can develop its external economic relations and development partners can construct their country strategies and assistance programmes in a spirit of true partnership
- Provide indicators by which the government's progress in policy/strategy implementation can be monitored and measured.

I would like to acknowledge with sincere appreciation the continuing support provided by AusAID and technical support from ADB in facilitating the planning process, as well as the contribution of other development partners.

The successful implementation of TSDF will require the concerted efforts of Tongans in communities, civil society organisations, and the private sectors. Most particularly, it requires committed efforts from the public service charged with the task of improving public service delivery. We will also need the ongoing engagement of our development and trade partners and neighbours in the region. Let us all work with renewed vigour to improve our economic and social wellbeing. Let us make our Vision a reality!



.....  
Hon. Sunia Manu Fili

Minister for Finance & National Planning



# Introduction

The earlier Strategic Development Plans were appropriate for their time. The format, however, was too detailed and prescriptive to address the range of issues we face. A more strategic and flexible approach is required. This approach was started with the National Strategic Planning Framework (NSPF), approved by the previous administration in 2009/10. The Tonga Strategic Development Framework (TSDF) draws on the consultative process for the NSPF and the new debates that have taken place leading up to, and since, the recent elections. By fine tuning the original six national objectives, and adding three new ones recognising the importance of education, improved governance, and a safe and secure society, the present administration has brought the TSDF up to date to current conditions in the Kingdom.

The TSDF provides the guiding principles and directions to guide the work of the present administration over its four year term. The detailed actions to deliver these strategies are articulated through sector plans, and Ministries' corporate plans and annual management plans to guide their budget allocations. Ministries will focus on their core functions where they can develop outcomes and outputs that they have the legal obligation to deliver. These are then translated into projects or programme to achieve the outputs. These in turn will contribute to the achievement of the national vision and objectives.

The document starts with the Vision, nine *Outcome Objectives* and four *Enabling Themes*. These are then grouped with their respective strategies, of which there are 42 in total. Chapter 1 provides additional information to provide a deeper understanding of the focus of these strategies. Chapter 2 outlines the process for establishing a Monitoring and Evaluation structure to allow us to track progress against each strategy leading up to our objectives and vision. This structure will be complemented by the more detailed monitoring and evaluation of the sector plans, Ministries Annual Management and longer term Corporate Plans, and the annual budgets.

## GOVERNMENT'S VISION

*"To develop and promote a just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony and prosperity, in meeting their aspirations in life".*

### Outcome Objectives

The Government's Vision will be achieved by delivering the following Outcome Objectives:

1. **Strong inclusive communities**, by engaging districts/villages/communities in meeting their prioritised service needs and ensuring equitable distribution of development benefits.
2. **Dynamic public and private sector partnership as the engine of growth**, by promoting better collaboration between government and business, appropriate incentives and streamlining of rules and regulations.
3. **Appropriate, well planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business**, by the adequate funding and implementation of the National Infrastructure Investment Plan (NIIP).
4. **Sound education standards**, by emphasising quality universal basic education.
5. **Appropriately skilled workforce to meet the available opportunities in Tonga and overseas**, by delivering improved Technical and Vocational Education and Training.
6. **Improved health of the people**, by promoting healthy lifestyle choices with particular focus on addressing non-communicable diseases, and providing quality, effective and sustainable health services.
7. **Cultural awareness, environmental sustainability, disaster risk management and climate change adaptation, integrated into all planning and implementation of programmes**, by establishing and adhering to appropriate procedures and consultation mechanisms.
8. **Better governance**, by adopting the qualities of good governance, accountability, transparency, anti-corruption and rule of law.
9. **Safe, secure and stable society**, by maintaining law and order.

### Enabling Themes

The delivery of Tonga's Outcome Objectives will be facilitated through:

Continuing progress to a more efficient and effective government by focussing on its core functions; improving coordination, service delivery and optimising use of resources.	Improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and those services to the people can be appropriately funded.	Ensuring Public Enterprises are sustainable and accountable, and where appropriate moved into the private sector.	Ensuring a more coordinated whole of government approach in Tonga's partnership with development partners.
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## Summary of TSDF's Outcome Objectives and Associated Strategies

- 1. Strong inclusive communities**, by engaging districts/villages/communities in meeting their service needs and ensuring the prioritised and equitable distribution of development benefits.

*Lead Ministry:* LA, PMO, MOFNP, MOH, MEWAC, MOTEYS, MAFFF, MOP, Ministry of Tourism, MLCI, MECC.

*Relevant Sector Plans:* MDG 1 Eradicate Extreme Poverty and Hunger and MDG 3 Promote Gender Equality & Empower Women (Poverty =Hardship) and MDG 7 Ensure Environmental Sustainability.

*Strategy 1: Better formulation and implementation of outer island and rural development programmes through local communities.*

*Strategy 2: Improving gender equality by implementing the government's gender development policy.*

*Strategy 3: Increasing institutional care and support services for the elderly and other vulnerable groups, including investigation of the potential private sector role.*

*Strategy 4: Instilling discipline, basic life skills and good values in the youth, in particular addressing the needs of those who are unemployed, by promoting youth development programmes, including community economic development and consideration of a National Youth Service.*

- 2. Dynamic public and private sector partnership as the engine of growth**, by promoting better collaboration between government and business, appropriate incentives, and streamlining of rules and regulations

*Lead Ministry:* MLCI, MAFFF, Ministry of Tourism, MOTEYS, MOR.

*Strategy 5: Creating the enabling environment for the private sector to flourish.*

- (i) Maintaining macroeconomic stability*
- (ii) Promoting financial sector development*
- (iii) Investing in a healthy, well-educated and skilled workforce*
- (iv) Directing development training to increase the value-added of business*
- (v) Establishing an appropriate level of business supervision*
- (vi) Involving the private sector more closely in policy formulation and implementation*
- (vii) Fostering technological development*
- (viii) Promoting regional and international trade*

*Strategy 6: Improving output of the productive sectors.*

- (i) Tourism*
- (ii) Agriculture, Forestry and Fisheries*
- (iii) Seabed Minerals*
- (iv) Remittances and Seasonal Labour*

- 3. Appropriate, well planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business**, by the adequate funding and implementation of the National Infrastructure Investment Plan.

Lead Ministry: MOT, MOW, MoTourism, MICs, MOH, MLSNR, MPE, MECC, MLCI

Relevant Sector Plans: National Infrastructure Investment Plan (NIIP), MDG 1 Eradicate Extreme Poverty and Hunger and MDG 7 Ensure Environmental Sustainability

Strategy 7: Ensuring safe and reliable transport infrastructure (roads, ports, airports), with the necessary institutional arrangements in place to manage and fund effective development and maintenance of these facilities throughout the Kingdom.

Strategy 8: Increasing competition, with responsible supervision, to increase the quality of air and sea transport services both domestically and between the Kingdom and overseas.

Strategy 9: Strengthening regulatory compliance and safety oversight of transport sector to ensure compliance with international safety standards.

Strategy 10: Improving the performance of the information and communications sector, with quality service delivery, free and fair availability of information, geographical coverage, service affordability and access to new service applications.

Strategy 11: Maintaining and where possible expanding the provision of reliable and cost efficient power supplies, using traditional and renewable options, to all communities.

Strategy 12: Improving and where possible expanding the safe collection, disposal and recycling of solid and liquid waste to protect people's health and the environment.

Strategy 13: Maintaining and expanding access to safe water and sanitation for all communities.

Strategy 14: Taking a sector wide approach to the provision and maintenance of infrastructure, seeking alternative options for provision and cost recovery, and implement the proposed priority projects outlined in the NIIP (including: energy, telecoms, water, solid waste, roads, ports, airports)

#### **4. Sound education standards, by emphasising quality universal basic education.**

Lead Ministry: MEWAC.

Relevant Sector Plans: Education Sector Strategy, MDG 2 Achieve Universal Basic Education.

Strategy 15: Continuing to focus on government provision of primary education, working in partnership with the churches and other groups for the provision of secondary education.

Strategy 16: Supporting and improving universal basic education through the implementation of the education sector strategy.

#### **5. Appropriately skilled workforce to meet the available opportunities in Tonga and overseas, by delivering improved Technical and Vocational Education and Training.**

Lead Ministry: MoTEYS (TVET), MEWAC (TIHE), MOH (nursing school), TDS, MOP (training), TFS, Prisons Department.

Relevant Sector Plans: MDG 1 Eradicate Extreme Poverty and Hunger.

Strategy 17: Promoting skill development through appropriate development of domestic training institutions, and mobilisation of external training opportunities.

Strategy 18: Improving the focus of education and training on increased productivity of the work force to increase production, exports and overseas employment of Tongans.

**6. Improved health of the people**, by promoting healthy lifestyle choices with particular focus on addressing non-communicable diseases, and providing quality, effective and sustainable health services.

*Lead Ministry:* MOH, MoTEYS.

*Relevant Sector Plans:* Health Sector Plan, National Strategy for NCDs, MDGs 4 Reduce Child Mortality, MDG 5 Improve Maternal Health, MDG 6 Combating HIV/ AIDs and NCDs.

*Strategy 19: Maintaining and improving the network of health services delivered through the national referral hospital at Vaiola, supported by a network of regional hospitals and community clinics, to deliver effective curative and preventative health care.*

*Strategy 20: Improving efficiency and effectiveness of preventative health care programmes that encourage healthy life styles, including consumption of appropriate foods and increased exercise, so as to decrease the incidence of non-communicable diseases.*

**7. Cultural awareness, environmental sustainability, disaster risk management and climate change adaptation, integrated into all planning and implementation of programmes**, by establishing and adhering to appropriate procedures and consultation mechanisms.

*Lead Ministry:* MECC, MOW, TDS, MOP, TFS, MLSNR, MOT, Ministry of Tourism.

*Relevant Sector Plans:* Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management (JNAP-CCADRM), MDG 7 Ensure Environmental Sustainability.

*Strategy 21: Valuing Tonga's cultural traditions within an evolving culture.*

*Strategy 22: Ensuring sustainable use of the environment, by enforcing Environmental Impact Assessments (EIAs), and strengthen the national capability for environmental management to create incentives for limiting the use of resources and production of waste.*

*Strategy 23: Implementing the JNAP-CCADRM to reduce vulnerability & risks; and to enhance resilience to the impacts of climate change & natural hazards.*

**8. Better governance**, by adopting the qualities of good governance, accountability, transparency, anti-corruption, security and rule of law.

*Lead Ministry:* CLD, PMO, TDS, MOP, Audit, TFS, MOJ, Commission for Public Relations, MLCI, MOFNP.

*Strategy 24: Implementing the Constitutional and Political Reforms.*

*Strategy 25: Strengthening anti-corruption and the application of Rule of Law.*

**9. Safe, secure and stable society**, by maintaining law and order.

*Lead Ministry:* MOJ, MOP, Prisons Department.

*Strategy 26: Maintaining law and order and national security for the protection of the people and their property.*

*Strategy 27: Strengthening the operation of the judiciary.*

## Summary of TSDf's Enabling Themes and Strategies

### **A. Continuing progress to a more efficient and effective government by focussing on its core functions; improving coordination, service delivery and optimising use of resources.**

*Lead Ministry: PMO, CLD, PSC, MOFNP, MPE, plus all other Ministries.*

*Strategy 28: Decentralisation of appropriate activities to appropriate level of administration.*

*Strategy 29: Ensuring a conducive enabling environment through legal and regulatory reform.*

*Strategy 30: Continuing to implement public sector management reforms.*

*Strategy 31: Prioritising expenditure in line with national development objectives.*

*Strategy 32: Transferring a range of functions to the private sector.*

*Strategy 33: Utilising Information and Communication Technology (ICT) to improve accountability and transparency.*

### **B. Improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and that services to the people can be appropriately funded.**

*Lead Ministry: MOFNP, Audit Office, MOR, MLCI, (with NRBT).*

*Strategy 34: Ensuring a prudent budget based on available revenue and sustainable debt level, delivered through sound public financial management and quality government financial reporting.*

*Strategy 35: Improving fiscal and monetary policy coordination.*

*Strategy 36: Undertaking a review of the tax potential of the economy.*

*Strategy 37: Implementing tax reform and modernisation programmes to enhance revenue services and taxpayer's compliance.*

### **C. Ensuring Public Enterprises are sustainable and accountable, and where appropriate moved into the private sector.**

*Lead Ministry: MPE, MLCI.*

*Strategy 38: Improving profitability, accountability, and return on equity of public enterprises.*

*Strategy 39: Continuing to implement public enterprise reform.*

*Strategy 40: Privatising public enterprises where appropriate.*

### **D. Ensuring a more coordinated whole of government approach in Tonga's partnership with development partners.**

*Lead Ministry: MOFNP, MECC, MFA, TDS.*

*Relevant Sector Plans : MDG 8Developa Global Partnership for Development.*

*Strategy 41: Maintaining good relations with development partners, for mutual partnership, aid effectiveness and donor harmonisation.*

*Strategy 42: Remaining a reliable and responsible member of the international community supporting the development of the Pacific region.*

# Chapter 1: Tonga Strategic Development Framework

Government's vision expresses the aspirations of the Tongan people and guides the ultimate aims of all the development efforts that will be undertaken during the Framework period 2011 – 14. To achieve this vision, it is essential to create a Tonga where enterprises can flourish, where opportunity exists for all, and where Tongans have the confidence to face the challenges of a global society, building on Tonga's strong cultural traditions while ensuring they evolve to address a rapidly changing world.

Achieving the vision requires a well-articulated strategic approach to address the nation's economic growth, social justice, sustainable development objectives and their clear interdependence. This requires efficient and effective government operations to deliver the associated actions.

The government's objectives are therefore expressed in two levels: at the top level are the *primary outcome objectives* and the second level *the enabling themes* that support the achievement of these outcomes. This chapter presents further details for each strategy to achieve the *primary outcome objectives*, explaining the relevance of the strategy and explaining further what the strategy intends to accomplish.

The Monitoring and Evaluation Framework outlining the performance indicators to be monitored and the targets to be achieved under each outcome and strategy is at Chapter 2.

## 1.1 Outcome Objectives

### 1.1.1 Strong inclusive communities, by engaging districts/villages/communities in meeting their service needs and ensuring the prioritised and equitable distribution of development benefits.

Government believes that all parts of the country should enjoy similar economic and social opportunities, enabling the outer islands and rural development programmes to contribute to national prosperity. Community development is at the core of this strategic framework and will support many of the other initiatives.

Profound changes are occurring in the rural economy, including aging populations. The primary sector, including agriculture and fisheries, and many traditional industries and activities are experiencing a long-term declining trend in their contributions to the economy. This loss of primary sector and traditional production is being somewhat made-up by the growth of the service industry sector, which is largely urban-centred, and the diversification into new activities and the growing importance of tourism. Growth has been focussed in a few urban areas, most notably Nuku'alofa. This has resulted in increasing inequality in the distribution of benefits in terms of wealth and income between households and regions.

Many rural areas could absorb more people without losing their sustainable environment conditions, and modern communication technologies can reduce the isolation and remoteness of communities and thereby make economic activities more viable. At the same time, trying to provide the same level of service on all islands, especially those with small communities, would be prohibitively expensive. To retain national unity, however, government pledges to ensure greater equity across communities through:

- *Better formulation and implementation of outer island and rural development programmes through local communities.*

This Framework seeks to foster a fundamental change in the governance structures for outer islands & rural communities. The government in consultation with local communities has already formulated Development Master Plans for 'Eua, Vava'u and Ha'apai. The Master Plan for the Niuas will be developed following the completion of the disaster recovery program. The purpose of these Master Plans is to steer specific, locally focused activities to address the priorities of the individual regions throughout the Kingdom. Experience gained from a pilot community-based approach will guide the development of an appropriate local governing model and structure based on the principles of good governance. The implementation of this model will be further advanced under the Framework. The establishment of the Nuku'alofa Town Council is coordinated by the Prime Minister's Office. This aims to ensure better planning for the Kingdom's capital.

To facilitate implementation, government will strengthen and support village districts and councils with the objective of giving communities a greater say in local development. The Framework will focus on developing appropriately functional government systems at all levels (outer islands, district, and town/village), that are consultative and responsive to the needs of communities. The aim will be to empower communities and build more self-reliance at all levels to address community development needs. This strategy will assist the communities to gain a clearer understanding of the development process and how to channel support to address their needs and priorities.

- *Improving gender equality by implementing the government's gender development policy.*

The National Policy framework for Gender and Development initiated in 2002 aimed at ensuring women's rights were being fully integrated into the overall development process. The framework envisaged the establishment of Gender Focal points in government and non-government organisations as required by the policy and approved by Cabinet in July 1999; this was amended in 2009 to include key Stakeholder Ministries and Organisations.

In light of the aforementioned gender policy, the TSDF supports an increase in the level of gender-balanced economic opportunities and activities throughout Tonga. This will be achieved by promoting skills, enterprises and innovation through training men, women and youths at the community level and in the informal sectors. It must also serve to engage all these groups in productive employment through participation in income generating commercial activities. In addition, efforts will be made through training interventions to encourage product development, creativity and craftsmanship, while paying attention to gender-specific needs.

- *Increasing institutional care and support services for the elderly and other vulnerable groups, including investigation of the potential private sector role.*

Analysis of the 2009 Household Income and Expenditure Survey (HIES) identified vulnerable groups including children, disabled people and especially elderly and widowed women. Government will ensure local institutions have the resources to protect and develop rural services, with a particular focus on the needs of the vulnerable.

In order to increase effectiveness and efficiency in service delivery, the government's structural reforms envisage strengthening good governance principles and committing funds directly for community development. To date government has endorsed a small grant scheme anticipating to finance communities' development projects, many of which will benefit vulnerable groups in rural and outer island communities. Other options for supporting vulnerable groups are being considered.

- *Instilling discipline, basic life skills and good values in the youth, in particular addressing the needs of those who are unemployed, by promoting youth development programmes, including community economic development and the consideration of a National Youth Service.*

Every year an estimated 1,500 young people enter the labour force. The economy needs to be re-structured to create sufficient employment or other livelihood opportunities for these young people. It is a great challenge to deal with a total population of which half are under the age of 25, with a majority living in rural areas and outer islands. Around 60 per cent of the active working age population between 15 and 64, both male and female are engaged in the community level informal sector.

The Ministry of Training, Employment, Youth and Sports is encouraging participation in income generation and commercial activities to help these groups, in particular youths, to develop skills and meet their basic economic needs. Tourism, in particular community based, also provides youth in rural communities with new employment opportunities and roles where service sector business skills can be developed. This gives rural youth a reason to remain in their communities, while bringing new income to families. With careful management, this will also support the maintenance of culture and the environment which will in term help maintain stronger communities.

This is to be accompanied by strategies and activities to promote other social needs including healthy living, community service and good governance. This includes increasing the engagement of youth in community policing activities. This will teach them responsibility and help them become responsible members of the community.

While Government wishes to encourage the development of a private sector that is integrated into formal but efficient systems, it recognizes that greater development of the informal and semi-subsistence activities will continue to be a major source of income for many communities. Improved cooperatives and access to small scale credit for these informal sectors is important for their development. While government has a number of strategies and plans for helping the formal sector, there is a lack of a clear set of strategies for supporting the informal sector. This will be addressed in the support to the private sector, which will include finding ways to gradually integrate the informal sector into the more formal sector.

### **1.1.2 Dynamic public and private sector partnership as the engine of growth, by promoting better collaboration between government and businesses, appropriate incentives, and streamlining of rules and regulations.**

Within the framework of economic restructuring the public and private sectors must work closely together in a partnership that will create the engine of growth to generate the necessary employment and income for the people, and which will in turn generate revenue to pay for the operation of government. Supporting Tongans and foreign investors to open businesses and engage in lawful commerce is a key of element of the government's programme.

There are two strategies with sub-activities to help facilitate the development of a vibrant and expanding private sector in Tonga.

- *Creating the enabling environment for private sector to flourish.*

#### ***Maintaining macroeconomic stability***

Private sector investment and decision making cannot occur in an atmosphere of uncertainty, especially in regards to prices, exchange rates, and inconsistent and non-transparent government actions. To avoid these undesirable effects, the government, in conjunction with NRBT, will continue

to maintain prudent fiscal and monetary policies, including undertaking careful reviews of expenditures and maintaining international good practices in budgeting, debt levels and financial management.

***Promoting financial sector development.***

High levels of domestic and foreign investment are needed to promote growth. Government recognises that access to capital is a key prerequisite for a market capitalist economy. The global financial crisis of 2008-09 demonstrated the need to have a healthy financial system that works according to prudent lending strategies and due diligence. The government will support the continued development of both traditional financial sector institutions and their pursuit of better risk management, as well as the development of non-bank financial institutions. The government will also focus on the development of microfinance and financial inclusion, targeting those who are presently not well served by the existing financial system.

***Investing in a healthy, well-educated, and skilled workforce.***

***Directing development training to increase the value-added of business.***

The private sector cannot function without skilled, healthy and committed workers and to this end the government will continue to support both primary education and vocational training. Appropriate skills training, coupled with opportunities for life-long learning, will benefit all Tongans.

The government will also utilise local businesses and organisations for broader business training, advisory training for businesses/private sector and continue its cooperation with international organisations willing to impart business knowledge. The health programme will continue to promote a healthier life style thereby reducing work-time lost through illness and raising productivity.

***Establishing an appropriate level of business supervision.***

***Involving the private sector more closely in policy formulation and implementation.***

For the private sector to make a greater contribution to GDP and employment the government will engage more closely with the sector to better understand the challenges and opportunities that are being faced by entrepreneurs. The government resolves to continue and further improve its successful public consultations regarding policies impacting on business, as well as continuing successful public/private institutions such as the Task Force on Regulatory Reform and its Working Groups.

The Ministry of Labour, Commerce and Industries has completed the formulation of the Private Sector Development Strategy with regular inputs from the private sector to be considered by government. The National Economic Development Committee (NEDC) has been established to support and engage with the private sector. This is being reviewed to ensure that it operates effectively.

A number of areas for specific action include:

- reform business services (licensing, certification, visas, registries and inspectorates) to be more efficient
- improve effective policy response capacity of Government to ensure stable business environment, relevance of regulations, promote fair competition, investment and development markets to restore integrity to the business community
- promoting registration of corporate bodies and facilitating business and consumer credit to secure and increase private sector growth
- promoting Intellectual Property Rights (IPR) protection and ensuring that Tongans benefit from the effective use of IPR particularly through increased innovation, investment and trade.

### ***Fostering technological development***

The adoption of new technologies is an essential prerequisite for faster and more sustained economic growth. Tonga has a pool of reasonably well educated young people, many of them studying abroad, who can be utilised to foster technological development, including the transfer of new technologies and ideas from overseas.

Tonga could be an innovator in many different fields with appropriate government policy and the removal of barriers to investment. To encourage both the transfer and development of technology within the Kingdom, the government will continue to encourage foreign investment and the opening of foreign businesses in the country to complement those established by domestic investors.

The government will also provide appropriate policies to facilitate access to highly-skilled workers by facilitating recruitment of foreign experts not available in Tonga. In addition, the government will continue to encourage scientific cooperation across borders and the development of Technical Institutions.

### ***Promoting international and regional trade.***

The Tongan economy is dependent on trade to meet the needs of its people for a wide range of modern consumer and capital goods. Exports also provide a larger market for domestically produced goods. The small size of the Tongan productive base and lack of knowledge of market opportunities suggest a role for government to help support business to access new markets. To facilitate such access, Government will establish the Tonga Trade and Investment Board. Government will also focus on improving access to international shipping to help keep down transport costs.

Government will continue to liberalise trade policy, and seek opportunities for overseas employment. This will include the “recognised seasonal employers” scheme in New Zealand and similar temporary worker schemes in Australia and USA. It will also include seeking opportunities for Tonga Defence Service and Police Officers to serve in peacekeeping and similar missions internationally.

Tonga has already begun several initiatives to open its markets and will build on these successes in the coming years. This will include continuing its active membership in international and regional trade bodies such as the World Trade Organisation (WTO) and the Pacific Island Countries Trade Agreement (PICTA).

Regional trade will be encouraged by the elimination of non-tariff barriers in the short term and progressively removing all tariff barriers over a longer period, to be replaced by alternative revenue raising options. Establishing the foundation for negotiating membership in the Pacific Agreement on Closer Economic Relations (PACER) is underway.

Finally, through the Pacific Islands Forum and in concert with African, Caribbean, and Pacific Island (ACP) countries, the government will finalise an Economic Partnership Agreement (EPA) with the European Union (EU). The EPA is expected to comprise a master agreement aimed at enhancing the trading and investment-attracting capacity of ACP states, and subsidiary agreements covering trade in goods and services (including tourism), investment and fisheries and development assistance.

A National Export Strategy (NES) will be formulated and implemented over the life of this framework, based on Tonga’s comparative advantages, addressing constraints and forging a closer and realistic partnership between government and private sector businesses.

- ***Improving output of the productive sectors.***

Strong productive sectors are important both to increase incomes and employment.

### *Tourism*

The government considers tourism a key sector for private investment contributing to future growth. Investment in tourism will provide new livelihood opportunities complementing those available in agriculture and fisheries in the rural areas; it has the potential to generate additional employment opportunities and increase foreign exchange earnings.

Positive co-operation between the private public sector partners in tourism has gained pace recently. Government will continue with and enhance the underpinning role it has in supporting this partnership. Government will continue to encourage investment in tourism by addressing issues and impediments to the industry as identified by the Ministry of Tourism and other stakeholders. This will include supporting further investment in destination marketing for Tonga. Recognising that Tonga is a relatively high cost destination the focus will be on high value-added tourism with clear links to the domestic economy that supports local culture and environmental protection, rather than mass tourism. This means that substantial new investment in high-end resorts, where possible linked into the local community, and the upgrading of existing facilities will be needed.

### *Agriculture, Forestry and Fisheries*

The agriculture, forestry and fisheries sector has shown zero growth over the past five years, agricultural exports, mostly squash, have declined sharply. This repeats a common pattern both in agriculture and fisheries where promising new export markets expand rapidly only to crash due to a mix of poor management and lack of sustainability. Government will seek to learn the lessons from these previous ventures to ensure that the constraints and issues are correctly addressed to avoid similar results in the future.

Despite the export volatility the agriculture and fisheries sector as a whole still contributed approximately 19.2% of GDP in 2009/10 and continues to be the mainstay of the rural economy providing food security; employment and income for many households. For households in the rural areas of Tongatapu and the outer islands, home production accounts for approximately one third of all food consumed by households.

The government, through the Ministry of Agriculture and Food, Forests & Fisheries (MAFFF), has formulated the MAFFF sector plan that provides a coherent policy framework for promoting agriculture and food, forestry & fisheries development. It focuses on providing public and private sectors support services to agriculture, forestry and fisheries development, through assistance in increasing exports of agricultural, forestry and fisheries products; reducing imports via import substitution; reducing food insecurity and rural poverty, securing sustainable increase in supply and availability of food; ensuring an enabling policy and regulatory framework for the MAFFF sector; resource conservation and diversification of the resource base; and generating knowledge of agriculture and food, forestry and fisheries, acknowledging that the full commercial development of agricultural, forestry and fisheries products that are technically viable requires private investment.

Through the Fisheries Division of MAFFF, government will work towards ensuring sustainable development and management of off-shore and inshore aquatic resources with particular focus on tuna and long-line fisheries, DWL fishing, sport fishing and aquarium fishery. These activities are planned to enable and attract private sector investment in the industry.

Fisheries Division will continue to carry out a range of public services including research and extension, monitoring and regulation of vessels and fishing activities, monitoring of fish catches and sales, and surveillance of the exclusive economic zone to control illegal fishing. Emphasis will also be placed on better research on stock levels and enforcement of licences to ensure sustainable use of these resources and avoid similar export boom and busts as experienced with products like sea-cucumbers.

### *Seabed Minerals*

The opportunities for oil exploration and seabed mining remain in the future, however, government recognises the potential contribution these could make to the future development of the Kingdom. Government also recognises that there are many lessons to be learned from other countries where oil and mineral wealth has greatly disrupted political reform and social solidarity.

Government will review the need for new legislation to ensure that exploration and any future mining or extraction of resources will generate a significant benefit to the Kingdom. This legislation will include measures to ensure royalties and other charges are received by Government and to protect the economy and political system from any possible economic disruption and potential corruption that might eventuate from a failure to effectively manage mineral wealth.

### *Remittances and seasonal labour*

The development of formal and informal business opportunities in the country is the main source of employment, but overseas opportunities, both related to overseas labour mobility schemes and longer term migration, are also major sources of earning and remittances. Remittances from Tongan communities abroad are essential to sustain economic growth and help to lift people out of poverty. Efforts will be made to retain the close cultural and social relations with Tongans who have established residence overseas to maintain remittances and opportunities for them to invest in and provide technical skills to Tonga.

The government will continue to negotiate with Australia and New Zealand for improved access to their overseas labour mobility schemes, and will seek similar options in the US. Government will ensure that such arrangements are managed effectively and responsibly so that these opportunities may continue in the long run.

### **1.1.3 Appropriate, well planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business, by the adequate funding and implementation of the National Infrastructure Investment Plan.**

- *Ensuring safe and reliable transport infrastructure (roads, ports, airports), with the necessary institutional arrangements in place to manage and fund effective development and maintenance of these facilities throughout the Kingdom.*
- *Increasing competition, with responsible supervision, to increase the quality of air and sea transport services both domestically and between the Kingdom and overseas*
- *Strengthening regulatory compliance and safety oversight of transport sector to ensure compliance with international safety standards.*
- *Improving the performance of the information and communications sector, with quality service delivery, free and fair availability of information, geographical coverage, service affordability and access to new service applications.*
- *Maintaining and where possible expanding, the provision of reliable and cost efficient power supplies, using traditional and renewable options, to all communities.*
- *Improving, and where possible expanding, the safe collection, disposal and recycling of solid and liquid waste to protect people's health and the environment.*
- *Maintaining and expanding access to safe water and sanitation for all communities.*
- *Taking a sector-wide approach to the provision and maintenance of infrastructure, seeking alternative options for provision and cost-recovery, and implement the proposed priority*

*projects outlined in the NIIP (including: energy, telecoms, water, solid waste, roads, ports and airports.*

Tonga's stock of basic infrastructure assets is generally appropriate for a country of its size and stage of development. However, the quality and status of the individual infrastructure assets is often characterised by high cost, poor quality and lack of sustainability. It often lacks sufficient robustness in face of natural disasters. Further the development of infrastructure to meet emerging needs and take advantage of new technologies has not kept pace with the demands of the people or the expectations of the community.

Recognising that gaps in infrastructure availability exist a National Infrastructure Investment Plan (NIIP) was approved in November 2010. This will be the basis of government's public sector investment programme for the next decade; it includes a monitoring and evaluation framework which will be used to measure progress towards the achievement of the vision.

The physical infrastructure of the country underpins the competitiveness of enterprises and delivery of services. Government will continue to strengthen and modernise infrastructure to reduce business costs and to facilitate market access for a thriving and successful economy. Government will also ensure that this infrastructure is used appropriately and that appropriate rules and regulations are in place, and are enforced, for safe and reliable construction and operation both of the facilities and by the companies using the facilities.

Much infrastructure development is already underway but beyond that, there are important choices facing Tonga. Some parts of the country have a buoyant economy and that is placing significant strains on existing infrastructure. Other areas have experienced decline so a co-ordinated approach to regeneration can bring genuine economic, social and environmental benefits and create more balanced growth opportunities in the islands. At the same time, focussing on a number of key centres can generate greater returns than spreading limited expenditure too thinly. Striking the balance in policy, expenditure and government action can involve difficult choices, but every effort will be made to make decisions that best protect Tonga's long-term interest.

Market accessibility is dependent on the transport infrastructure for outer islands and is necessary for fundamental quality of life and potential investment, which includes tourism, agriculture and fisheries. The government will focus on promoting sustainable and affordable transport links from the aviation and maritime industries, while ensuring safe and reliable operation of these transport services.

Currently 98% of Tonga's energy requirements are met by imports of fuel. This is used for land and sea transport, and generating of most of the electricity consumed. Government will seek options with the fuel industry for more cost effective procurement, shipment, delivery, storage and distribution of fuel. Managing consumption and developing Tonga's renewable energy potential can offer important economic benefits and contribute to the sustainable development of remote and outer island communities. The Tonga Energy Road Map (TERM) has been developed to help achieve energy security through reducing reliance on imported petroleum. Government will work toward achieving the national target of 50% renewable energy, originally set for 2012, as part of government's commitment to cutting costs and addressing climate change.

Government and relevant agencies will also maintain and expand access to safe water and sanitation for all communities through implementing the proposed priority water and sanitation projects outlined in the NIIP and other related programs. The strong and active enforcement of the existing legislative Acts related to water and sanitation, are very important for the sustainable management of water resources and standard of sanitation in Tonga as a whole. This is will help ensure security and quality of water supply and the improvement the hygiene of sanitation facilities.

The government recognises the fragility of the islands, reefs and oceans to changing human use and the threat this imposes to the health of the people, the environment and to the development of the Kingdom. As the economy grows and consumption patterns change, the effective management of modern waste, which takes many years to break down, becomes of increasing concern. Government will work with communities and business to improve the handling, disposal and recycling of such waste to avoid damaging the environment, and where possible find productive uses for the waste.

#### **1.1.4 Sound education standards by emphasising quality universal basic education.**

- *Continuing to focus on government provision of primary education, working in partnership with the churches and other groups for the provision of secondary education.*
- *Supporting and improving universal basic education through the implementation of the education sector strategy.*

Tonga has a relatively high level of education attainment provided by the strong partnership between government and non-government-run schools. As such, government will continue to support this partnership to reduce inequalities with non-government-run schools, while focussing attention on supporting and improving quality universal basic education. The other important areas of focus, covered in the fifteen-year Education Strategic Plan (2004-2019) in relating to the objective, include: the major reform of the education system, extension of compulsory education to eighteen years, improvements in its accessibility and quality as previously mentioned, and the expansion of school-based vocational education..

The national curriculum for basic education is currently being revamped to ensure a balance between academic, skill and vocational training. Programmes will be developed to provide alternative pathways for students with different learning needs, whether for the 4 to 18 year age group, or post-18, these must still be based on a sound basic education, which will provide the necessary tools and attributes for further learning. Government will continue with the implementation of the Education Plan.

Progress towards meeting the outcomes for the sector will be measured through the MDG indicators and through qualification and educational standards set by Tonga National Qualification and Accreditation Board (TNQAB).

#### **1.1.5 Appropriately skilled workforce to meet the available opportunities in Tonga and overseas, by delivering of improved Technical and Vocational Education and Training.**

- *Promoting skill development through appropriate development of domestic training institutions, and mobilisation of external training opportunities.*
- *Improving the focus of education and training on increased productivity of the work force to increase production, exports and overseas employment of Tongans.*

Particular attention will be given to the development of technical vocational education and training at the post-basic education level. The reforms in basic education currently being implemented will provide the foundation on which such education and training can be built. Efforts will also be made to introduce TVET as part of the options and subjects taught at the upper levels of secondary schools to prepare students for post-secondary TVET training. This will be extended to the outer islands and rural areas through developing partnerships and collaborations with the churches and NGOs.

The core of TVET development in Tonga is skilling people for social and economic development. The focus is on providing Tongans with greater opportunities and meeting the critical demands for skills and expertise for local industries, the informal employment sector at the community level and

international labour markets. To these ends TVET will be reformed and re-aligned with international requirements and standards.

The international labour market provides alternative employment opportunities for young people, TVET will be designed to facilitate access to those opportunities. The Tonga National Qualification and Accreditation Board (TNQAB) has already been established to improve qualification and educational standards to meet international standards. Work will be done to ensure international accreditation and recognition of TVET in Tonga as well as in other countries.

At the community level, informal training will be institutionalised into training frameworks and training programmes that will enable men and women in the rural and remote areas, and those not wishing to pursue a formal qualification, to learn skills that would enable them to improve their products, and to engage in micro-enterprise activities and income generation activities that may help expand exports. Training will therefore develop the skills needed to help alleviate hardship in rural and remote areas.

#### **1.1.6 Improved health of the people, by promoting healthy lifestyle choices with particular focus on addressing non-communicable diseases, and providing quality, effective and sustainable health services.**

- *Maintaining and improving the network of health services delivered through the national referral hospital at Vaiola, supported by a network of regional hospitals and community clinics, to deliver effective curative and preventative health care.*
- *Improving efficiency and effectiveness of preventative health care programmes that encourage healthy life styles, including consumption of appropriate foods and increased exercise, so as to decrease the incidence of non-communicable diseases.*

Historically, Tonga's population has had a relatively high standard of health. Tonga has made good progress towards the achievement of the health-related MDG indicators for maternal mortality, child mortality. This reflects Tonga's effective primary health care delivery, public health infrastructure and the comprehensive antenatal and postnatal care, immunisation, water and sanitation and waste disposal programmes. Ministry of Health (MOH) is focussed on maintaining and improving the delivery of health services through the national referral hospital at Vaiola, supported by a network of regional hospitals and community clinics, to deliver effective curative and preventative health care, guided by the principles of health systems strengthening based on Primary Health Care values.

Although there are areas of inequity in the standards of service delivery between the urban and rural/outer island parts of the Kingdom still to be addressed. Infectious and most communicable diseases are thus under control. On the other hand, the increased prevalence of non-communicable diseases such as diabetes, hypertension and obesity has become a major problem. Nutrition related illness in children is also becoming a greater concern.

Health care services are decentralised in accordance with the long-standing government commitment to primary health care provision. Government will improve the provision of health services across Tonga, with continued emphasis on preventative health care focusing on non-communicable diseases, rather than on curative medicine alone. The efficiency and effectiveness of the preventative health care programmes of the MOH will be improved to encouraging healthy life styles, with greater emphasis on reduction of the main NCD Risk Factors such as tobacco smoking, alcohol misuse, physical inactivity and unhealthy eating; in order to decrease the incidence of non-communicable disease.

### **1.1.7 Cultural awareness, environmental sustainability, disaster risk management and climate change adaptation, integrated into all planning and implementation of programmes, by establishing and adhering to appropriate procedures and consultation mechanisms.**

The government recognises the importance of Tonga's history and its evolving cultural traditions. These are the foundations of our development and Tonga's position in the global community. Government, through the Ministry of Environment and Climate Change, takes seriously the responsibility of preserving for future generations the economic opportunities and environmental resources of today.

The livelihoods of many households in Tonga depend on strong community foundations as well as the resources of the land and sea. Maintaining the environmental balance and biodiversity is therefore essential for the preservation of these livelihoods, as well as creating an attraction for tourists.

- *Valuing Tonga's cultural traditions within an evolving culture.*

Tonga has a unique tradition and culture of which its people are justly proud. However government recognises that culture is not static but undergoes continuing evolution and change in the face of new challenges and opportunities. The recent delegation by the King of many areas of authority to a fully elected parliament and government is a clear example of this.

Government realises that it cannot control culture but will continue to ensure that the next generation of Tongans remains aware of its history and heritage. But will also provide a facilitating and open environment within which informed discussion can be encouraged enabling the next generations to take the best from the past while modifying it to better fit the needs of the present. Government will consider reintroducing a greater focus on Tongan cultural activities within the national curriculum to ensure Tongan culture continues to be strength to the people and can constructively contribute to the experience of visitors to the Kingdom.

Government will strive to ensure that government policies and plans do not damage the strong family and community relations which give much strength to Tongans as a people. Where possible, the development of new business opportunities, such as appropriate Tourism, will be used to encourage the strengthening of our cultural traditions.

- *Ensuring sustainable use of the environment, by enforcing Environmental Impact Assessments (EIAs), and strengthen the national capability for environmental management to create incentives for limiting the use of resources and production of waste.*

The government is committed to ensure sustainable development by enforcing Environmental Impact Assessments (EIAs), strengthening the national capability for environmental management and also integrating sustainable development into all of its policies and budgetary processes. Raising the environmental sustainability of economic development to safeguard the interests of future generations is recognised as vitally important. Government recognises the interdependence of the economy and the environment and how this must be fully integrated in decision-making. A better understanding of the factors affecting land and sea-use will be sought to ensure sustainable use of these resources to contribute to appropriate fisheries, agriculture and tourism development which depend on a quality environment.

Government will explore options for enhancing the resilience of government, communities, businesses and natural resources; exploring the environmental, economic and societal consequences of changes in the demands on and availability of freshwater and other resources. A strong focus will be placed on improved management of resources to ensure sustainable use both for domestic use and promoting exports by creating incentives for limiting the use of resources and production of waste. Greater effort will be made to analyse the options, risks and uncertainties in mitigating and adapting to climate change and variability.

Government will strengthen legislation, policies and enforcement with regards to the environment and its natural resources. Due to the very significant need to sustain the environment the government will strive to fully enforce regulations such as the approved Environment Impact Assessment (EIA) Regulation.

- *Implementing the JNAP-CCADRM to reduce vulnerability & risks; and to enhance resilience to the impacts of climate change & natural hazards.*

Recent events in Tonga and the Pacific Rim have drawn attention to the vital role of Disaster Management and Disaster Mitigation for the protection of the environment and of life and property. The Ministry of Works, in collaboration with Ministry of Environment and Climate Change, is responsible for compliance with the National Emergency Management Act, Implementation of National Disaster Plan and mainstreaming Disaster Risk Management through a Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management (JNAP-CCADRM). The implementation of the JNAP-CCADRM is mainly aim to reduce vulnerability and risk and to enhance resilience to the impacts of climate change and natural hazards.

Government is also supporting the implementation of the Pacific Disaster Risk Reduction Management Framework for Action, 2005 – 2015. Government will implement Tonga’s JNAP-CCADRM focussing on improving disaster mitigation through better design and placement of infrastructure and improved evacuation planning for communities. Improved response, to disasters when they happen, will also be developed to help communities to recover more quickly.

Year-to-year climate variability, e.g. El Niño and extreme events, e.g. droughts and storms, will continue to pose significant challenges to key economic sectors including agriculture, fisheries, tourism, public health and safety, climate-sensitive resources e.g. beaches & coral reefs, vulnerable coasts and critical water resources. People are also at risk from geological disasters such as earthquakes and tsunamis. Government will seek to develop a framework for multi-hazards risk management that will improve infrastructure investments and contribute to the development of sustainable communities in Tonga.

Government will continue to take an active role in encouraging the international community to take the global actions needed to address human driven climate change and where mitigation is not possible, find suitable options for adaptation.

#### **1.1.8 Better governance, by adopting the qualities of good governance, accountability, transparency, anti-corruption, security and rule of law.**

- *Implementing the Constitutional and Political reforms.*
- *Strengthening anti-corruption and the application of Rule of Law.*

The target to implement constitutional and political reform was achieved following the election in November 2010. Tonga has now embarked on a new democratic system, building and improving on its cultural traditions. The new system provides Tongan citizens with a greater voice in the choice of their government. Further work on political reform will continue, *inter alia*, under the Electoral Reform and Election Boundaries Commission. At the same time, the government acknowledges the need for continuing improvements in governance through more cost-effectiveness and efficiency in service delivery and by maintaining accountability and transparency.

Government will review the functions of the government structure to put in place a more streamlined system which focuses on the core functions and delivery of essential services, while operating within the viable levels of government revenue.

The government continues the reform efforts made under the Economic Public Sector Reform Programme (EPSRP) to improve effectiveness in the provision of government services by focusing on three areas of public sector management – public administration, public financial management and public enterprise reform. These reforms are further detailed in the Enabling Themes. As part of these reforms government will consider related legal, judiciary and electoral reforms, international treaties, national security and administration improvements.

Corruption in either or both the public and private sectors can be a creeping cancer in society undermining all that may be achieved by the implementation of the other initiatives in this framework. The government is therefore committed to minimizing corruption in Tongan society, and especially in, or in relation, to the public service and the operation of government itself.

Government recognizes ‘Sound Public Financial Management’ (PFM) to be one of the key elements for good governance, transparency and accountability. This is described in more detail under enabling theme B and strategy 34.

#### **1.1.9 Safe, secure and stable society, by maintaining law and order.**

- *Maintaining law and order and national security for the protection of the people and their property.*
- *Strengthening the operation of the judiciary.*

Economic and social development can only occur where the rule of law is respected and enforced, and life and property are protected. To achieve this objective, the government, with aid from development partners, has strengthened the Ministry of Justice, Ministry of Police and Tonga Defence Services to improve their ability to respond appropriately to challenges and to enforce law and order. Equally, government recognises the importance of people being able to go about their legal business freely, with minimum hindrance and unnecessary intrusion on their rights by government.

## **1.2 Enabling themes**

The achievement of the above outcomes objectives depends upon a complex array of economic and social drivers. These will be achieved through the four key enabling themes as follows:

#### **1.2.1 Continuing progress to a more efficient and effective government by focusing on its core functions; improving coordination, service delivery and optimising use of resources.**

The government will continue the progress to a more efficient government through range of policies to ensure government focuses on its core functions, delegate to the relevant level of administration, and enables a greater role for the private sector and communities.

- *Decentralisation of appropriate activities to an appropriate level of administration.*

Tonga is a small country in which having many levels of government would create confusion and would place excess demand on limited skills and resources. Some degree of decentralisation of appropriate activities, however, is considered desirable as a means to enact and deepen democratic governance, improve the effectiveness of service delivery and ensure the effective maintenance of assets and infrastructure.

This approach aims to enhance community empowerment, whereby local actors, capacities, and resources are mobilised for collective action to achieve public purposes. It also promotes transparency and downward accountability of the government to local communities.

Since decentralisation involves the transfer of resources, power and authority from the central government to local communities, it could play a key role in improving efficient and effective delivery of services and ensure better development of communities. Communities will therefore need to exercise greater responsibility and maintain stronger control over their own local affairs and foster meaningful development. Government will also aim to enhance ownership of local development by local communities through engagement in more participatory approaches. This will require appropriate allocation of skills and resources from the centre to help these communities.

- *Ensuring a conducive enabling environment through legal and regulatory reform.*

Tonga has made good progress in recent years in reforming its legal and regulatory environment, achievements that have been recognised by the Kingdom's position on the World Bank's *Doing Business* rankings. To continue this success, the government will carefully examine the current business licensing regime and remove obstacles to business while at the same time better safeguarding the health and safety of employees. The legislation governing investment and licensing will also be reviewed for effectiveness, and government agencies will be required to consider the impact of new regulations on business before measures are enacted.

The role of the Competent Authority, in setting sensitive prices, will be reviewed to ensure it is effective without placing unnecessary constraints on business. Finally, the government will continue to pursue institutional avenues for change, through the Task Force on Regulatory Reform and through the encouragement of private sector participation in legal and regulatory commercial reforms.

- *Continuing to implement public sector management reforms.*

Analysing the effectiveness of government services is a difficult task, and despite attempts at introducing programme related budgets, budgets have continued to be based on tracking inputs rather than outputs. The Tongan public sector is currently in the midst of a major effort to effectively re-orient the budget process and service delivery away from this input-based system, shifting its focus to the efficiency and cost-effectiveness of service delivery as the measure of public sector success.

Over the coming years, government ministries will continue to embrace this shift, increasing their adaptation of programme-based budgeting and matching resources to services in order to better serve the people throughout the Kingdom. This will be achieved through strengthening the corporate and annual management plan processes, and ensuring a stronger link between these plans and the annual budget. The CP and AMPs will include more specific monitoring indicators and performance and service delivery targets. In future they will be more closely monitored on an annual basis and will be used to inform resource allocations in the period of budget restraint.

- *Prioritising expenditure in line with national development objectives.*

In line with the emphasis on service delivery there will be a concurrent emphasis on streamlining the government to focus on core services, while shedding functions that are not the proper purview of government. The number of ministries will also be decreased to keep them in-line with the needs of a country the size of Tonga.

This Framework sets out the national objectives for the deployment of government resources to be allocated in the budget to achieve the outcomes. Ministries' Corporate and Annual Management Plans will be reviewed to determine their applicability to national development objectives; it will mean scaling back or the elimination of programmes that do not serve this purpose. The way ministries

prepare budgets will be overhauled. Corporate Plans and Annual Management Plans will be articulated with concrete goals and outputs to address the core functions and areas of responsibility of each ministry or agency in the TSDF. These plans will be reviewed regularly to ensure that the budget is linked to concrete goals and outputs, and monitored to ensure they are being delivered.

- *Transferring a range of functions to the private sector.*

As part of the re-evaluation of the public sector and its programmes, it is envisaged that a number of services now performed by the public sector will be moved either directly to the private sector, via outsourcing, public-private partnerships (PPP), and privatisation; or by taking the intermediate step of transferring them first to Public Enterprise status.

The government will transfer as much as is feasible to the private sector, while endeavouring to maintain fair, transparent, and honest procurement procedures in outsourcing and privatisation. For this approach to work, however, the capacity of the private sector will need to be enhanced; to this end government will establish a consultative mechanism with the private sector on ways to facilitate this.

- *Utilising Information and Communication Technology (ICT) to improve accountability and transparency.*

The spread of ICT and the availability of information will be harnessed to help improve government's service delivery, and to strengthen the communication links between government and the people. The government is committed to develop a communication strategy to increase the amount of information available on its existing websites, creating new websites for ministries and agencies where not currently available, and creating interfaces for the public in areas such as business licensing, procurement, trade and social services. The government will also solicit consultation with the public via ICT, as well as seek to improve the ability of outer islands to utilise the internet to communicate with government.

A major project for a fibre-optic cable link to improve band-width and internet connectivity is now well-advanced; this will be a major step forward in the communication strategy.

### **1.2.2 Improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and that services to the people can be appropriately funded.**

- *Ensuring a prudent budget based on available revenue and a sustainable debt level, delivered through sound public financial management and quality government financial reporting.*
- *Improving fiscal and monetary policy coordination.*

The latest estimates of Tonga's Gross Domestic Product (GDP) and Gross Disposable Income (GDI), which takes account of remittances, indicate that there was no growth in real (inflation adjusted) per capita income under either measure between 2000/01 and 2009/10. This conclusion is supported by the results of the 2001 and 2009 household income and expenditure surveys which indicate that on average household per capita incomes rose by less than the overall rate of inflation over the same period. This means that on average the people of Tonga are no better off in 2011 than they were at the start of the millennium; in effect households are able to purchase less now than in 2000/01.

One of the consequences of zero economic growth and the stagnation in real incomes has been a decline in government revenues as taxable incomes, household consumption expenditure and profits have themselves stagnated or declined; without increasing levels of domestic expenditure, resulting from positive growth, increasing private sector profits and new employment, there is little scope for raising tax revenues.

As a consequence government has had to seek substantial budgetary support from donors over the past two years. This is estimated to be equivalent to 17.2% of domestic current revenue in 2010/11 and is forecast at 20.3% in 2011/12. In addition donors have provided substantial development assistance flows through cash grants and in-kind disbursements, and there have been large drawdowns on the EXIM Bank loan for roads and reconstruction projects to maintain the aggregate level of GDP.

To bring the budget back onto a sound and sustainable basis the government will institute a thorough review of all ministry expenditure to identify activities and programmes of low priority that can be cut and resources reallocated to higher priority areas. This will be done through greater attention to the corporate and annual management planning processes.

The Budget has to be implemented through a sound PFM so that Government can deliver services more effectively for the benefit of the population, and more effectively create the enabling environment under which the private sector can flourish. Core parts of the reform areas and work to be taken include the strengthening of the budget execution, transparency of the budget process, credibility of the budget, strengthened revenue efforts and improved quality of expenditure. In continuing the process of strengthening of public expenditure management, government has been working with the Parliament Public and Finance Accounts Committee to improve public expenditure management, transparency and accountability. It is also needed to strongly enforce and compliance with the Procurement Regulation 2010. Many options are being considered and in some cases are already underway. These include options for:

- more frequent budget reports to help monitor budget execution in a more effective and timely manner, to facilitate early identification and correction of any divergences from the approved budget during the year
- more regular budget reports to the Finance and Public Accounts Committee (FPAC) to increase parliamentary scrutiny of budget execution, in turn reinforcing efforts to strengthen the control of budget execution
- making budget reports available to the public to increase the transparency of budget execution and the accountability of the government for its use of public resources
- making documents such as the budget proposal available to the public when it is tabled in Parliament, to help clarify the distinction between what Cabinet proposes for the budget and what Parliament approves, and facilitate public scrutiny of the budget process
- tabling the audited Annual Financial Statements and the Annual Reports of the Auditor-General in Parliament and making these documents available to the public to improve the transparency of the audit process and strengthen its effectiveness
- modifying the operations of the Contingency Fund to avoid undermine the credibility of the budget, by avoiding the allocation of public resources to activities that have not been approved by Parliament during the year and are not unforeseen, urgent and vital
- further improvement to the credibility of the budget through ministries' AMPs, including by: encouraging line ministries to produce prioritised and costed AMPs;

ensuring that line ministries receive budget allocations sufficient to cover their basic expenditure obligations; and requiring line ministries to amend their AMP subsequent to the finalisation of the budget in order to ensure that planned activities are consistent with budget appropriations

- consolidating the large number of government bank accounts to improve cash Management
  - completing the revision to the chart of accounts which has eliminated redundant and duplicate codes, improve clarity and increase uniformity, and has prepared for the shift to sub-program level allocation and monitoring of budgets
  - ensuring all cash and in-kind expenditures financed by donors is correctly recorded
  - undertaking a tax policy and administration review to assess the tax potential of the country and identify the level of revenue, and hence level of expenditure, that is consistent with an efficient economy and appropriate level of equity
  - setting clear policies and having effective decision making process in place for setting priorities among competing uses of public resources
  - developing a medium term fiscal framework for sound macro-economic planning and reallocation of expenditure priorities over time, and improvement in our debt position.
- 
- *Undertaking a review of the tax potential of the economy.*
  - *Implementing tax reform and modernisation programmes to enhance revenue services and taxpayers' compliance.*

With weak economic growth, and little scope to increase tax rates, it becomes even more important that compliance with existing tax measures is enhanced. Government cannot afford revenue losses through unwarranted exemptions, tax evasion or other forms of non-compliance.

Revenue and customs services will therefore be based on three key outcomes: (i) improved services and customer relations, (ii) improved compliance; and (iii) increased level of revenue. The tax reform and modernisation programmes are still in progress; they concentrate on simplifying the tax and customs bases with clearly defined and modern procedures which will enhance revenue services. Ultimately, the aim is to achieve a significantly higher level of taxpayer compliance leading to a higher level of revenue collection by government for funding its services to the people. Compliance will be fair and transparent ensuring a level playing field for all taxpayers.

The implementation of a simplified and transparent tax procedures, coupled with lower tax rates and easier filing of tax returns will help to reduce the burden on businesses and encourage both their growth and also international investment. Completion of these broader reforms will help businesses to get their goods to the Tongan market more easily.

In addition to maintaining sound tax systems, government will undertake regular reviews to gain a better understanding of the tax potential of the economy in order to ensure that the proper range and rates of taxes are applied to support government in the delivery of its services. At the same time the taxes must not be too onerous on the tax payers to cause any disruptive effects on businesses or to consumers. Government will also conduct educational tax programmes to create an environment of

public understanding and cooperation in pursuit of better compliance with Tonga's tax system and the effort to obtain an increased level of revenue.

### **1.2.3 Ensuring Public Enterprises are sustainable and accountable, and where appropriate moved to the private sector.**

Over recent years, governments have progressively moved a range of commercial activities out of government into Public Enterprises (PE) so that they could be run on a commercial basis rather than as a government department. There remain a few government owned commercial enterprises, however, that are not covered under the category of PE. The following strategies also apply to them.

- *Improving profitability, accountability, and return on equity of public enterprises.*
- *Continuing to implement public enterprise reforms.*
- *Privatising public enterprises where appropriate.*

Each public enterprise was originally provided with start up capital through equity, loan or both. So far, government has usually remained the sole shareholder in almost all the PEs. To date there have been mixed successes. The Ministry of Public Enterprises (MPE) was set up in response to the need to develop PEs so that they could become profitable and assist government achieve its economic and social obligations, rather than being a burden on the public purse. Government will continue to seek ways to promote more efficient management of PE through training and performance incentives, associated with closer monitoring.

While appropriate functions should be transferred to the private sector, the government, in cooperation with international partners, is also evaluating ways to improve the efficiency and accountability of its existing PEs. Over the life of this framework, the government will seek to accelerate the reform of PEs, taking appropriate measures for each enterprise based on careful analysis of benefits and costs.

Government will review the functions of all the PEs to decide which ones might best continue with majority government shareholding to meet national objectives, and which ones can be partially or fully sold off to the private sector. Where government requires a PE to provide a specific social function, which has negative commercial consequences, Government will ensure a clear and transparent subsidy is provided.

### **1.2.4 Ensuring a more coordinated whole of government approach to Tonga's partnership with development partners.**

- *Maintaining good relations with development partners, for mutual partnership, aid effectiveness and donor harmonisation.*
- *Remaining a reliable and responsible member of the international community supporting the development of the Pacific Region.*

Government recognises its long term relationship with development partners and the importance of managing the flows of development assistance more effectively and in a framework of greater partnership. To facilitate this, the government has recently established and agreed with development partners an Aid Principles and Management Strategy to guide this partnership. These rules require that all donor applications over an agreed amount go through the Aid and Project Management Division of the Ministry of Finance and National Planning. The appointments of a Donor Harmonisation Coordinator, Project and Aid Coordination Committee and the establishment of ADB/World Bank Group Joint Liaison Office, which opened in March 2009, the establishment of an UNDP Liaison Office in June 2011, also help in improving multi-lateral coordination in Tonga.

Overall coordination and harmonisation will continue to be enhanced by regular Tonga Development Partner Forums in addition to regular bilateral programming meetings. This will help to ensure greater control and coordination, as well as recording of activities, between government and development partners.

Given the current fiscal constraints, it has been necessary to seek budget support from development partners over the last two years. While government is seeking to bring the budget back into balance, both development partners and government recognise that a too rapid adjustment might threaten the fragile progress to improve welfare, establish a sound economy and embed political reforms. Budget support is thus likely to be required for some years. Government recognises that budget support comes with reform conditions and is committed to work with development partners to develop and implement a programme of reforms consistent with the Vision of government which will help deliver the nine national outcome objectives and forty-two strategies contained within this TSDF.

Tonga is a member of the Pacific "CROP" agencies as well as many international organisations including the UN system and many of its agencies, the ACP group of countries linked to the EU through the Cotonou Agreement and the World Trade Organisation. Tonga is a signatory to the Millennium Declaration and as reiterated throughout this Framework is committed to achieving the MDGs by 2015. Tonga has made good and steady progress towards the Millennium Development Goals as reported in Tonga's 2nd National Status MDG report produced in September last year 2010 and summarised in appendix. Year 2011 is an important year for Tonga's socio-economic development planning - with the development of the 2011/12 - 2013/14 Tonga Strategic Planning Framework TSDF, and the revision of Government Ministries Corporate Plans taking place. The comprehensive review of MDG progress will help renew and revitalize efforts to achieve the goals in Tonga and contribute to the development of these national strategies and plans to promote a model of socio-economic development that is both equitable and sustainable.

Tonga's MDG report concludes that Tonga has maintained its overall progress on the MDGs, namely achieving universal access to primary education, reducing child mortality, improving maternal health, and working towards a global partnership. However, Tonga and PICs around the region must work harder towards reducing poverty among its most vulnerable groups, improving women's empowerment, reducing the prevalence and impact of non-communicable diseases, and achieving a sustainable environment.

Tonga also supports the Pacific Plan, and attempts to adhere to the Forum Principles of Good Governance and Accountability, to the Paris Declaration and Pacific Principles of Aid Effectiveness and to the Cairns Compact. The Tongan Defence Services also engages with a number of peace keeping activities around the world. Through its participation in regional and international meetings Tonga will continue to play a responsible role in furthering the interests of Tonga as well as the Pacific region as a whole.

## Chapter 2: Monitoring and Evaluation (M&E)

Chapter 1 set out the Vision with the high level Outcome Objectives describing *what* high level situations we wished to have in the nine key areas. The Strategies set out the *how*, the general approach and direction to help achieve these Objectives. The lower level objectives, strategies and tactics/actions are set out in more detail first in the sector plans, and then in more detail in the Ministry Corporate and Annual Management Plans. These Ministry Plans will guide the bids for the Ministries' programs within their budget allocation. Once their budget is approved, the Plans will be revised to ensure consistency with the actual funding that is available. The Ministries will then be responsible for implementing the funded programs to deliver the plans and contribute to the broader national Outcome Objectives and Vision.

Chapter 2 sets out the general framework for helping us to monitor and evaluate progress, both at the TSDF level and the level of the more detailed plans. M&E for early national planning documents in Tonga has been weak; one of the reasons that implementation and progress has been less successful than planned. Recognizing the importance of M&E, but also the danger of creating an overly burdensome system that interferes with implementation, some simple first steps for improved M&E is set out in this chapter. With experience, this will be developed further during the period of the TSDF to ensure it meets the needs of Tonga.

The results of the M&E will be used for the Ministries' Annual Reports, and for updating their next year AMP and justification for their next budget bid. It will also be used to track progress towards our Outcome Objectives and identify areas where we need to modify our strategies and Ministry Plans in light of new challenges and other developments.

Developing an effective M&E system takes time and dialogue between the relevant sectors of Government. Chapter 2 sets out an initial set of Indicators (the thing that is being measured to tell us how we are progressing towards our objectives) with the desired Target - the change in the value/status of the indicator, which tell us first if we are moving in the right direction, and second how fast. Some indicators are quantitative (they measure amounts e.g. percentage or level) while others are qualitative (they measure conditions e.g. a new structure is in place). To ensure they are useable, the Indicators and Targets they will follow the SMART approach:

The Indicator will be:

- **Specific:** they will be clear and well defined
- **Measurable:** it will be possible to measure them so we can know the status, otherwise it would not be possible to set a Target

The Targets will be:

- **Achievable:** all relevant stakeholders will agree with the target, and will support it
- **Realistic:** given our skills, resources (budget allocation) it will be possible to actually achieve the target, otherwise we are setting ourselves up for failure
- **Timely:** time limit will be set (long enough to reach the target, but not too long), for the TSDF the Target will be deliverable within the four years, for the AMP within the one year - the same indicator may have a number of targets, often called mile stones to the ultimate target which fulfils our objective.

Finally, each Indicator will have a clear base line, so that we know where we started from and how far we have to go to reach our Target; and the source of the data for each Target will be provided to ensure consistency in tracking progress. Given the limited availability and quality of much data in Tonga, part of

making the M&E system operational will be to strengthen the accuracy and reliability of necessary information.

The Policy and Planning Division of the Ministry of Finance and National Planning is tasked to review these corporate plans and the associated annual management plans to ensure alignment to the key outcome objectives, the annual budget and the achievement of the targets for each indicator. The MoFNP is also available to assist Ministries with the implementation of this revised planning and budgeting system and the associated monitoring and evaluation.

The following table outlines an initial set of suggested indicators; these are largely drawn from the current AMP plus additional suggestions from some Ministries. In some cases targets (also drawn from the AMPs), or at least the direction of change, are shown in [ ] brackets. The last column shows the likely source of the information both for setting the indicators and targets and for tracking progress against the targets. It is clear from the table that more work is required in fine tuning the indicators, establishing clear base lines for them, and setting appropriate targets. MoFNP will work with Ministries to reach an agreed list of indicators which can be used for both Ministry plans and the TSDF, with appropriate Targets.

During the first year of the TSDF period, the Policy and Planning Division, MoFNP will help Ministries to convert the table into a simple monitoring matrix with indicators and targets that are fully consistent with the SMART criteria, and with a base line. Some indicators may be set at the Objective level while others will stay at the Strategic level. This will require an open dialogue based on what is available and, where considered appropriate, the development of new data series, in consultation with the Statistics Department, may be required.

**Table 1: Indicators and Targets for the Outcome Objectives and Enabling Themes and their respective Strategies in the Tonga Strategic Development Framework (TSDF)**

Strategies	Indicators [Target]	Source of Information
<p><b>Outcome Objective 1 : <i>Strong inclusive communities, by engaging districts/villages/ communities in meeting their service needs and ensuring the prioritized and equitable distribution of development benefits.</i></b></p> <p><b>Implementing Agencies:</b> LA, PMO, MOFNP, MOH, MEWAC, MECC, MOTEYS, MAFFF, MOP, Ministry of Tourism, MLCI.  <b>Relevant Sector Plans:</b> MDG 1 Eradicate Extreme Poverty and Hunger, MDG 3 Promote Gender Equality &amp; Empower Women (Poverty =Hardship) and MDG 7 Ensure Environmental Sustainability.</p>		
1. <i>Better formulation and implementation of outer island and rural development programs through local communities.</i>	<ul style="list-style-type: none"> <li>❖ Improvement in Tonga's HDI score [from the current score of 0.6774]</li> <li>❖ Number of District Councils established [increased]</li> <li>❖ Number of community police posted in villages [increased]</li> <li>❖ Number of regional plans in place [for all regions, regularly updated and monitored]</li> </ul>	<p>UNDP; Annual Human Development report, Household Income and Expenditure Survey(HIES)</p> <p>Corporate Plans/Annual Reports PMO MOFNP Police</p>
2. <i>Improving gender equality by implementing the government's gender development policy.</i>	<ul style="list-style-type: none"> <li>❖ Tonga's score and ranking in the regional and global Gender Development and Empowerment Indices [improved]</li> </ul>	<p>Corporate Plan/Annual Reports MEWAC; UNDP; Annual Human Develop report</p>
3. <i>Increasing institutional care and support</i>	<ul style="list-style-type: none"> <li>❖ Proportion of elderly and other vulnerable groups living</li> </ul>	<p>Household</p>

<p>services for the elderly and other vulnerable groups, including investigation of the potential private sector role.</p>	<ul style="list-style-type: none"> <li>❖ below the basic needs poverty line [reduced]</li> <li>❖ Percentage of problem youth and disabled persons engaged in micro-enterprise and income generating activities [Increase]</li> <li>❖ Level of employment and incomes in the informal sector [increased]</li> </ul>	<p>Income Expend. Survey(HIES) Population Census</p>
<p>4. Instilling discipline, basic life skills and good, values in the youth, in particular addressing the needs of those who are unemployed, by promoting youth development programs, including community economic development and the consideration of a National Youth Service.</p>	<ul style="list-style-type: none"> <li>❖ Number of youth offenders [reduced]</li> <li>❖ Number of National Youth Service established [increased]</li> <li>❖ Number of youth development programmes operating [increased]</li> <li>❖ Levels of incomes for families and individuals [increased]</li> <li>❖ Access to high yield niche markets for new products and services [increased]</li> <li>❖ Level of skill training that meet approved standards [increased]</li> </ul>	<p>Corporate Plan/Annual Reports  MOTEYS</p>
<p><b>Outcome Objective 2 : Dynamic public and private sector partnership as the engine of growth, by promoting better collaboration between government and business, appropriate incentives, and streamlining of rules and regulations.</b></p> <p><b>Implementing Agencies:</b> MLCI, MAFFF, Ministry of Tourism, MOTTEYS, MOR.</p>		
<p>5. Creating the enabling environment for the private sector to flourish.</p> <p>(i) Maintaining macroeconomic stability. (ii) Promoting financial sector development. (iii) Investing in a healthy, well-educated, and skilled workforce. (iv) Directing development training to increase the value added of business. (v) Establishing an appropriate level of business supervision. (vi) Involving the private sector more closely in policy formulation and implementation. (vii) Fostering technological development. (viii) Promoting regional and international trade.</p>	<ul style="list-style-type: none"> <li>❖ Tonga's 'Ease of Doing Business' ranking in World Bank index [improved]</li> <li>❖ Real GDP average annual growth rate over 4 years [ 2-3% pa]</li> <li>❖ Medium-term inflation rate [stays at 3% or less]</li> <li>❖ Foreign reserves import coverage [maintained above 3 months]</li> <li>❖ Gap between skills demand and supply [decreased]</li> <li>❖ Post-harvest, quarantine and agro-processing facilities for export of local produce [established and maintained]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>MLCI Statistics Dept WB Report NRBT Reports</p> <p>MAFFF CP, AMP and Annual Report</p>
<p>6. Improving output of the Productive Sectors.</p> <p>(i) Tourism (ii) Agriculture, Forestry &amp; Fisheries (iii) Seabed Minerals (iv) Remittances and Seasonal Labour</p>	<ul style="list-style-type: none"> <li>❖ Agriculture &amp; Fisheries sector GDP growth [1-2% per annum]</li> <li>❖ Level of tourist receipts [increased]</li> <li>❖ Number of visitors [increased]</li> <li>❖ Tourist receipts per visitor [increased]</li> <li>❖ Number of workers on temporary labour schemes [increased]</li> </ul>	<p>Corporate Plans/Annual Reports</p> <p>MOFNP NRBT Tourism MLCI Statistics Dept</p>
<p><b>Outcome Objective 3 : Appropriate, well planned and maintained infrastructure that improves the everyday lives of the people and lowers the cost of business, as well as mitigating the impact of natural disasters by the adequate funding and implementation of the National Infrastructure Investment Plan (NIIP).</b></p> <p><b>Implementing Agencies:</b> MoT, MoW, Ministry of Tourism, MICs, MOH, MLSNR, MPE, MECC, MLCI. <b>Relevant Sector Plans:</b> National Infrastructure Investment Plan (NIIP), MDG 1 Eradicate Extreme Poverty and Hunger and MDG 7 Ensure Environmental Sustainability.</p>		
<p>7. Ensuring safe and reliable transport infrastructure (roads, ports, airports), with the necessary institutional arrangements in place to manage and fund effective development and</p>	<ul style="list-style-type: none"> <li>❖ Percentage of roads (divided by major and minor) with safety signs at all relevant points [increased]</li> <li>❖ Percentage of ports (divided by air and sea) meeting minimal international standards for their size and operations [100%]</li> </ul>	<p>Corporate Plans/Annual Reports</p> <p>MOW MOTrans</p>

<p><i>maintenance of these facilities throughout the Kingdom.</i></p>	<ul style="list-style-type: none"> <li>❖ Percentage of required navigational lights installed [100%]</li> <li>❖ Percentage of planned small islands jetties constructed [50%]</li> <li>❖ Percentage of international ports upgraded [50%]</li> </ul>	<p>National Infrastructure Investment Plan (NIIP) progress</p>
<p>8. <i>Increasing competition, with responsible supervision, to increase the quality of the air and sea transport services both domestically and between the Kingdom and overseas.</i></p> <p>9. <i>Strengthening regulatory compliance and safety oversight of the transport sector to ensure compliance with international safety standard.</i></p>	<ul style="list-style-type: none"> <li>❖ Frequency of flights and shipping movements to each island group from Tongatapu [at least maintained at current levels]</li> <li>❖ Frequency of flights and shipping between Tonga and overseas [increased]</li> <li>❖ Frequency of checking domestic shipping and planes for safety [increased]</li> <li>❖ Percentage of domestic ships meeting minimal international maritime standards [100%]</li> <li>❖ Percentage Building permits issued at main centres Nuku'alofa, Pangai Neiafu [95%]</li> <li>❖ Percentage Building permit issued at rural and remote areas [60%]</li> <li>❖ Percentage of building inspection over bldg permit issued [40%]</li> </ul>	<p>Corporate Plans/Annual Reports</p> <p>MOW MOTrans</p>
<p>10. <i>Improving the performance of the information and communications sector, with quality service delivery, free and fair availability of information, geographical coverage, service affordability and access to new service applications.</i></p>	<ul style="list-style-type: none"> <li>❖ International fibre-optic cable link [completed]</li> <li>❖ Level of internet and mobile phone services available to all parts of the Kingdom [increased]</li> <li>❖ Cost of internet and mobile phone services to all parts of the Kingdom [decreased]</li> </ul>	<p>Corporate Plans/Annual Reports</p> <p>MCI MOTrans Tonga Communication Corporation</p>
<p>11. <i>Maintaining and where possible expanding the provision of reliable and cost efficient power supplies, using traditional and renewable options, to all communities.</i></p>	<ul style="list-style-type: none"> <li>❖ Proportion of Tonga's energy needs met by renewable energy [increased]</li> <li>❖ Percentage of villages/towns with 24 hour energy supply [increased]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>Energy Unit, MLSNR</p>
<p>12. <i>Improving and where possible expanding the safe collection, disposal and recycling of solid and liquid waste to protect people's health and the environment.</i></p> <p>13. <i>Maintaining and expanding access to safe water and sanitation for all communities.</i></p>	<ul style="list-style-type: none"> <li>❖ Proportion of population using an improved drinking water source [maintained between 98% - 100%]</li> <li>❖ Proportion of population using an improved sanitation facility [maintained between 98%-100%]</li> <li>❖ Installation of sewerage treatment plant [completed]</li> <li>❖ Proportion of total water resources used (maintained 2.2%)</li> </ul>	<p>Corporate Plans/Annual Reports:</p> <p>MECC, MLSNR, Tonga Water Board</p>
<p>14. <i>Taking a sector wide approach to the provision and maintenance of infrastructure, seeking alternative options for provision and cost recovery, and implement the proposed priority projects outlined in the NIIP (including: energy, telecoms, water, solid waste, roads, ports, airports).</i></p>	<ul style="list-style-type: none"> <li>❖ Percentage of Tonga Energy Road Map's (TERM) project completed [50%]</li> <li>❖ Percentage of other projects in NIIP with identified funding [increased]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>Energy Unit, MLSNR</p>
<p><b>Outcome Objective 4: Sound Education standards, by emphasizing quality universal basic education.</b></p> <p><b>Implementing Agencies:</b> MEWAC. <b>Relevant Sector Plans:</b> Education Sector Strategy, MDG 2 Achieve Universal Basic Education.</p>		

<p>15. Continuing to focus on government provision of primary education, working in partnership with the churches and other groups for the provision of secondary education.</p>	<ul style="list-style-type: none"> <li>❖ Percentage of qualification and educational standards meeting international level standards through the Tonga National Qualification and Accreditation Board (TNQAB) [increased]</li> <li>❖ Access to basic education for primary aged students [maintained at 95%]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>MEWAC</p>
<p>16. Supporting and improving universal basic education through the implementation of the education sector strategy.</p>	<ul style="list-style-type: none"> <li>❖ Quality of basic educations [improved]</li> <li>❖ Student teach ratios [decreased]</li> <li>❖ Percentage of students graduating at each level [increased]</li> </ul>	
<p><b>Outcome Objective 5: <i>Appropriately skilled workforce to meet the available opportunities in Tonga and overseas, by delivering of improved Technical and Vocational Education &amp; Training.</i></b></p> <p><b>Implementing Agencies:</b> MOTEYS (TVET), MEWAC (TIHE), MOH (nursing school), TDS, MOP (training), TFS, Prisons Dept.  <b>Relevant Sector Plans:</b> MDG 1 Eradicate Extreme Poverty and Hunger.</p>		
<p>17. Promoting skill development through appropriate development of domestic training institutions, and mobilization of external training opportunities.</p>	<ul style="list-style-type: none"> <li>❖ Number of different qualified domestic training institutions operating [increased]</li> <li>❖ Number of vocational training course, meeting international standards, available in Tonga [increased]</li> <li>❖ Percentage of students receiving further technical training (increased)</li> <li>❖ Number of students going on external training (including with TDS) [increased]</li> <li>❖ Number of TVET course participants during the plan period [increased]</li> <li>❖ Percentage of graduates from Tongan TVET courses of registered training providers qualify with internationally benchmarked qualifications [increased]</li> <li>❖ Percentage dropout rate from local, regional and international courses [decreased]</li> <li>❖ Percentage of institutions going through a functioning accreditation process for TVET courses that includes overseas recognition of qualifications [increased]</li> <li>❖ Percentage of training in alignment with national and international quality assurance requirements [100%]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>MOTEYS</p>
<p>18. Improving the focus of education and training on increased productivity of the work force to increase production, exports and overseas employment of Tongans.</p>	<ul style="list-style-type: none"> <li>❖ Number of small service business operated by Tongans with vocational skills [increased]</li> <li>❖ Number of Tongans accessing overseas work schemes [increased]</li> <li>❖ Level of semi-processed exports [increased]</li> <li>❖ National employment register [established and maintained]</li> <li>❖ Number of Tongans gaining employment in their chosen fields of study, in local, regional and international labour markets [increased]</li> <li>❖ Number of small service business operated by Tongans with vocational skills [increased]</li> <li>❖ Number of Tongans with internationally recognized vocational skills accessing skilled workers schemes [increased]</li> <li>❖ Status of national employment registration [improved and maintained]</li> </ul>	

<p><b>Outcome Objective 6: Improved health of the people, by promoting healthy lifestyle choices with particular focus on addressing non-communicable diseases, and providing quality, effective and sustainable health services.</b></p> <p><b>Implementing Agencies:</b> MOH, MOTEYS.  <b>Existing Sector Plans:</b> Health Sector Plan, National Strategy for NCDs, MDGs 4 Reduce Child Mortality, MDG 5 Improve Maternal Health, MDG 6 Combating HIV/AIDs and NCDs.</p>		
<p>19. <i>Maintaining and improving the net work of health services delivered through the national referral hospital at Vaiola, supported by a network of regional hospitals and community clinics, to deliver effective curative and preventative health care.</i></p>	<ul style="list-style-type: none"> <li>❖ Percentage of health clinics appropriately staffed and supplied (by staff, supplies, access to drugs) [increased]</li> <li>❖ Number of medical conditions that can be effectively treated at Vaiola Hospital [increased]</li> <li>❖ Number of programs to promote and develop sport and physical activity in the school curriculum [increased]</li> <li>❖ Incidence, prevalence and death rates associated with tuberculosis/HIV AIDS [reduced]</li> <li>❖ Infant. Maternal mortality [reduced]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>MOH MOTEYS</p>
<p>20. <i>Improving efficiency and effectiveness of preventative health care programs that encourage healthy lifestyles, consumption of appropriate foods and increased exercise, so as to decrease the incidence of non-communicable diseases.</i></p>	<ul style="list-style-type: none"> <li>❖ Prevalence and death rates for diabetes/heart attack [reduced]</li> <li>❖ Incidence of obesity [reduced]</li> <li>❖ Incidence of smokers (reduced)</li> </ul>	
<p><b>Outcome Objective 7: Cultural awareness, environmental sustainability, disaster risk management and climate change adaptation, integrated into all planning and implementation of programs, by establishing and adhering to appropriate procedures and consultation mechanisms.</b></p> <p><b>Implementing Agencies:</b> MECC, MOW, TDS, MOP, TFS, MLSNR, MOT, Ministry of Tourism.  <b>Relevant Sector Plans:</b> Joint National Action Plan for Climate Change Adaptation and Disaster Risk Management (JNAP-CCADRM), MDG 7 Ensure Environmental Sustainability.</p>		
<p>21. <i>Valuing Tonga's cultural traditions within an evolving culture.</i></p>	<ul style="list-style-type: none"> <li>❖ Percentage of schools teaching traditional dance, arts and history [increased]</li> </ul>	<p>Corporate Plan/Annual Reports</p>
<p>22. <i>Ensuring sustainable use of the environment, by enforcing Environmental Impact Assessments (EIAs), and strengthen the national capability for environmental management to create incentives for limiting the use of resources and production of waste..</i></p>	<ul style="list-style-type: none"> <li>❖ Proportion of land area covered by forest [maintained at not less than 5%]</li> <li>❖ Proportion of terrestrial and marine protected areas [maintained]</li> <li>❖ Enforcement of quotas to avoid over exploitation of marine resources [increased]</li> <li>❖ Quantity of recycled metal exported. [increased]</li> </ul>	<p>MEWAC, MECC and other implementing agencies</p> <p>JNAP-CCADRM progress reports</p>
<p>23. <i>Implementing the JNAP-CCADRM to reduce vulnerability &amp; risks; and to enhance resilience to the impacts of climate change &amp; natural hazards.</i></p>	<ul style="list-style-type: none"> <li>❖ No of target indicators stated in JNAP for climate change met [increased]</li> <li>❖ Level of Disaster Risk Management and energy security [improved]</li> </ul>	
<p><b>Outcome Objective 8: Better Governance, by adopting the qualities of good governance, accountability, transparency, anti-corruption, security and rule of law.</b></p> <p><b>Implementing Agencies:</b> Crown Law Dept, PMO, TDS, Police, Audit, TFS, MOJ, Commission of Public Relations, MLCI, MOFNP.</p>		
<p>24. <i>Implementing the Constitutional and Political Reforms.</i></p> <p>25. <i>Strengthening anti-corruption and the application of Rule of Law.</i></p>	<ul style="list-style-type: none"> <li>❖ Tonga's international corruption ranking [lower rank = improvement]</li> <li>❖ Crime rates [reduced]</li> <li>❖ Number of complaints against the police [reduced]</li> </ul>	<p>Corporate Plan/Annual Reports</p> <p>MoP MoJ CLD</p>

<b>Outcome Objective 9: <i>Safe, secure and stable society, by maintaining law and order.</i></b>		
<b>Implementing Agencies:</b> MOJ, Police, Prisons Department.		
26. <i>Maintaining law and order and national security for the protection of the people and their property.</i>	❖ Number of disciplinary cases involving dishonesty in the public service [reduced]	Corporate Plan/Annual Reports
27. <i>Strengthening the operation of the judiciary.</i>	❖ Percentage of the public expressing satisfaction with the independence and performance of the judiciary [over 70%]	MoJ MoP Prison Dept
<b><i>Enabling Themes</i></b>		
<b><i>Enabling Theme A: Continuing progress to a more efficient and effective government by focussing on its core functions; improving coordination, service delivery and optimising use of resources.</i></b>		
<b>Implementing Agencies:</b> PMO, CLD, PSC, MOFNP, MPE, plus all other Ministries.		
28. <i>Decentralization of appropriate activities to appropriate level of administration.</i>	❖ Percentage staff attend at least one management training a year [all]	Corporate Plans/Annual Reports of implementing agencies
29. <i>Ensuring a conducive enabling environment through legal and regulatory reform.</i>	❖ Review structure of government and legal authority [completed] ❖ Percentage of line ministries who have reviewed their organisational structure [over 80%]	PE corporate accounts
30. <i>Continuing to implement public sector management reforms.</i>	❖ Percentage of Performance Management System implemented [at least 95%]	
31. <i>Prioritizing expenditure in line with national development objectives.</i>	❖ Percentage of PE meeting agreed financial performance targets [increased] ❖ Public satisfaction with service provided by each PE	
32. <i>Transferring a range of functions to the private sector.</i>	❖ Number of PEs privatised [increased] ❖ Number of current government functions privatized [increased]	
33. <i>Utilizing Information and Communication Technology (ICT) to improve accountability and transparency.</i>	❖ Internet/network-based government accounting system rolled-out [to all line Ministries] ❖ Percentage of line Ministries able to maintain an up to date web page [increased]	
<b><i>Enabling Theme B: Improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and that services to the people can be appropriately funded.</i></b>		
<b>Implementing Agencies:</b> MOFNP, Audit Office, MOR, MLCI, (with NRBT).		
34. <i>Ensuring a prudent budget based on available revenue and sustainable debt level, delivered through sound public financial management and quality government financial reporting.</i>	❖ Level of budget support [declining] ❖ Number of debt ratios being met [100%] ❖ Percentage of Ministries submitting budgets on time [100%] ❖ Percentage of performance targets achieved [95%] ❖ Percentage of line ministries submitting cash flow forecast on time [increased] ❖ Regularity of reports based on the available data, distributed to stakeholders (timely) ❖ Completed and approved by deadline (100%) ❖ No. of issues raised by the Parliament's Finance and Public Accounts Committee (FPAC) ❖ No. of issues raised in Audit Report	Corporate Plans/Annual Reports  MoFNP

	<ul style="list-style-type: none"> <li>❖ Level of satisfaction of stakeholders and the public (100%)</li> <li>❖ Level of compliant from stakeholders and the public on the budget and other financial reports (100%)</li> </ul>	
35. <i>Improving fiscal and monetary policy coordination.</i>	❖ Frequency of meetings between MoFNP and NRBT with minutes provided to Cabinet for information [at least quarterly]	
36. <i>Undertaking a review of the tax potential of the economy.</i>	❖ Status of Review [conducted, recommendations considered, course of action agreed]	Corporate Plan/Annual Reports
37. <i>Implementing tax reform and modernization programs to enhance revenue services and taxpayer's compliance.</i>	<ul style="list-style-type: none"> <li>❖ Percentage of tax reforms implemented [increased]</li> <li>❖ Level of compliance with tax assessments [95%]</li> <li>❖ Percentage of tax arrears followed up with in one month [increased]</li> <li>❖ Percentage recovery of arrears through enforcement and legal action [increased]</li> <li>❖ Percentage of exports and imports inspected [increased]</li> <li>Level of revenue collected [increased]</li> </ul>	MoR
<p><b>Enabling Theme C: Ensuring Public Enterprises are sustainable and accountable, and where appropriate moved into the private sector.</b></p> <p><b>Implementing Agencies:</b> MPE, MLCI.</p>		
38. <i>Improving profitability, accountability, and return on equity of public enterprises.</i>	<ul style="list-style-type: none"> <li>❖ Return on assets [improved]</li> <li>❖ Percentage of targets in NPAT achieved [increased]</li> <li>❖ Percentage of PEs make NPAT [increased]</li> <li>❖ Percentage of dividend payments achieved [increased]</li> </ul>	Corporate Plans/Annual Reports
39. <i>Continuing to implement public enterprises reform.</i>	❖ Percentage of performance targets for PEs met [increased]	MPE MLCI
40. <i>Privatizing public enterprises where appropriate.</i>	❖ Number of PEs privatised	
<p><b>Enabling Theme D: Ensuring a more coordinated whole of government approach in Tonga's partnership with development partners.</b></p> <p><b>Implementing Agencies:</b> MOFNP, MECC, MFA, TDS.</p> <p><b>Relevant Sector Plans:</b> MDG 8Developa Global Partnership for Development.</p>		
41. <i>Maintaining good relations with development partners, for mutual partnership, aid effectiveness and donor harmonization.</i>	<ul style="list-style-type: none"> <li>❖ Percentage of available development assistance utilized each year [increased]</li> <li>❖ Percentage of Project Proposals submitted/approved by PACC and/or Cabinet and funded [increased]</li> <li>❖ Number of development partners' information (cash &amp; in-kind) updated quarterly [increased]</li> <li>❖ Percentage of development partners attending key relevant Tonga-development partners meetings [increased]</li> </ul>	Corporate Plans/Annual Reports
42. <i>Remaining a reliable and responsible member of the international community supporting the development of the Pacific region.</i>	<ul style="list-style-type: none"> <li>❖ Number of TDS soldiers serving on peace keeping [increased]</li> <li>❖ Number of international agreements ratified and implemented [increased]</li> </ul>	MoFNP, MECC, MFA TDS

## Recent Economic and Social Development Performance

- *Macroeconomic performance*<sup>1</sup>

In 2009/10, the latest year for which official figures are available, GDP rose by 0.3% following a decline of 1.0% in 2008/09. For 2010/11 preliminary estimates suggest that growth will recover to 1.5% with a forecast of 1.2% for 2011/12. The performance in these latest two years will be underpinned by substantial infrastructure investment in roads, Nuku'alofa reconstruction, the new Vaiola hospital and the Vuna wharf.

The recent history of the Tongan economy has been characterised by a sharp contraction in primary sector exports offset, to some extent, by domestic demand generated from remittances, tourism and development assistance flows.

In the primary sector the contribution of the subsistence economy has remained relatively constant at an average of 9.5% of GDP. The contribution of the market sector however has declined from an average of 8.5% between 2001 and 2004, to 7.5% between 2008 and 2010; a decline of one percentage point or the equivalent of about 12% in its proportional share of GDP. The contribution of the industry sector also saw its share of GDP decline from 18.9% to 17.6% between 2001/02 and 2009/10. The contribution of construction fell from 8.2% to 6.7% over the same period; a decline of 1.5 percentage points, or the equivalent of 18% in its proportional contribution to GDP. However the implementation of the EXIM Bank funded projects in 2010/11 and 2011/12 should see the construction sector bounce back significantly as a contributor to GDP in these two years.

Such growth as there was between the 2001/02 and 2009/10 was mainly contributed by the services sector which increased its share of GDP from 52.6% to 54.3% over the period. Within the sector as a whole the contribution of communications showed the largest increase, almost doubling its share from 2.7% of GDP in 2001/02 to 5.2% in 2009/10. The other major contributor to the sector's growth was trade (retail and wholesale activities) which increased its contribution to GDP from 8.4% to 10.5%, equivalent to a 25% increase in its share of GDP.

Overall however the levels of per capita GDP and GDI including remittances, or the average level of real incomes of families throughout the Kingdom stagnated over the ten years to 2009/10. Thus the average household is no better-off in 2011 than it was in 2001; results from the 2009 household income and expenditure survey indicate that outer island households have been particularly badly affected. The average household in the outer islands saw the value of its real income fall by about one-quarter over the ten years. For the least well-off households the situation was even worse, their average per capita household income fell by around forty percent.

With the current boost to construction activities economic performance appears to be improving again, however the benefits of this growth are concentrated on Tongatapu in general, and Nuku'alofa in particular. Further since much of the infrastructure investment is being funded by the EXIM Bank loan a substantial part of the expenditure is undertaken off-shore and does not contribute directly to domestic expenditure or domestic demand.

The government is meeting these challenges by developing and implementing a reform programme to raise economic performance. This will require the implementation of a series of phased measures over the short, medium and long-term to further open the Tongan economy to foreign and domestic investment.

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<sup>1</sup> Refer to Budget Statement 2011/12

- ***Microeconomic and Business Environment***

The microeconomic environment, including the quality of government regulations and the business environment, will ultimately be a major determinant of the Kingdom's macroeconomic performance. International evidence demonstrates that nations with supportive business environments and appropriate regulations and institutions for their stage of development outperform nations with inappropriate regulatory settings and hostile business environments. The increased wealth that superior economic performance generates in turns provides greater resources for investing in social development (health and education) that underpin long term growth and development.

Tonga is a small isolated island nation. Any barriers to doing business increase the difficulty of attracting quality investors to Tonga and make it more difficult for local entrepreneurs to start and run successful businesses. Any actions that reduce the barriers to establishing and running businesses will therefore help increase business activity, employment, incomes and national welfare.

But currently both the ADB and World Bank rate the quality of Tonga's policies and institutions as 'weak', averaging around 3 on a six point scale (with 6 being high). However this is slightly higher than the average ranking of some of the Pacific Island countries. These assessments rate national policies covering Economic Management, Policies for Social Inclusion and Public Sector Management and Institutions. The ADB also assesses the quality of a country's debt portfolio management.

The World Bank also has *the Ease of Doing Business Index*: This World Bank index measures the relative ease of establishing a business and performing standard business operations such as enforcing contracts. In 2010 Tonga was ranked in 52<sup>nd</sup> place out of 183 countries on the Doing Business Index. This places it in the top third of nations for which data is available. Despite this relatively good ranking, Tonga must try and improve its position. There are some areas on which Tonga has low a ranking but in which significant improvement may be achievable at very low cost.

- ***Social Development<sup>2</sup>***

Tonga's relative Social Development is measured by reference to the development of other nations, particularly other Pacific Island nations and small states. In making these comparisons two useful measures of relative development are: i) MDGs and ii) UNHDI

- **The Millennium Development Goals (MDGs) : These United Nations goals are a set of agreed development targets for all developing nations focusing on core economic and social criteria.**

The Millennium Development Goals consist of 8 Goals, 22 Targets and 59 Indicators, of which only 45 indicators are relevant and applicable to the case of Tonga, with a target year of 2015 for the achievement of the goals.

While there is no extreme poverty in Tonga, we certainly need to step up our efforts in combating basic needs poverty, and provide employment, in particular for youth. Conditions have worsened due to the global economic slowdown. Tonga has achieved great success under MDG2 in providing universal access to primary education, and we are looking to address other challenges in secondary and vocational education. Although we have achieved gender parity in education, we still experience shortcomings in gender empowerment. Tonga is doing well in the health-related MDGs, namely in child and maternal health, but our urgent priority is the reduction in prevalence and impact of non-communicable diseases. Tonga is very committed to a sustainable environment, in particular through our new Ministry of Environment and Climate Change, and we are making efforts at closing some data gaps. MDG8 calls for a global partnership, and we are grateful for our development partners for their critical support to social services.

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<sup>2</sup>Refer to the Tonga MDG 2<sup>nd</sup> Status Report and UN Human Development Index Report

The land is generally fertile, except in some of the low atolls of Ha'apai, and almost all Tongans have access to plantation areas for food crops. In general, Tonga has had one of the highest rates of subsistence production for own consumption in the Pacific region. Pockets of serious poverty occur in some remote villages and in the small squatter settlements around the capital Nuku'alofa where rural migrants do not have access to traditional lands; but nationwide this affects only about 2% of households representing 3.1% of the population.

As a consequence of the low rate of economic growth in recent years and the impact of the higher rate of inflation resulting largely from the global food, fuel and economic crises, the real incomes of many households have declined. Remittances which are important source of household income, and foreign exchange receipts at the macro-level, have also declined significantly in real terms in the last two years as a consequence of the global economic crisis. This has added to pressures on households.

A new analysis of the 2001 and 2009 household income and expenditure surveys indicates that the incidence of basic needs poverty rose by six percentage points between 2001 and 2009. For 2001 the level of poverty incidence amongst the population has been estimated at 16.2%, by 2009 this is estimated to have risen to 22.5%; (12.2% and 16.2% of households respectively). The sharpest increases in poverty incidence are seen in the rural parts of Tongatapu (from 18.8% of the population in 2001 to 23.5% in 2009) and in the outer islands (11.8% in 2001 to 22.9% in 2009). Poverty and hardship, particularly in the more rural areas of Tongatapu and in the outer islands, are also linked to inadequate infrastructure, including internet access, which restricts access to knowledge and information.

In 2009 about 25% of all households were headed by females; the proportion was 29.6% in Nuku'alofa but only 23.5% and 21.5% in the rest of Tongatapu and outer islands respectively. However female headed households were slightly less likely to be below the basic needs poverty line in Nuku'alofa (27.7%), compared to the rest of Tongatapu (27.0%) and the outer islands (22.9%). The household survey also indicates that around 28.9% of all children live in households falling below the basic needs poverty line.

Between 2001 and 2009 the cost of living, as measured by the Tonga CPI, rose by approximately 86%. However, the average level of per capita household expenditure rose by only 55.2%, from T\$67.01 per week in 2001 to T\$104.39 per week in 2009. For the poorest 20% of households per capita expenditure averaged T\$29.72 per week in 2001 and T\$45.82 per week in 2009, an increase of around 54%. Thus real incomes of many households declined by as much as one-third between 2001 and 2009, a major contributing factor to the increasing level of hardship and poverty. However, the even thought the target for the third goal: *Promote gender equality and empower women* is off track but in the case of Tonga, gender equality and empowerment women are equalling in opportunities such as professional level in the government.

- **The United Nations Human Development Index (UNHDI) : This index provides a composite measure of a nation's development based on economic prosperity, health and life expectancy and educational achievement.**

The latest HDI for Tonga, 2010, is 0.677, which gives the country a rank of 85<sup>th</sup> out of 169 countries with data. This 85<sup>th</sup> ranking places Tonga first among comparable Pacific Island countries and ahead of Samoa, Fiji, Solomon Islands and Vanuatu. Tonga is however considerably behind a number of small island states including the Trinidad and Tobago (59<sup>th</sup>), Mauritius (72<sup>nd</sup>) and a number of Caribbean island nations.

Low levels of economic growth, a tight fiscal situation and an increasing incidence in relative hardship and poverty are threatening to undermine the progress that has been made by Tonga in the achievement of the MDGs and in its HDI and HPI status.

The traditional drivers of the domestic economy, agriculture, fisheries and tourism need to be re-invigorated through pro-active and pro-poor policy targeting by government. Remittances which have underpinned the expenditure of many households cannot be expected to recover quickly as the source countries themselves continue to experience low growth and high unemployment. Thus action must be

taken by government in the policy areas over which it has direct influence; this would include in restructuring and reform of economic systems and the public sector to assist in making the economy more efficient and the provision of services more cost-effective. There is a need to make Tonga a more attractive destination for increased levels of private sector investment that will lead to employment creation and provide other livelihood opportunities.

- **Resource Mobilisation<sup>3</sup>**

- *Government Revenue and Resource Mobilisation in the Medium Term*

The preliminary outturn figures for 2010/11 indicate total revenues of \$168.0 million (including donor budget support of \$22.8 million) with expenditure forecast at \$172.1 million. A deficit of \$4.1 million funded by domestic borrowing is therefore expected. For 2011/12 budget revenues are estimated to be \$170.9 million (of which \$27.9 million will be budget support from donors), with expenditure estimated to also be \$170.9 million; thus a balanced budget after donor budget support. In view of the current low rates of growth and lack of buoyancy in revenues Tonga will need to continue to rely on budgetary assistance from donors for some time.

- *Programme outcomes and outputs in the medium term*

Given the limited resources available over the next two years the focus will be on the application of funds to produce outcomes and outputs that are of value to government and the community. The TSDF has specified nine national outcome objectives whereby line ministries must produce outputs that contribute to their achievements. The four enabling themes laid out by TSDF are targeting a more efficient and effective public service, more profitable public enterprises contributing, more dividends to government revenue and improving the effectiveness of revenue collection. Hence, government can provide more and improve services to the people and also more coordinated whole of government approach to donor assistance.

Ministries are expected to align their corporate and annual management plans to the nine national outcomes objectives, identifying focused outputs and programmes that can be better understood and defined, and so that government can better assess the value of public expenditures.

- *Sustainable Growth and Revenue Generation*

The short term fiscal stimulus to maintain economic activity has minimized the fall on GDP, however, it has been at the cost of significant increase in debt, and GDP growth which has been overly focussed on Nuku'alofa. Given the nature of the funding, the number of local jobs generated has also been limited.

Government will focus on promoting wider more inclusive growth which will generate benefits more widely through the Kingdom. This will help to provide the foundation for stronger revenue growth over time to support urgent government expenditures. Government will continue to work closely with development partners to mobilize development assistance for development expenditure and capital investment, while making use of direct budget support over the medium term to avoid sharp cuts in government expenditure, while the economy and revenue base are set on a sounder footing.

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<sup>3</sup> Refer to Budget Statement for FY 2011/12