

ASIAN DEVELOPMENT BANK

TAR: TON 33097

**TECHNICAL ASSISTANCE
TO THE
KINGDOM OF TONGA
FOR ADVISING ON
THE ECONOMIC AND PUBLIC SECTOR REFORM PROGRAM**

August 2001

CURRENCY EQUIVALENTS

Currency Unit	–	Pa'anga (T\$)
T\$1.00	=	\$0.49
\$1.00	=	T\$2.03

ABBREVIATIONS

ADB	–	Asian Development Bank
AusAID	–	Australian Agency for International Development
EPSRP	–	economic and public sector reform program
GDP	–	gross domestic product
MFAT	–	New Zealand Ministry of Foreign Affairs and Trade
MOF	–	Ministry of Finance
NRBT	–	National Reserve Bank of Tonga
PDMC	–	Pacific developing member countries
PSE	–	public sector enterprise
TA	–	technical assistance
TDB	–	Tonga Development Bank

NOTES

- (i) The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2001 ends on 30 June 2001.
- (ii) In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. Discussions between the Government of Tonga and the Asian Development Bank (ADB) on developing an economic and public sector reform program (EPSRP) have been ongoing since 1998. In response to the Government's request for technical assistance (TA) to formulate the proposed EPSRP, ADB submitted a draft concept paper, including the institutional framework for EPSRP management, to the Government in August 1999. The draft was approved by the Cabinet of Ministers in April 2000. The TA was included in the approved 2000 country assistance program.¹ A Country Programming Mission in June 2001 confirmed the understanding previously reached on the TA, and a program loan of \$10 million for the EPSRP was included in the loan program for 2002.

II. BACKGROUND AND RATIONALE

2. The national strategic vision of Tonga has as its key objective the attainment of a higher standard of living for all Tongans. Achievement of this objective has been limited by a low long-term economic growth rate of around 1 percent per annum, and by employment growth well below the rate of increase of the labor force.² The situation reflects policy and governance environments that have discouraged private sector investment, and the crowding out effects of a relatively large public sector. Considerable efforts that ADB and bilateral aid agencies made in the past in support of reforms yielded disappointing results, which were attributed to lack of political will. Nevertheless, significant changes have occurred since then. In January 2000, the reform-minded Prince Ulukalala Lavaka Ata was appointed Prime Minister. In January 2001, the Prime Minister appointed a similarly reform-minded minister of finance, who was given responsibility for the EPSRP. The various changes that have already taken place are in line with the prioritized development objectives and policies established in the Strategic Development Plan Seven, 2001-2003. Now the Government is actively seeking to accelerate the reform process by formulating and implementing an EPSRP.

3. The proposed EPSRP aims to enhance private-sector-led economic growth by (i) promoting policies that create an environment conducive to increased investment and employment by the private sector, and (ii) improving the efficiency and effectiveness of service delivery by the public sector. The following paragraphs briefly discuss the specific reform areas under the proposed EPSRP.

4. **Tax, Tariff, and Customs Reforms.** The current tax system in Tonga relies heavily on foreign trade taxes, particularly those on imports.³ It is affected by an extensive array of exemptions, allowances, and loopholes that result in inequities and inefficiency in tax administration.⁴ The income tax base is narrow and the whole taxation system has become regressive. Key areas of tax reform include balancing tax revenues by shifting from trade taxation to domestic taxation, specifically income tax and value-added tax. Tax administration must also be strengthened to ensure better levels of compliance with tax laws, and to reduce the current lack of predictability in their application, an area that will receive technical assistance (TA) from the Australian Agency for International Development (AusAID). With assistance from

¹ The TA first appeared in *ADB Business Opportunities* in February 1999.

² A preliminary poverty assessment was completed in March 2001 under TA 5907-REG: *Poverty Assessment in Pacific Developing Member Countries*. The draft discussion paper was sent to the Government for comments in June 2001.

³ Trade taxes account for about 13 percent of gross domestic product (GDP) at market prices and provide around 65 percent of Government tax revenue. Sales and other taxes provide about 14 percent of tax revenue, while direct taxes provide about 20 percent.

⁴ Database of the Pacific Financial and Technical Assistance Center.

the Pacific Financial Technical Assistance Center, the Government prepared a new tax policy to address many of these issues. A cabinet paper and specific recommendations on tax changes are under consideration. The Government is also reviewing the tariff system in the context of the planned accession to the World Trade Organization. Customs administration also needs strengthening to increase the effectiveness of revenue raising.

5. **Foreign Investment, Licensing Regime, and Competition Policy.** The existing licensing regime causes significant difficulties to private sector operators, especially foreign investors. Although the new Companies Act has simplified the process of registering new enterprises, the existing licensing system is cumbersome, lacks transparency, and discriminates against foreign investors. Reforms in this area include (i) identifying and establishing a transparent policy for sectors and subsectors where foreign investors can or cannot invest, (ii) establishing a transparent foreign investment registration system, (iii) introducing a transparent business licensing process independent of investment origin, and (iv) abolishing the requirement to obtain a new business license if existing activities are expanded. The Foreign Investment Advisory Service has submitted to the Government a set of recommendations on amendments to the Licenses and Industrial Development Incentives acts, and on foreign investment legislation.

6. **Public Sector Enterprise (PSE) Reforms.** The corporatization or privatization of PSEs is an area of reform within the EPSRP. Overall, the Government controls close to 50 commercial entities. There is little reliable information on employment, revenue, or profitability of PSEs, and most have never paid any dividend to the Government. They have higher salary structures than the civil service and collectively employ around 1,650 people. Progress with PSE reforms has been very slow compared with that in neighboring Pacific developing member countries (PDMCs). A Government Investment Unit was established within the Ministry of Finance (MOF) in July 1999 to monitor PSE performance. There is a commitment to act on His Majesty's Privy Council decision of December 1995 that MOF should submit a proposal for a complete review of all Government investments to secure dividend payments. Reforms to be sponsored under the EPSRP could include the following sequenced measures: (i) adopting a PSE reform strategy and a policy framework; (ii) adopting the PSE Act; (iii) strengthening the Government Investment Unit; (iv) identifying commercial activities for corporatization and privatization; and (v) initiating a commercialization and privatization program. The New Zealand Ministry of Foreign Affairs and Trade (MFAT) is expected to provide TA in these areas.

7. **Strengthening Public Financial Management.** The Government generally has pursued a prudent fiscal policy that ensures the maintenance of aggregate fiscal discipline. A fiscal rule that recurrent expenditure not exceed recurrent revenue has been adopted, leaving capital expenditure to be determined by the availability of foreign financing. However, there is a need to improve allocative efficiency and operational management. Wages and salaries account for over 50 percent of current expenditure, crowding out expenditure on other goods and services and limiting the availability of domestic resources for investment. Program budgeting began in FY 1998/99, with the unification of the recurrent and development budgets and the intention of matching resource allocation more closely with strategic priorities. However, there remains significant scope for improving⁵ its implementation, which will be addressed by AusAID.

8. Under the EPSRP, the following reform measures will be considered: (i) introducing a three-year rolling framework for fiscal and sector policies; (ii) strengthening the links between

⁵ Financial management and accountability are still based on the line item budgeting modality. With the centralization of payment processing and accounting controls, it is important to ensure that the accounting system is adequate to support timely monitoring of actual expenditure against program budget appropriations and timely reporting for corrective actions.

program budgeting and planning exercises, covering both recurrent and development budgets; and (iii) improving departmental financial controls through timely recording and reporting of transactions.⁶ Strengthening the Office of the Auditor General, based on the review of its role, scope of its audit responsibilities, and available skills will further advance the reform agenda.

9. **Civil Service and Legislative Reform.** There are approximately 5,450 established positions in the civil service, with 4,880 positions filled at the end of 2000. An estimated additional 700 casual employees are paid on a daily basis. The Government accepts that the civil service is unnecessarily large and is committed to rightsizing in a manner that does not compromise the quality of service delivery. Civil service reform committees established in 2000 have reported on (i) the core functions of government as prescribed by existing laws and regulations, (ii) a plan for civil service reform, and (iii) means of implementation. There is a need for TA in designing and implementing an effective gender-sensitive civil service reform program, including an estimate of financial costs arising from any downsizing. The following direction of organizational changes could be incorporated under the EPSRP: (i) enhancing coordination of the whole of government by the Prime Minister's Office, (ii) establishing a civil service commission, and (iii) implementing reorganization of line departments and agencies.⁷ In addition, Tonga's laws and regulations need to be reviewed and consolidated, since the last consolidation occurred in 1988.

10. **Financial Sector Reforms.** The financial system consists of the National Reserve Bank of Tonga (NRBT), three commercial banks, and the Tonga Development Bank. The Strategic Development Plan Seven, 2001-2003 identifies two main issues that must be addressed under EPSRP if monetary policy is to contribute better to the maintenance of macroeconomic stability. The first is NRBT's weak balance sheet, which currently prevents the effective use of indirect monetary policy instruments.⁸ It is necessary to clarify long term funding arrangements (including possible recapitalization) for NRBT in coordination with MOF. The second issue concerns the need to strengthen NRBT's supervisory capacity in line with the provisions of the Financial Institutions Act of 1991 and subsequent amendments, so as to ensure adequate enforcement of prudential regulations. A specific issue in regard to banking supervision is the serious financial distress of one of the commercial banks, which has been unprofitable since its establishment in 1993. This will need to be addressed so as to maintain stability in an otherwise sound financial system.

11. In FY 1998/99, ADB and MFAT provided TA to formulate and implement the strategic plan for the Tonga Development Bank (TDB). To date, implementing the plan has involved (i) initiating organizational restructuring, (ii) bringing lending rates in line with those of commercial banks, and (iii) improving the recovery of bad debts and loan monitoring. In conjunction with possible funding for recapitalization, reforms should include increasing private sector representation on the TDB board, clarifying its organizational mandate, and ensuring autonomy of operations.

⁶ The plan is to establish a Financial Accountability Improvement Team to examine means of improving the operation of the budgeting system, including linkages with the national strategy and associated three-year rolling Public Sector Development Program.

⁷ This could include the establishment of a statutory Tonga revenue commission, combining the functions of three existing agencies with general revenue-raising responsibilities (Customs Department, Inland Revenue Department, and the Licensing Branch of the Department of Labor, Commerce, and Industry).

⁸ When NRBT was established in 1989, the net foreign assets position was transferred from the Bank of Tonga by issuing NRBT bills. In the absence of financial support from MOF and with a gradual loss of foreign reserves, NRBT's income position worsened to the point where it stopped issuing 3-month bills in 1998, retaining only one-month bills on which below-market rates were paid.

12. As in most other PDMCs, interviews with commercial banks indicate constraints relating to the availability of collateral. While asset-backed lending is less of a problem in Tonga than in some other PDMCs, the legal framework for mortgages needs to be reviewed and updated.⁹ Commercial banks indicate the need for chattel legislation to facilitate asset-backed lending. The proposed EPSRP could include adoption of such legislation.

13. **Potential Impact of Reforms.** The staff analyzed scenarios with and without the EPSRP. Medium-term outcomes can conservatively be expected by 2006, as economic policy reform measures will take some time to have an impact. The no-reform scenario is one in which there is no change in the current economic policy environment. In this scenario, overall economic growth is estimated at 1 percent per annum. Provided that net migration continues at the rate in recent years, and the resident population increases by 0.3 percent annually, this rate of GDP growth implies growth in per capita income of approximately 0.7 percent per annum. In the reform scenario, the overall growth rate is estimated to rise to 2.2 percent per annum. Assuming the same population growth rate as in the base scenario, per capita income rises at 1.9 percent per annum.

14. **Public Consultations and Social Impact Monitoring.** A key lesson learned from other reform programs supported by ADB¹⁰ is that design issues—appropriate scope, sequence, and pragmatism—are very important to success. Furthermore, political commitment, sense of ownership, and participation including that of women and disadvantaged groups in the design of reform programs are significant factors for success. Public consultations and continuous information dissemination are essential in promoting a general understanding of and support for the aims of the reform program. There is a risk that reform decisions could be made at the macro level without considering their social impact. This can be avoided by including identification of social impact and gender issues, and mitigation of negative impacts as key elements in the EPSRP. While various studies have identified the areas in need of reform and made numerous recommendations, the TA is needed to bring together and incorporate the various reform components in a comprehensive framework and to ensure a generally acceptable design through an ongoing consultative process. The gender-disaggregated social impact of the proposed reform program must be assessed to obtain the basis for formulating proposals that minimize negative social consequences.

III. THE TECHNICAL ASSISTANCE

A. Objective

15. The TA will advise the Government on the design of the EPSRP to enhance private-sector-led economic growth by (i) promoting policies that create an environment conducive to increased investment and employment by the private sector, and (ii) improving the efficiency and effectiveness of service delivery by the public sector. The TA framework is in Appendix 1.

B. Scope

16. The TA will assist in (i) formulating macroeconomic policy and public financial management, private sector development and public enterprise reform, civil service and legislative reform, and financial sector reforms; and in (ii) conducting social impact assessment, and consultative/participatory processes and public relations. It will (i) collate various policy and reform recommendations made by previous ADB-financed TAs and other external assistance

⁹ Structural barriers to collateral-based credit for women will be examined in detail.

¹⁰ Knapman, B., and Saldanha, C. 1999. *Reforms in the Pacific: An Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*. Manila: ADB.

agencies and put them into a comprehensive, coherent, and appropriately sequenced policy matrix to reach consensus on EPSRP implementation; (ii) assist the Government to generate support for the EPSRP through broad consultations with key stakeholders and civil society and catalyze involvement of other ministries; and (iii) carry out social assessments of the proposed reforms and recommending appropriate measures to mitigate negative impacts.

C. Cost Estimates and Financing Plan

17. The total cost of the TA is estimated to be \$813,000 equivalent, comprising foreign exchange costs of \$598,000 and local currency costs of \$215,000 equivalent. ADB will finance \$650,000 equivalent covering the entire foreign exchange cost of \$598,000 and \$52,000 equivalent of the local currency cost. The Government will contribute \$163,000 equivalent in kind for office space, counterpart staff, local transportation, and other services. The TA will be financed by ADB on a grant basis, from the ADB-funded TA program. The TA will finance international and domestic consulting services, civil service and social impact assessment surveys, workshops, conferences and national hearings. The cost estimates are in Appendix 2.

D. Implementation Arrangements

18. MOF will be the Executing Agency for the TA. It will provide office space, adequate counterpart staff, workshops and national summit venues, and local transportation. The reform subcommittee of the Cabinet under the chairmanship of the Deputy Prime Minister will provide overall guidance in TA implementation. Workshops, conferences, and national hearings will be implemented by the secretariat of the reform subcommittee. The TA will be implemented over about 10 months (September 2001-June 2002) with intermittent assignment of the international consultants. The TA will require 19 person-months of international and 3 person-months of domestic consultants specializing in (i) macroeconomics/public finance, (ii) private sector development/public enterprise reform, (iii) civil service reform, (iv) monetary economics/financial sector, (v) legal and regulatory review and drafting, (vi) social sector/social impact assessment, (vii) participatory methods/public relations, and (viii) other specific areas (domestic or international) as required (2 person-months). The consultant for public relations will be recruited internationally if a qualified domestic consultant is not available. ADB will select and engage the team of individual consultants in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements acceptable to ADB for selecting and engaging of domestic consultants. The terms of reference are in Appendix 3.

19. The consultants will prepare (i) an inception report, (ii) an interim progress report, and (iii) a draft final report. The recommendations of the draft final report will be discussed at a consultative meeting, involving ADB, MOF, consultants, and relevant stakeholders. Detailed reporting requirements are outlined in Appendix 3.

IV. THE PRESIDENT'S DECISION

20. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of Tonga in an amount not exceeding the equivalent of \$650,000 for the purpose of advising on the Economic and Public Sector Reform Program, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Targets	Sources of Information Monitoring System	Assumptions and Risks
Development Goal			
The standard of living of the population of Tonga is improved through private-sector-led growth and an efficient and effective public service.	Acceleration of economic growth rate above the historical trend of 1 percent	<ul style="list-style-type: none"> National statistical data 	
Project Purpose/Objectives			
The Government implements a comprehensive economic and public sector reform program (EPSRP) that is based on a broad consultative process.	<ul style="list-style-type: none"> Reduced cost of public service Improved balance of wage and nonwage expenditures Increased proportion of gross domestic product (GDP) generated by the private sector Increased foreign and local private sector investment Increased employment in private sector enterprises 	<ul style="list-style-type: none"> National accounts 	<ul style="list-style-type: none"> Government can mobilize financial resources required to complete the implementation of the reforms. Government ensures adequate technical capacity for reform implementation. The private sector responds positively to the favorable investment climate. <p>Risk</p> <ul style="list-style-type: none"> Private sector growth below envisioned targets may lead to weakening of political will to continue implementing the reform program.
Output 1			
A coherent and comprehensive policy matrix with a detailed implementation schedule has been designed.	<ul style="list-style-type: none"> Cabinet approval of the policy matrix will have been obtained by 2/2002. 	<ul style="list-style-type: none"> Cabinet decision 	<ul style="list-style-type: none"> The political will for EPSRP remains strong. <p>Risk</p> <ul style="list-style-type: none"> Adversely affected groups may seek to undermine the content and timely implementation of the reform
Activities			Major Inputs 1
1.1 Determine macroeconomic and fiscal reform measures to ensure long-term stability of public finances. 1.2 Design a civil service reform outlining roles and functions of Government, rightsizing policy and procedures and estimates of short-term adjustment costs 1.3 Assess monetary policy and financial sector performance and propose measures that will ensure financial sector stability 1.4 Identify administrative barriers to private enterprises and review proposed legislative changes in aid of private sector development 1.5 Update the consolidation process of the laws of Tonga and analyze the regulatory regime to ensure (a) good practice by simplifying and deregulating, and (b) enforceability			<ul style="list-style-type: none"> International consulting services Conferences, and workshops Public awareness

Design Summary	Performance Targets	Sources of Information Monitoring System	Assumptions and Risks
Output 2			
Broad consultations with key stakeholders and civil society generate support for the EPSRP and the involvement of all ministries is catalyzed.	<ul style="list-style-type: none"> Ministries will have prepared a first draft of their respective reform action plans by 2/2002. Nongovernment Organizations (NGOs), churches and other civil society groups actively participate in the consultation process. 	<ul style="list-style-type: none"> Ministerial action plans Minutes of hearing and workshop reports 	<ul style="list-style-type: none"> Senior government officials participate in public hearing and engage in a dialogue with civil society.
Activities			Major Inputs 2
2.1 Formulate a public information campaign on the content, benefits, and costs of the EPSRP. 2.2 Organize a series of workshops and seminars for specific stakeholder groups 2.3 Conduct national summits and public hearings on key issues of the reform program 2.4 Develop systems and formats for monitoring and reporting on reform implementation			<ul style="list-style-type: none"> International consulting services Conferences, workshops Public awareness
Output 3			
Social assessments of the reform program limit negative effects and ensure appropriate measures to mitigate negative impacts on the civil service.	<ul style="list-style-type: none"> Appropriate mitigation measures will have been identified and agreed upon by 4/2002. 	<ul style="list-style-type: none"> Government records TA reports of consultants 	<ul style="list-style-type: none"> Mitigation measures facilitate the integration of affected groups into the private sector workforce.
Activities			Major Inputs 3
3.1 Establish a social impact monitoring unit within the Prime Minister's Office to collect and disseminate quantitative and qualitative information on the impact of EPSRP 3.2 Evaluate the effects of policy changes under the EPSRP on the stakeholders, and vulnerable groups 3.3 Evaluate the current social security system, and suggest measures to establish a sustainable social security system 3.4 Design transparent mitigating measures to facilitate the individual adjustment process			<ul style="list-style-type: none"> International consulting services Surveys

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing^a			
1. Consultants			
a. Remuneration	350	0	350
b. Per Diem	92	0	92
c. International and Local Travel	60	5	65
2. Surveys	0	15	15
3. Workshops and Seminars	0	20	20
4. Printing, Reporting and Communication	15	5	20
5. Contingencies	81	7	88
Subtotal (A)	598	52	650
B. Government Financing			
1. Office Accommodation and Local Transport	0	45	45
2. Counterpart Staff	0	55	55
3. Facilities	0	40	40
4. Contingencies	0	23	23
Subtotal (B)	0	163	163
Total	598	215	813

^a Funded from ADB's Technical Assistance Special Fund.

Source: ADB estimates

(Reference in text: page 5, para. 17)

TERMS OF REFERENCE FOR CONSULTANTS

1. Consulting services will be provided by international and domestic consultants. Their designation and tasks (with category and person-months in parentheses) are as follows.

A. Macroeconomist and Public Finance Management Expert/ Team Leader (international, 4)

2. The consultant is expected to lead and provide guidance to the technical assistance (TA) team members, and to undertake the following tasks:

- (i) Analyze Tonga's overall economic and human resource development performance during the 1980s and 1990s, including distributional outcomes, and comment on the development challenges confronting the Tongan community and the Government's effectiveness in fostering macroeconomic stability.
- (ii) Analyze the Government's effectiveness in promoting a competitive price and cost structure by examining key prices. Assess the tax collection efficiency level for domestic taxes of the public sector.
- (iii) Make a detailed assessment of public financial management, including recent reforms, that encompasses (a) the extent of fiscal transparency, (b) budget coverage and preparation, (c) budget execution, and (d) public expenditure management system including a monitoring system for compliance with budget appropriations.
- (iv) After wide consultation with key stakeholders, and acting on the advice of the Government committee managing the reform process, recommend a set of reform measures, with a practical time frame, in the areas of development strategy, macroeconomic policy, and public financial management.
- (v) Consolidate all TA team recommendations into a draft economic and public sector reform program (EPSRP) policy matrix for consideration by the Government committee and discussion with Government ministries, the private sector, and civil society. Prepare a draft project framework for the proposed EPSRP.
- (vi) Working with team members, estimate (a) possible structural adjustment costs in connection with measures to be introduced under the EPSRP, and (b) envisioned qualitative and quantitative benefits of the EPSRP.
- (vii) Assess the TA needs of the Government to implement the recommendations made, and on the basis of this assessment prepare a TA proposal including cost estimates and terms of reference for consulting services. Facilitate the preparation of a consultative group meeting and act as a resource person, if required. With the help of all the other consultants, prepare inception, interim, draft final, and final reports.

B. Private Sector Development and Public Enterprise Reform Expert (international, 2)

3. The consultant is expected to work as an integral part of the TA team and will, in coordination with other members of the team, undertake the following tasks:

- (i) Review the past performance of the private sector and the effectiveness of the promotion measures; and the existing policies and regulations that affect private sector investment and development in all major sectors of the economy—tax, tariff, and customs systems: the Industrial Development Incentives Act, foreign investment, the business licensing regime, and competition policy—using all the existing studies of these issues made by other agencies.
- (ii) On the basis of this review, analyze the Government's effectiveness in promoting efficient resource allocation through appropriate trade, tariff, and investment policies, and market regulation.
- (iii) Assess the nature and functioning of the markets for capital, labor, and land, identifying gender differences with regard to (a) market segmentation, (b) stereotyping of jobs, (c) wages and income, and any imperfections that may be obstacles to private sector development, while paying appropriate attention to cultural and political sensitivities.
- (iv) In close association with the legal and regulatory review specialist, review labor and employment legislation and policies and assess their gender-disaggregated impact on employment and wages.
- (v) Describe the size and structure of the public enterprise sector, and review the status of public enterprises in terms of their legal, regulatory, and governance frameworks; ownership structure; operational and financial efficiencies; and competition with existing and potential private sector players, using studies made by the Asian Development Bank (ADB) and other agencies and working with the Government Investment Unit and adviser provided by the New Zealand Ministry of Foreign Affairs and Trade.
- (vi) Recommend a set of reform measures, with a practical time frame, to be included in the EPSRP policy matrix. Assess the TA needs that the Government may require to implement the recommendations made and on the basis of this assessment prepare a TA proposal including cost estimates and terms of reference for consulting services.

C. Civil Service Reform Expert (international, 3)

4. The consultant is expected to work as an integral part of the TA team and will, in coordination with other members of the team, undertake the following tasks:

- (i) Describe the size and structure of the public service by gender, the terms and conditions of employment including the incentive system, and provide a summary analysis of its efficiency and effectiveness in recent service delivery.

- (ii) Review the policy framework for public service, assess the institutional capacities of public service agencies, and assess the effectiveness of the collaboration and coordination of public service agencies.
- (iii) In liaison with the team leader, assess the quality of the governance environment, paying particular attention to the core government functions of revenue administration, public expenditure management, and public administration.
- (iv) In liaison with the social impact assessment expert, identify groups that may be negatively affected by the reforms, and propose appropriate mitigation measures.
- (v) Review and evaluate the design of civil service reforms suggested in previous reports, particularly those of the Government's civil service reform committees.
- (vi) Assist the Government's civil service reform secretariat in designing the plan for rightsizing the civil service, and the selection process for a reformed civil service. Identify specific progress, performance, and impact indicators that key decision makers will require to manage and guide the civil service reform process.
- (vii) Liaise with the Ministry of Justice to ensure that the reform process is compatible with and is supported by the legal/legislative framework.
- (viii) Assess the TA needs that the Government may require to implement the civil service reform, and on the basis of this assessment prepare a TA proposal including cost estimates and terms of reference for consulting services.

D. Monetary Economist and Financial Sector Expert (international, 2)

5. The consultant is expected to work as an integral part of the TA team and will, in coordination with other members of the team, undertake the following tasks:

- (i) Review the role and performance of the financial sector in facilitating sustainable private sector development, drawing on the Tonga report prepared under ADB's regional TA on financial sector development, as well as on reports prepared by other agencies.
- (ii) Working in conjunction with NRBT staff, including advisers from the International Monetary Fund, assess the effectiveness of the National Reserve Bank of Tonga (NRBT) in formulating and implementing monetary policy, and in fulfilling its supervisory functions, identifying means of improving efficiency and effectiveness:
- (iii) Specifically assess the extent of any required recapitalization of NRBT.
- (iv) Review the progress in restructuring the Tonga Development Bank (TDB), assessing its financial performance, quality of corporate governance, and any re-capitalization needs.
- (v) Based on these reviews and thorough consultations with all the relevant stakeholders, recommend a set of reform measures, with a practical time frame,

to be included in the EPSRP policy matrix. The recommendations should encompass means to improve financial intermediation in support of private sector activities and to improve the effectiveness of monetary policy.

- (vi) Assess the TA needs that the Government may require to implement the recommendations made and on the basis of this assessment prepare a TA proposal including cost estimates and terms of reference for consulting services.

E. Legal and Regulatory Review Expert (international, 3)

6. The consultant is expected to work as an integral part of the TA team and will, in coordination with other members of the team, undertake the following tasks:

- (i) Examine the laws of Tonga using the 1988 consolidation and advise on the consolidation process.
- (ii) Analyze the regulatory regime in Tonga to ensure (a) good practice by simplifying and deregulating, and (b) enforceability.
- (iii) Review regulations including, but not exclusively, those in banking, insurance, finance, public procurement, consumer protection, public utilities, environmental protection, corporate governance, specially when regulatory bodies are absent, to ascertain that they comply with good practice and to suggest improvements to legislation in line with government policy. Support the drafting of regulations that will facilitate a better investment environment and enhance private sector development.
- (iv) From an analysis of existing and proposed legislation, assess the needs of the judiciary for improved dispensation of justice and smoother functioning of the court system in consultation with the advisory team provided by the Australian Agency for International Development that aims at strengthening the legal sector.
- (v) Assess the TA needs that the Government may require to implement the recommendations made under (ii), (iii), and (iv); on the basis of this assessment, prepare a TA proposal including cost estimates and terms of reference for consulting services.

F. Social Sector and Social Impact Assessment Expert (international, 2)

7. The consultant is expected to work as an integral part of the TA team and will, in coordination with other members of the team, undertake the following tasks:

- (i) Establish a social/gender impact monitoring unit within the Prime Minister's Office. Evaluate the effects of policy changes under the EPSRP on the stakeholders, and vulnerable groups. Evaluate the current social security system, and suggest measures to establish a sustainable social security system.
- (ii) Assess the social implications and poverty impact assessment of each conditionality under the proposed EPSRP, paying particular attention to any potential retrenchment policies adopted in the public sector, and to the impact of

economic policy reforms on the living standards of the poorer sections of the community.

- (iii) On the basis of this assessment, make recommendations concerning transparent mitigating measures, including educational and counseling services that may be provided so as to facilitate the individual adjustment process e.g., the possible provision of business advisory services aimed at helping the transition to the private sector.
- (iv) In liaison with the private sector development specialist and the civil service reform expert, identify gender-related constraints with regard to employment, and access to land and credit; and propose appropriate measures in the context of the reform to address those constraints.
- (v) Assess the TA needs that the Government may require to implement the recommendations made under (ii); and on the basis of this assessment, prepare a TA proposal including cost estimates and terms of reference for consulting services.

8. The consultant must have (i) a degree in social science with specialization in social assessments; (ii) experience in impact assessments of economic and civil service reform programs in developing countries, preferably in the Pacific; and (iii) ability to effectively work in teams, and effective communication skills.

G. Participatory and Public Relations Expert (domestic, 3)

9. The consultant is expected to work as an integral part of the TA team and will, in coordination with other members of the team, undertake the following tasks:

- (i) Assist the Government committee in managing the formulation and implementation of the EPSRP with the building of a broad-based consultative process that engages members of the public sector, the private sector, and civil society during the EPSRP's design stage, through such mechanisms as workshops and seminars, targeting specific groups (politicians, public sector officials, chambers of commerce, churches, nongovernment organizations), and national summits that bring together representatives of the Government, the business community, nongovernment organizations, and the general public.
- (ii) Assist the Government committee to formulate a public information campaign on the content, benefits, and costs of the EPSRP, and recommend a time-bound set of actions for implementing the campaign before and during EPSRP implementation. Develop systems and formats for monitoring and reporting on implementation of the reform program. Assist in organizing and managing any EPSRP-related public hearings, workshops, seminars, and summits.
- (iii) Assess the TA needs that the Government may require to implement the recommendations made under (ii), and on the basis of this assessment prepare a TA proposal including cost estimates and terms of reference for consulting services.