



Technical Assistance Consultant's Report

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

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For Prime Ministers Office

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CURRENCY EQUIVALENTS

(as of 30 June 2009)

Currency Unit	–	Pa'anga (TOP)
T\$1.00	=	\$0.4900
\$1.00	=	T\$2.0746

ABBREVIATIONS

ADB	–	Asian Development Bank
CEC	–	Constitutional and Electoral Commission
ERC	–	Expenditure Review Committee
IRENA	–	International Renewable Energy Agency
MOF	–	Ministry of Finance
MTBF	–	Medium Term Budget Framework
NEDC	–	National Economic Development Council
NDC	–	Nuku'alofa Development Corporation
NSPF	–	National Strategic Planning Framework
PFMSP	–	Public Financial Management Support Program
PFTAC	–	Pacific Financial and Technical Assistance Center
PLCO	–	Public Liaison Coordinating Office
SDP8	–	Strategic Development Plan Eight 2006/7 - 2008/9
SPSO	–	South Pacific Sub-regional Office
TAPPA	–	Tonga Australia Performance Partnership Agreement

NOTE

- (i) The fiscal year (FY) of the Government ends on 30 June.

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I. BACKGROUND

A. Introduction

1. Tonga is an independent kingdom consisting of an archipelago of 170 islands, of which only 36 are inhabited. It is unique in the Pacific as it is the only country with a constitutional monarchy. It has a population of 102,000 and a per capita gross domestic product of USD\$1,886. Approximately 70% of the population resides on the main island of Tongatapu. Its human development outcomes, including under-five mortality rate, life expectancy and literacy, are among the best in the Pacific, and on a par with its middle income country status. It has a narrow economic base and material reliance is placed on inwards remittances from relatives living overseas.

2. A number of reform efforts in recent years have enjoyed limited success and the overall economic position is fragile. In September 2005 a civil service strike was settled with pay rise commitments that could not be financed within a business as usual framework. A voluntary redundancy program for civil servants was implemented in June 2006. In November 2006 civil unrest resulted in looting and arson which affected a number of commercial buildings in the capital, Nuku'alofa. Since this time the Government has been focusing on the following:

- Nuku'alofa reconstruction
- Public service reform
- Public enterprise rationalization
- Private sector reform

B. Policy Setting

3. The *Strategic Development Plan Eight 2006/7-2008/9* (SDP8) presents the Kingdom of Tonga's development vision, its medium-term national development goals, and the strategies for achieving these goals. SDP8 serves to:

- Inform the private sector and civil society of Government's policy intentions;
- Provide the foundation on which Government can develop its external economic relations and aid donors can construct their country strategies and assistance programs; and
- Provide indicators by which Government's progress in policy/strategy implementation can be measured.

4. The successful implementation of SDP8 will require the efforts of Tongans in the communities, civil society organizations, and the private sector, but most particularly it requires committed efforts from the public servants charged with the challenge of improving public service delivery.

C. Consultancy Objectives

5. Cabinet recently approved a new approach to the national development planning framework from that used in Tonga's SDP8 and previous plans. The two initial outputs under TA4865-TON: Support for the Implementation of SDP8, a Medium term Budget Framework (MTBF) and the Public Financial Management Support Program (PFMSP) have been produced. However, the Government has now recognized that it needs to provide a more

strategic direction to its budget and financial management. The Economic and Strategy Advisor was required to:

- (i) support the Expenditure Review Committee in terms of statistical and economic submissions;
- (ii) assist with the preparatory work for the new National Strategic Development Plan Framework; and
- (iii) provide technical advice to the Prime Minister on economic issues, including monitoring of economic programs.

D. Scope of Work

6. The government is focused on firming up the nature of the new planning document and supporting a more strategic approach to the 2009/10 budget round. It has reactivated an Expenditure Review Committee (ERC), chaired by the Prime Minister with other members being the Deputy Prime Minister, the Minister for Finance, and the Chairperson Public Service Commission. The mandate of the ERC is to ensure that government spending remains under control, is accountable, is closely aligned with the priorities of Tonga, and that every tax dollar is invested with care to achieve results for the people of Tonga. The ERC reviews all government program expenditures in order to ensure value for money for taxpayer investments; to identify opportunities to reallocate spending from lower to higher priorities; and recommend ways to strengthen management, oversight and effective delivery of programs and services.

7. The Cabinet has also approved a new type of planning concept to replace the type used in the previous strategic development plan series. The National Strategic Planning Framework requires a long-term strategic approach that focuses on the key determinants of economic and social development. Many of these need, by their very nature, to be addressed through consistent and sustained policy implementation over many years. Secondly, rather than the broad and all inclusive approach used for SDP8 and its predecessors, the new plan will now focus on a few key government priorities, which will be supported through Ministries' corporate plans. It is envisaged that the approach will improve the management and monitoring of progress and will force Ministers to focus more on the quality of their Ministry's corporate plan.

8. The Economic and Strategy Advisor in the Prime Minister's Office will work closely with ERC and the Prime Minister by providing timely reports and guidance on all statistical and economic matters and to assist with the preparatory work for the new National Strategic Development Plan Framework.

II. ACTIVITIES

A. General

9. The advisor worked closely with the Secretary to the Prime Minister and reported directly to the Prime Minister. The advisor needed to be conversant with and have an overall understanding of policy and current thinking on any issue on which the Prime Minister required an independent opinion and was required to obtain sound advice from relevant persons, either locals, other consultants, or from the wider international community on issues outside of his expertise. The advisor was required to use such advice in the provision of timely briefing papers and ensured that a logical business analysis was provided on topics of concern to the Prime Minister.

10. The advisor was required to provide timely briefing papers, often at short notice. The advisor had to be fully informed on all issues of importance to the Prime Minister. The advisor ensured that a logical business analysis was provided on topics of concern to the Prime Minister.

11. The main tasks of the consultancy were:

1. To support the Expenditure Review Committee through the submission of timely papers and analysis, wherever possible on a pro-active basis, on statistical and economic matters.

2. To work with the Ministry of Finance, and other Ministries on the preparatory work and analysis for the Government's successor to the Eighth Strategic Development Plan (SDP8).

- To make recommendations on the form, focus and structure that the replacement for SDP8 might take.
- To develop a process to guide how the replacement to SDP8 could be developed bearing in mind the replacement could be significantly different from the exiting planning document. As part of this, the need for further development partner assistance (if any) should be identified in a form that will ensure rapid provision of required support.
- Provide advice on the key reform/development priorities that should be covered in the replacement for SDP8.
- It is acknowledged that the form and substance of the replacement for SDP8 may be very different from SDP8, it is therefore necessary that the advisor consult widely within government and to think creatively in forming recommendations on what is the best model for Tonga's key planning document.

3. To provide technical advice to the Prime Minister on specific statistics & economic modeling skills as may be required.

- Ensure that a logical business analysis is provided on issues of concern to the Prime Minister
- In close consultation with senior officials of other line Ministries including the Ministry of Finance:
 - (i) provide technical support to the Prime Minister as may be required in his oversight role in the implementation of policy initiatives set out in SDP8, and

- (ii) provide advice and support to the Prime Minister in relation to the implementation of operational processes necessary to effectively implement policy initiatives

B. Method and Approach

12. The Government of Tonga requested the technical assistance through the Economic and Strategy Advisor for an assignment period of 2.5 months. The advisor was based in the Prime Minister's Office and worked closely with, and reported on a daily basis to the Prime Minister. The advisor provided independent advice and technical knowledge on a range of issues. The advisor provided briefing papers as requested and was required to establish strong relationships with other advisors and ensure coordination and non duplication of work effort. He was also required to provide his opinion on the quality and completeness of briefing papers provided by others to the Prime Minister.

III. PROJECT OUTCOMES

13. This section is set out under the 3 main categories of tasks that the advisor undertook.

A. Support to Expenditure Review Committee (ERC)

14. In an effort to have a more inclusive budget round in 2008/09 the Prime Minister re-introduced the ERC which had not met since 2002. This ERC consists of the Prime Minister (Chair), Deputy Prime Minister, Minister for Finance, and Public Service Commission Chairperson and its main role is to set the medium term budget framework that links to the strategic development plan and policies. This cabinet sub-committee meets at least monthly. The advisor attended ERC meetings and provided fiscal and economic advice to its members. The ERC met at least 10 times during the 2009/10 budget round.

15. The advisor prepared a paper for ERC proposing the Government of Tonga's response to the global economic crisis. This fiscal stimulus package paper was subsequently approved by Cabinet. One of the major activities undertaken during the assignment was to prepare the Government of Tonga inputs into the proposed ADB economic program grant, which is a major component of the fiscal stimulus package. The grant will see ADB accelerate Tonga's ADF allocation for 2011/12 and to make it available in the 2009/10 fiscal year as budgetary support. A number of visits by ADB officials from both the South Pacific Subregional Office (SPSO) in Suva and the Pacific Liaison Coordinating Office (PLCO) in Sydney were made to Tonga and the advisor was the main point of contact for the Prime Minister's Office. The advisor visited Sydney in June for the donor round table meeting on Tonga's Energy Road Map. The advisor had a number of meetings during the three days at PLCO to further advance the program grant documentation.

16. The advisor prepared a 5 year detailed fiscal analysis paper for the Prime Minister for presentation to the ERC. This paper looked at detailed revenue results and analysed expenditure by main category and by function. This paper was requested as there has been increasing frustration with the quality of data presented to ERC by the Ministry of Finance (MOF).

17. The advisor assisted with negotiations on behalf of ERC with the governments of New Zealand and Australia for their contributions to the Constitutional and Electoral Commission (CEC) budget and in particular the detailed plan and costs for the civic education program. The advisor is also managing the expenditure associated with this program. As part of the civic education program the advisor has commissioned an addition to the Prime Minister's Office website for public information on constitutional and electoral reforms.

B. National Strategic Planning Framework

18. Early in 2009, the Prime Minister directed the advisor to review the historical Strategic Development Plan series and provide a new strategic planning approach for the Government of Tonga. SDP8, which covered the years 2006/07 – 2008/09, was the right one for the time, but the new framework takes a longer term view of 5 to 10 years. While the fundamental economic analysis and the strategic direction of recent years remain valid, there are issues that have progressively increased in importance. The advisor prepared a draft National Strategic Planning Framework (NSPF) which was subsequently approved by the ERC and Cabinet.

19. The NSPF has a long-term strategic approach that focuses on the key determinants of economic and social development. Many of these need, by their very nature, to be addressed through consistent and sustained policy implementation over many years. Secondly, rather than the broad and all inclusive approach used for SDP8 and its predecessors, the framework focuses on a limited number of uniquely national or whole of government priorities, with action in other supporting areas being required of Ministers through their Ministries' corporate plans

20. What is being developed is a more effective management and monitoring approach to the strategic objectives. This approach has the advantage of challenging line Ministers to focus more on the quality of their Ministry's corporate plan. The advisor has been working with donors to look at what assistance can be provided in 2009/10 to further support the development of corporate plans. The advisor also worked with MOF officials to look at assistance to implement recommendations made by the PFMSP prepared under TA4865. Options for assistance were prioritized and presented to AusAid for initial funding.

21. 2008/09 was the second year of the Tonga Australia Performance Partnership Agreement (TAPPA). The TAPPA aims to promote faster, better and more sustainable implementation of SDP8 reforms and achievement of other performance improvements. The package had two main components; i) public service reform, and ii) revenue services reform. The Prime Minister tasked the advisor with monitoring the milestones to keep the Prime Minister up to date on whether Tonga was meeting its TAPPA targets.

22. The outcome for 2008/09 was very successful for Tonga with all milestones being met. As a result, the additional cash grant of AUD\$2.0 million was approved by Canberra. The advisor successfully negotiated with AusAID the projects upon which the Government proposed to spend this additional money. These projects will be implemented in 2009/10.

23. The advisor was requested to participate in Tonga's negotiations with Australia on its Pacific Partnership Agreement to be signed at the Pacific Forum Islands Leaders meeting in August 2009. The NSPF formed the basis for Tonga's negotiations and the draft Pacific Partnership Agreement is structured around 4 of the 7 primary outcome objectives of the NSPF. The advisor negotiated the schedules for each of the 4 components including developing targets and milestones. These targets and milestones will be incorporated into the final NSPF document.

C. Advice to the Prime Minister

24. A major part of the role of the advisor was to provide briefing papers, talking points, notes and so forth for the Prime Minister for his numerous meetings with ministers, government officials, potential private sector investors, donors, and members of the community. This also included providing briefing notes on cabinet papers on a weekly basis. The advisor also wrote briefing papers for the Prime Minister on issues regarding the monthly fiscal updates of revenue and expenditure for 2008/09 that the Minister for Finance brought to ERC and Cabinet.

25. The advisor maintained a database of main macro-economic indicators. This allowed the advisor to be able to respond rapidly with requests from the Prime Minister for the latest figures on economic activity.

26. In early 2009 the Pacific Financial and Technical Advisory Centre (PFTAC) advisor on national accounts visited Tonga and implemented revisions to the national accounts methodology. Subsequently, these revisions along with recommended methodology

changes for domestic agriculture and government services were incorporated and a full set of updated national accounts produced for the first time since 2003/04. The advisor reviewed the publication and the Prime Minister approved it for publication in June 2009.

1. National Economic Development Council

27. The National Economic Development Council (NEDC) was an initiative of the Prime Minister and was born out of the 2007 National Economic Summit. It was established as a response to the national effort to support the economic development activities in Tonga through a stronger partnership between government and the private sector. The main objective of the NEDC is to stimulate economic growth by identifying and recommending to Cabinet policy initiatives for a private sector led economy. The target is real growth of greater than 5% per annum by better utilization of Tonga's resources.

28. The NEDC is chaired by the Prime Minister and comprises four other senior Cabinet ministers and seven representatives from the private sector. The NEDC meets monthly and the advisor was required to undertake the function of Secretariat of the NEDC. The advisor also assisted the private sector representatives with preparation of new business proposals so they may access the NEDC fund.

The major initiative being worked on during the period was a tourism marketing strategy for the US and European markets. This was completed and endorsed by NEDC who has agreed to fund the implementation of the strategy up to NZD\$250,000. Negotiations were held with NZAid who has agreed to match this funding with the same amount for implementation of the Australia/New Zealand marketing strategy.

2. Donor Co-ordination

29. In recent times there has been much discussion on donor co-ordination in Tonga and the Government has included it as an "enabling theme" in its recently approved NSPF. Capacity constraints since the redundancy program have impacted in this area. The Prime Minister felt that he was not being kept fully briefed on donor issues and asked the advisor to liaise regularly with donors (Australia and New Zealand in particular). The monitoring of aid projects is also very important as historically Tonga has spent less than 75% of its aid allocation annually.

30. The advisor meets at least weekly with the NZAid and AusAid program managers. These discussions centre on progress with the current years aid programs and forward aid program initiatives. The advisor advises on Government priorities as directed by the Prime Minister. The advisor also meets with the High Commissioners once a month to discuss broader economic and financial issues and on other occasions if directed by the Prime Minister. The main issue being discussed at present is the impact on Tonga of the global financial crisis and the major risks facing Tonga. Both Australia and New Zealand are monitoring economic and fiscal developments closely and stand by ready to provide budgetary support in 2009/10 if necessary.

31. When high level donor delegations meet with the Prime Minister the advisor provides briefing notes and strategic recommendations on their programs in Tonga. Visits were made by the ADB President Kuroda, Stephen Smith, Australia's Minister for Foreign Affairs, Gerry Brownlee, New Zealand's Minister for Energy, Simon Cream, Australian Minister for Trade, and others.

32. The advisor reviewed and made comments on the 2009 ADB and World Bank country performance assessments for Tonga. The advisor was also responsible for

coordinating Tonga Government responses to the final draft of the Pacific Islands Economic Report (PIER) on Tonga.

3. Reconstruction

33. By the middle of 2008 the reconstruction program under the Chinese Loan had made very little progress. In fact the loan itself was not effective as the GoT had still not met all conditionalities. His Majesty directed the Prime Minister to take over as Chairman of the Nuku'alofa Development Corporation (NDC), a Cabinet sub-committee. A separate Technical Committee was set up to implement the directives of the Cabinet sub-committee and the advisor represented the Prime Minister on the Technical Committee. The intention was to identify and remove a number of road blocks to this project.

34. The advisor was requested by the Prime Minister to look at ways to speed up this project. The Chinese were having a number of difficulties getting the project off the ground and the Government's project management team was proving ineffective. The advisor negotiated with a private construction company to undertake the project management role on behalf of the Government. The project is now fully underway with construction of the first two buildings beginning in late April 2009.

35. The advisor has also been involved in negotiating with the Chinese contractor on the reconstruction loan to increase the involvement of local companies in this project. This has been very successful with the third building being sub-contracted to a local company. The Chinese have also increased the amount of materials and services to be procured locally.

4. Renewable Energy

36. With the rising fuel prices the issue of renewable energy has come to the fore in Tonga as it is highly vulnerable to oil price shocks. The advisor has been working closely with the renewable energy coordinator whose initial role is to prepare the strategy to achieve the target of 50% renewable energy sources for Tonga's electricity by 2012.

37. The coordinator and advisor attended the second plenary session of the International Renewable Energy Agency (IRENA) in Egypt. This body has been established to co-ordinate projects and funding for developing countries. The team was able to secure a major opportunity for Tonga with IRENA proposing to show case Tonga on the renewable energy world stage. They wish to implement Tonga's road map as their first developing country project.