

Performance
Evaluation
Report

Tonga: Economic Support Program



Performance Evaluation Report
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Tonga: Economic Support Program

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NOTES

- (i) The fiscal year (FY) of the Government of Tonga ends on 30 June. "FY" before a calendar year denotes the year in which the fiscal year ends, e.g., FY2014 ends on 30 June 2014.
- (ii) In this report, "\$" refers to US dollars.

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Abbreviations

ADB	–	Asian Development Bank
DMF	–	design and monitoring framework
ERC	–	Expenditure Review Committee
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MFNP	–	Ministry of Finance and National Planning
MOE	–	Ministry of Education
MOH	–	Ministry of Health
MTC	–	Macroeconomic Technical Committee
PEFA	–	public expenditure and financial accountability
PFM	–	public financial management
PMO	–	Prime Minister's Office
PSE	–	public sector enterprise
TA	–	technical assistance

Currency Equivalents

		At Appraisal	At Program Completion (30 June 2011)	At Evaluation (March 2017)
T\$1.00	=	\$1.98	\$1.69	\$0.45
\$1.00	=	T\$0.51	T\$0.59	T\$2.24

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IED retains full responsibility for this report.

Basic Data

Grant No. 0185-TON: Economic Support Program

Key Program Data	Per Asian Development Bank Grant Document (\$ million)	Actual (\$ million)
Total program cost	10.0	10.0
Asian Development Bank grant	10.0	10.0
Local currency cost	0.0	0.0
Other grant financing	0.0	0.0
Grant amount canceled	0.0	0.0

Key Dates	Expected	Actual
Appraisal		10–19 Aug 2009
Grant negotiations		5–10 Nov 2009
Board approval		3 Dec 2009
Grant agreement		21 Dec 2009
Grant effectiveness	21 Mar 2010	26 Feb 2010
First disbursement	Dec 2009	24 Mar 2010
Second disbursement	Nov 2010	3 Jun 2011
Grant closing	31 Dec 2010	30 Jun 2011

Borrower Kingdom of Tonga
Executing Agency Prime Minister's Office

Mission Data

Type of Mission	No. of Missions	No. of Person-Days
Pre-fact-finding	1	30
Appraisal	2	75
Review	1	20
Program completion ^a	1	56
Independent evaluation	1	10

^a Desk-based and in-country consultations.

Executive Summary

This program performance evaluation report presents the findings from the evaluation of the Economic Support Program in Tonga to assess its performance and highlight lessons. It provides input to the ongoing corporate evaluation on policy-based lending of the Asian Development Bank (ADB) and future ADB operations in the country.

The effects of the global economic crisis persisted and were not contained and fiscal position continued to be in deficit. A weak fiscal position could lead to difficulties in maintaining budgetary outlays and service standards on the outer islands. In hindsight, the selected package of reform measures was not the best option. Stronger reform measures such as those involving public-private partnership arrangements and other options to enhance private participation could have been explored. Also, more meaningful efforts for fiscal consolidation could have been pursued. Overall, the program is assessed less than successful, based on the non-attainment of both the program's impact and outcome targets.

As inputs to future operations in Tonga, the evaluation suggests the conduct of country and sector diagnostic studies to ascertain the most critical constraints. Past and current policy-based programs for Tonga have been largely focused on public financial management, fiscal consolidation, and public sector enterprise reforms. ADB could consider examining the country's binding constraints to growth and assess whether there are other areas where ADB could make more meaningful contributions. Likewise, ADB could provide support in identifying and monitoring vulnerable groups. It is important to know who the vulnerable groups are and understand how they respond and cope with external shocks and crisis conditions. This will facilitate better ways of reaching them with needed social services.

Background

The confluence of reduced remittances, declining tourism receipts, and weak export demand, all brought about by the onset of the 2008–2009 global economic crisis, took its toll on Tonga's economy. This was aggravated by sharp rises in the costs of imported fuel and food, resulting in an approximately 0.4% contraction of Tonga's gross domestic product (GDP) in fiscal year (FY)2009. Tonga's fiscal position likewise deteriorated because of the crisis, resulting in revenue shortfall. This was compounded by the government's commitment to raise salaries and wages following the 2005 civil service strike. However, even before the onset of the crisis, the economy was already beset by structural constraints (i.e., a narrow economic base and an underdeveloped private sector), which impeded development and deterred measures to weather the impending crisis.

These conditions compelled the government to protect vulnerable segments from the possible adverse effects of the crisis and to continue implementing further reform measures aimed at withstanding disruptions to macroeconomic stability.

In response, a quick-disbursing budget support program was prepared to address the effects of the 2008–2009 global economic crisis. The \$10 million program, which was funded through grant financing from ADB's Special Funds resources, was approved on 3 December 2009 and became effective on 26 February 2010. The \$10 million grant was released in two tranches. The program was comprised of 16 policy actions under the first tranche and 18 policy actions under the second tranche.

The program's expected impact was the achievement of a higher and more inclusive economic growth path. Its envisaged outcome was a timely and effective response to the global economic crisis, with five expected outputs:

(i) budget support to protect services to vulnerable, (ii) maintenance of fiscal responsibility, (iii) structural and governance improvements, (iv) support for the vulnerable through targeted actions, and (v) communication and ownership of economic and fiscal management initiatives. The ADB evaluation guidelines were followed in the preparation of this report. An assessment of the depth of policy actions under the program was done as part of this evaluation.

Overall Assessment

The program was generally supportive of the government's efforts to alleviate the effects of the global economic crisis on Tonga's economy. It reflected the government's willingness and commitment to proceed with reforms. An opportunity became available to pursue reforms necessary to improve the business environment, public financial management (PFM), and public sector enterprises (PSEs).

However, the program depended on the quick improvement of global economic conditions, which did not materialize. Also, the program's success hinged on the private sector responding positively to a few measures involving (i) improved governance practices of PSEs, including completion of rationalization plans, privatization of one public sector entity, and liquidation of another; and (ii) amendment of a law to simplify procedures for incorporation and enactment of another law to facilitate the use of chattels as loan collateral. None of these assumptions materialized.

In hindsight, the selected package of reform measures was not the best option for the government, given the prevailing situation. Stronger reform measures, such as those involving public-private partnership arrangements and other options to enhance private participation, could have been explored. Also, more meaningful efforts for fiscal consolidation could have been pursued; the program's efforts in this area only covered strengthening of budget reporting and financial ratios, and protection of expenditures on basic social services for the vulnerable. These measures were not deep enough to improve the fiscal

stance. Moreover, promotion of enhanced public sector reforms could have been initiated under the program. These could have provided the bases for future economic growth. Overall, the program is assessed less than successful.

There was a mismatch between the quality and extent of reform measures that were adopted and the program's ambitious focus to be a timely and effective response to the economic crisis that would lead to the achievement of a higher and more inclusive economic growth trajectory. The short-duration program attempted to cover lofty objectives and multiple areas such as GDP growth, improvement of the standard of living of vulnerable groups, reduction of the proportion of the population living below the national poverty line, and improvement in the business environment. But the program's use of mostly low-depth reform measures proved to be insufficient to generate these intended results.

The design and monitoring framework had shortcomings. Policy actions could have been simplified or reduced given the limited time frame, small size of the grant, and the government's capacity constraints. In particular, the use of low-depth measures as policy actions could have been reduced. Likewise, performance targets were either overambitious, too general, or not well-defined. All these shortcomings resulted in weak linkages between policy actions, outputs, and the outcome and impact. Thus, the program is assessed less than relevant.

The policy actions and outputs did not result in the achievement of the envisaged outcome and impact. The effects of the global economic crisis continued to persist, with GDP growth slowing down from 4.2% in 2010 to 0.9% in 2012, and contracting by 3.1% in 2013. This diminished the prospects of a high long-term growth rate, precipitating another stand-alone budget support program by ADB in 2013. Hence, the program is assessed less than effective.

Of the three outcome indicators, the more important outcome indicator on maintaining access and service standards on the outer islands was partly achieved. Likewise, the indicator on improving the business environment (based on Tonga's Doing Business ranking) was only partly met. The only outcome target achieved was the

attainment of positive economic growth in FY2010 and FY2011. However, given the small amount of support provided by the program, which was only about 2.6% of GDP in 2010, its effect on economic growth in the short term was likely to be relatively small.

Although 73% of output targets were realized, these did not lead to the intended outcome. Two key program outputs pertaining to protection and support for vulnerable groups, which represented a huge portion of the program, were only partially achieved. For output 1 (budget support to protect the vulnerable), the indicator was for the FY2010 budget allocation for basic health and primary education expenditure to be met in budget outturn. This was difficult to measure because of a lack of disaggregated data at the basic health and primary education expenditure level. Using instead the total budgets for health and education as proxy indicators, the target was not fully achieved. The FY2010 budget outturn for health was 11% lower than the FY2010 budget target. In the case of education, the FY2010 budget outturn was 7% lower than budgeted.

For output 2 (maintenance of fiscal responsibility), performance targets on (i) improved overall public expenditure and financial accountability outcome, and (ii) strengthened reporting on debt and financial ratios in the FY2011 budget were achieved. In the case of output 3 (structural and governance improvements), the indicator on improved governance arrangements in PSEs was partly achieved, while two other indicators pertaining to completion of rationalization plans and enactment of legislation were met.

For output 4 (support for the vulnerable through targeted actions), the more important performance target on maintenance of access and service standards on the outer islands was partly achieved. Two other indicators pertaining to implementation of a new community program and public expenditure tracking were met. The last output pertaining to the development and delivery of a communications strategy was attained. Of the 34 policy actions, 33 were achieved and one was waived. However, almost half of these were administrative and process oriented in nature, which was not crucial in achieving the program's expected results.

The program could not be subjected to conventional cost-benefit analysis since it did not create tangible assets. Also, benefits and costs were difficult to quantify or attributed conclusively to the program. The program period was too short to allow the expected depth of reform measures to materialize, although some of the policy actions contributed to initial efficiency gains, especially in business processing.

Delays were experienced during the formulation process and in the disbursement of both tranches, which resulted in the government's rolling over of treasury bills as bridge financing. These delays reduced the timeliness of the budget support during the crisis period when the effects were strongly felt. Therefore, the program is assessed less than efficient.

Conditions after program completion indicated that the envisaged outcome was not sustained. The effects of the global economic crisis lingered and were not contained, with Tonga's GDP growth contracting in FY2013.

Fiscal position continued to be in deficit. A strained fiscal position could lead to difficulty in maintaining budgetary provisions for the delivery of health and education services in the outer islands. The government has limited fiscal space, and without adequate buffers, difficulties will likely remain in withstanding external and internal shocks, affecting sustainability of the program outcome and outputs. The goal of higher long-term and more inclusive growth will be difficult to achieve with constrained fiscal resources.

The outputs under the program were delivered by 34 policy actions, about 47% of which were low in depth. These actions were administrative in nature and process oriented and, by themselves, did not trigger long-lasting institutional and policy changes. In view of this, most of the outputs are likely less than sustainable except for those that involved legislation and PSE restructuring, and privatization.

In terms of capability to implement the reforms, institutional capacity remains weak and is affected by high staff turnover that leaves insufficient qualified and experienced personnel

to manage and sustain the reforms. This poses a risk to the sustainability of program results.

In terms of durability of achieved reforms, Tonga's development context has been beset by political economy issues, although the government remains committed to pursuing reforms. However, the risks of policy reversals and protracted deliberations of vital reform measures have remained, largely in view of political volatility and the need for strong buy-in from stakeholders. On the whole, the program is assessed less than likely sustainable.

In retrospect, the external economic shock could have provided an opening to advance reforms in key areas that would not otherwise have taken place. However, the program appeared to have limited development impact in terms of spurring far-reaching changes. For instance, the program did not achieve a higher and inclusive economic growth path with a trickle-down effect on vulnerable groups. It is also not clear if the program contributed to any reduction in the proportion of people living below the national poverty baseline.

After program completion, Tonga's economy has remained fragile and has continued to be plagued by the same structural issues that were in place prior to the program, such as a limited economic base, a delicate fiscal position, and weak private sector participation. Specifically, Tonga's Doing Business ranking has not shown marked improvement. The program could have assessed development objectives in vital reform areas and linked these with doable and deeper measures. Likewise, the government's thin institutional capacity could have been carefully considered. These affected the program results. Given these, the program's development impact is assessed less than satisfactory.

To avert delays, ADB could have taken a more active role in guiding the government to meet certain requirements, including (i) clarifying verification requirements and standards for each tranche or policy action; and (ii) making the government aware of the risks of noncompliance with policy actions, such as meeting the documentation and administrative prerequisites. There was also lack of attention in monitoring the progress and results of the program with regard

to vulnerable groups. Thus, ADB's performance is assessed less than satisfactory.

The government has displayed ownership and commitment to reforms. Program preparation was well coordinated with development partners. Policy discussions and close consultations and extensive engagement with stakeholders were undertaken. The performance of the borrower and the executing agency is assessed satisfactory.

Key Issues

Unrealistic program targets. It was difficult for this single program, scheduled for completion within 18 months, to achieve lofty targets and indicators such as progressively increasing GDP growth rates, improving standard of living and poverty indicators, improving the business environment, and overseeing governance improvements and rationalization of selected PSEs. The program's linkages between policy actions and outputs, the targeted outcome, and the intended impact were weak. Close to one-half of the policy actions were low in depth (i.e., involving processes and administrative actions) and were insufficient in meeting expected results. Also, targeting ambitious targets with disparate policy actions was difficult. Taken together, these actions and outputs did not constitute a timely and effective response to the global economic crisis. Also, there was no strong connection that achievement of these directly contributed to positive GDP growth rates in FY2010 and FY2011.

Lack of assessment of program's results on vulnerable groups. The program sought to protect the most vulnerable during the crisis mainly through budget outturns in core social services. However, it was not clear how these groups were reached and protected from the crisis. Specifically, the targeting mechanisms, existing system, and entities involved were unclear. One policy action under the program called for review of a paper on vulnerable groups, but no further action was taken to set up mechanisms or safety nets to protect vulnerable groups. Since targeting the poor was a key component of the program, the systems for identification and delivery should have been clearly established at the outset, or as part of tranche 1 conditions. Also, the program focused

more on budgetary allocations in protecting vulnerable groups than on tracking their status. There should have been a monitoring system incorporated in the program design to track changes in the socioeconomic status of vulnerable groups.

Key Lessons

Limited capacity of government staff should be considered in designing reform programs. The 34 policy actions for a crisis response operation stretched the government's capacity in absorbing a substantial reform agenda. Constraints to capacity were reflected in the delays in complying with the policy actions, in particular with the policy action on financial ratios, which resulted in waiver of this action. Institutional capacity to manage the reform process and to implement agreed-upon reforms should be factored into the program design and continue to be reassessed during program implementation. The design of reform programs should carefully consider the need to continuously strengthen the technical and managerial capacity of institutions, in terms of translating policy actions into workable and concrete measures, and assessing reform options.

Reform prioritization and sequencing could lead to more durable results. A steady, step-by-step pace of reforms may be more suitable in the Tongan context, given prevailing capacity constraints. The process of implementing reforms takes time, especially for reforms that require specialized skills, such as those in PFM and those that are structural in nature; these types of reforms cannot be completed by a single quick-disbursing stand-alone program. The program's sequence of policy actions in the reform areas of PFM, PSEs, and business environment could have prioritized the binding constraints, such as the legal and regulatory issues, before getting into the operational aspects of the reform issues. However, this was not the case for the policy actions on social protection, which targeted vulnerable groups without an established system for identification, delivery, and monitoring. Also, ADB's coverage of areas for policy reforms under the program could have focused on key needs and constraints. A gradual approach that considers more realistic timelines and proper sequencing could allow more flexibility in prioritizing and refining key policy actions in

successive stages of the reform process. This could help strengthen the enabling environment for reforms, foster learning, and build capacity for policy-making and implementation.

Follow-up Actions

As inputs to future operations in Tonga, the evaluation suggests the following:

Conduct country and sector diagnostic studies to ascertain the most critical constraints. Past and current policy-based programs for Tonga have been largely focused on PFM, fiscal consolidation, and PSE reforms. ADB could consider examining the country's binding constraints to growth and assess whether there are other areas where ADB could make more meaningful contributions. Also, ADB could explore support for other areas concerning privatization initiatives such as competition policy reform, establishment of a multisector regulator, and review of options for business outsourcing opportunities, among other things.

Provide support in identifying and monitoring vulnerable groups. It is important to know who the vulnerable groups are and to understand how they respond to and cope with external shocks and crisis conditions. This would facilitate better ways of reaching them with needed social services. As such, ADB should coordinate with development partners on properly identifying targeted vulnerable groups and determining the specific types of social services to be protected, including monitoring systems and indicators to measure changes in their status.

CHAPTER 1

Introduction

A. Evaluation Purpose and Process

1. The Economic Support Program was intended to help the Government of Tonga in mitigating the effects of the global economic crisis on Tonga's economy and in protecting basic social expenditure for vulnerable segments of society.¹ The program was also aimed at advancing reforms to improve the country's medium-term competitiveness and economic resiliency. The main areas of reforms focused on (i) public financial management (PFM) through improvements in processes, systems, procurement, and tools for budgeting; (ii) public sector enterprises (PSEs) via structural and governance reforms; and (iii) social services for the vulnerable through expenditure protection and targeted actions.

2. This program performance evaluation report is included in the 2017 work agenda of the Independent Evaluation Department to provide input to the ongoing corporate evaluation on policy-based lending of the Asian Development Bank (ADB). This report is being undertaken about 4.5 years after the program completion report completion in 2012,² which allows for ample time for the outcome and outputs to be reassessed, and the impact to become apparent, although attribution solely to the program is difficult. The ADB evaluation guidelines were followed in the preparation of this report.³ In assessing the depth of policy actions,⁴ the framework was based on the Inter-American Development Bank's evaluation approach to policy-based loans.⁵

3. The 2012 program completion report rated the program successful, relevant, effective, efficient, and sustainable. It concluded that all outputs were achieved and the program was implemented as designed, except for the waiver on the tranche 2 action on financial ratios (footnote 2).

4. The program completion report was validated in September 2014.⁶ The program was assessed successful, although at the lower end of the rating scale, with criteria ratings of relevant, effective, less than efficient,⁷ and likely sustainable. It noted that

¹ Asian Development Bank (ADB). 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant Fund to the Kingdom of Tonga for the Economic Support Program*. Manila.

² ADB. 2012. *Completion Report: Economic Support Program in Tonga*. Manila.

³ ADB. 2016. *Guidelines for the Evaluation of Public Sector Operations*. Manila.

⁴ The depth is the extent to which a policy action is sufficient to set off long-lasting policy and institutional changes.

⁵ Inter-American Development Bank, Office of Evaluation and Oversight. 2016. *Design and Use of Policy-Based Loans at the Inter-American Development Bank*. Washington, DC. Available at: <https://publications.iadb.org/bitstream/handle/11319/7513/OVE-Annual-Report-2015-Technical-Note-Design-and-Use-of-Policy-Based-Loans-at-the-IDB.pdf?sequence=4>.

⁶ ADB. 2014. *Validation Report: Economic Support Program in Tonga*. Manila.

⁷ The validation downgraded the program assessment to less than efficient since its implementation was beset with problems such as delays in the early stages of program design and in the release of the first and second tranches.

ADB's follow-on Strengthening Public Financial Management Program could provide important support.⁸

B. Summary of Expected Impact, Outcome, and Outputs

5. Based on the program's design and monitoring framework (DMF) in the report and recommendation of the President, the expected impact was the achievement of a higher and more inclusive economic growth path. The envisaged outcome was a timely and effective response to the global economic crisis. The program was configured around five outputs. The first output pertained to budget support to protect the vulnerable. This was to involve protecting expenditures for essential social services and generating savings through planned and strategic reduction in low value-added current expenditure.

6. The second output concerned maintenance of fiscal responsibility. This was to entail strengthening of the budget process, approval of procurement regulations, and development and implementation of debt risk management. The third output was on structural and governance improvements, which was to involve accelerating PSE reforms and modernizing the commercial legal framework.

7. The fourth output was support to the vulnerable through targeted actions, which was to involve improving capacity for priority setting, targeting, and delivery of services. The fifth output was communication and ownership of economic and fiscal management initiatives. This was to entail development and delivery of a communication strategy that was to explain the government's response to the economic crisis (Appendix 1).

8. The program included 16 policy actions under the first tranche and 18 policy actions under the second tranche. Under tranche 1, four policy actions were related to supporting the vulnerable, five to PFM, four to structural reforms, and three to communication of economic and fiscal management initiatives. Under tranche 2, three policy actions were related to supporting the vulnerable, six to PFM, six to structural reforms, and three to communication of economic and fiscal management initiatives (Appendix 2). These 34 policy actions included enactment of laws, implementation of medium-term budgeting reforms, formulation and tracking of financial ratios to guide budget formulation in terms of safeguarding priority spending, restructuring of PSEs, and budget support and targeted actions for vulnerable groups.

⁸ ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Grant to the Kingdom of Tonga for the Strengthening Public Financial Management Program*. Manila.

Design and Implementation

A. Rationale

9. The confluence of reduced remittances, declining tourism revenues, and weak export demand, brought about by the onset of the 2008–2009 global economic crisis, had an immediate effect on Tonga's economy. During program formulation, Tonga's gross domestic product (GDP) was expected to contract to about -0.4%⁹ in fiscal year (FY)2009.¹⁰

10. In the first 2 months of FY2010 (i.e., July–August 2009), the budget outturn¹¹ had already registered a fiscal deficit of \$3.9 million (about 1% of GDP) because of a significant decline in government revenue of about 19%, particularly in trade taxes.¹² The government expected fiscal deficit to reach 10.3% of GDP for FY2010.¹³ A budget shortfall of about \$10.0 million was already being anticipated, which could affect government expenditure programs unless steps were taken to prioritize spending.

11. The flow of remittances, which traditionally accounted for 30% of GDP, fell sharply to 22% of GDP. Remittances had been an important source of household income and social protection for many Tongans.¹⁴ Tourism, which was contributing about 10% of GDP, weakened, with tourist receipts falling by 13.5% in July 2009 on a year-on-year basis. The overall business environment deteriorated, with a decline in retail sales of up to 40%, a rise in inventories, non-payment of trade credit, and difficulties in access to finance.¹⁵ Moreover, Tonga had a high risk of debt distress which strictly limited additional borrowing for development needs.¹⁶

12. To maintain sound fiscal management and ensure protection of social expenditures, the government would have to reduce spending, particularly on current expenditures with low value addition.¹⁷ Vital structural reforms would have to be

⁹ International Monetary Fund (IMF). 2010. Tonga: Staff Report for the 2010 Article IV Consultation. *IMF Staff Country Report*. No. 10/112. Washington, DC.

¹⁰ The fiscal year of the government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2009 ends on 30 June 2009.

¹¹ Budget outturn is the term used by the Government of Tonga's Ministry of Finance and National Planning for actual budget expenditure.

¹² Trade taxes closely track remittance trends. The slump in trade tax receipts was mainly a result of the fall in consumption as remittances declined.

¹³ Government of Tonga. Ministry of Finance and National Planning (MFNP) data (footnote 1, para. 22). The government's projection was higher than the IMF's forecast of -3.9% of GDP for FY2010, mainly because of the estimated 19% contraction in government revenue.

¹⁴ A World Bank survey found that in 2004, more than 90% of households in Tonga received remittances (footnote 1, para. 6).

¹⁵ Tonga Chamber of Commerce and Industry survey conducted in the first half of 2009 (footnote 1, para. 6).

¹⁶ IMF. 2009. Tonga: Staff Report for the 2009 Article IV Consultation. *IMF Staff Country Report*. No. 09/292. Washington, DC.

¹⁷ The government was committed to reducing low value-added expenditures on items such as office supplies, overseas travel, printing and stationery, subscriptions, and rentals.

continued to address underlying constraints that could help the economy get back on track. These constraints included weak fiscal consolidation, a small economic base, an underdeveloped private sector, and a large PSE sector.¹⁸ However, the government had limited financial resources to provide an appropriate response to the crisis and undertake further reforms in view of its earlier commitment to raise wages in the civil service,¹⁹ growing level of public debt,²⁰ and declining revenues. These factors meant that the government could find it difficult to balance the budget without significantly cutting expenditures on essential services, particularly on health and education. Thus, the government needed budget support to protect core social expenditure, especially for vulnerable groups and to continue critical reforms in PFM and the PSEs that could help address constraints in private sector development.

1. Public Financial Management

13. Tonga's Public Financial Management Act provided a framework for fiscal and financial management, including reporting.²¹ However, the 2007 assessment of PFM, using the public expenditure and financial accountability (PEFA) framework, indicated inadequacies in Tonga's PFM in the areas of budget formulation, implementation, and monitoring.²² In particular, issues were identified concerning methodology and standards being used to prepare budgets; control over budget implementation; and problems with accounting, recording, and reporting. The government undertook measures to address these issues, which included improving the process of budget preparation, reporting cash flow and public debt regularly, drafting procurement regulation, and holding quarterly meetings of government financial managers to address issues.

14. Based on the findings of the 2007 assessment, further measures were needed to strengthen the PFM system and processes. These included the need for approved regulations on public procurement, a treasury manual, and an internal audit unit within the Ministry of Finance and National Planning (MFNP). Analytical tools were needed to promote transparency, fiscal responsibility, better budget preparation, and sound fiscal management. Also, there was lack of policy and strategy on moving the government to a more sustainable debt level and ensuring that risks of financial distress could be managed over time. Thus, a case could be made for supporting reform measures on PFM.

2. Public Sector Enterprises Reforms

15. ADB's private sector assessment identified structural issues that could be prioritized to improve the business environment.²³ These were an oversized and unproductive public sector,²⁴ an outdated commercial legal framework, weaknesses in

¹⁸ In 2008, PSEs comprised 15%-31% of total fixed capital stock of the whole Tongan economy.

¹⁹ In late 2005, the government entered into a public sector wage agreement to implement salary increases for the public sector and to undertake regular salary reviews.

²⁰ This was largely attributed to the funding of reconstruction of parts of the capital city, Nuku'alofa, which was damaged during an episode of civil unrest in 2006.

²¹ Enacted in 2002 and amended in 2010.

²² PEFA is a tool for assessing the status of PFM. It provides a thorough, consistent, and evidence-based analysis of PFM performance at a specific point in time. The PEFA tool can be reapplied in successive assessments to track changes over time.

²³ ADB. 2008. *Transforming Tonga: A Private Sector Assessment*. Sydney and Manila; and ADB. 2009. *Special Evaluation Study: ADB's Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila.

²⁴ This was an issue in both public enterprises and services, as reported in the ADB private sector assessment (footnote 23).

licensing and regulation of businesses,²⁵ and difficulties in accessing finance. At the time of program formulation, the work on commercial law reform and improving access to finance through a better collateral framework were ongoing and required completion.

16. During program preparation, the 13 PSEs controlled 15%–31% of total fixed assets within the economy but contributed only about 5.5% of GDP. These enterprises had an overall return on equity of about 6%, which was well below the 10% target set by the government. The PSEs were involved in the provision of infrastructure services and a range of commercial activities²⁶. The PSEs' active involvement in various commercial activities tended to limit opportunities for private sector participation. Also, the PSEs' generally low returns reduced overall productivity in the economy.

17. Reforms of PSEs accelerated with the enactment of the Public Enterprise Act of 2002. The government began to strengthen corporate governance of PSEs,²⁷ established a financial performance monitoring framework, trained officials on requirements of the Public Enterprise Act, created the Ministry of Public Enterprises and developed its capacity to monitor PSE portfolios, and rationalized a number of PSEs.²⁸ However, PSE reforms typically have long gestation periods since implementation of individual PSE rationalization strategies have to be developed, and pertinent legal and governance reforms take time to be completed.

18. Likewise, the business environment had to be improved if the benefits of PSE reform were to be fully realized and the objective of private sector-led development was to be achieved. The identified structural issues that impinged on the development of the private sector had to be addressed (para. 15). Reform measures could include the enactment of laws to modernize the legal commercial framework, improve licensing processes and the business regulatory environment. Support for PSE and governance reforms was needed to help ensure the presence of a coherent legal framework that could help facilitate rationalization measures.

3. Protecting the Vulnerable

19. Remittances have been the most important source of informal safety net in Tonga since these cushion shocks to household incomes and living expenses. However, the economic downturn in the global economy resulted in decreasing remittances,²⁹ causing pressure in the existing informal social safety net system, as these remittances flowed mainly from Tongans living abroad.

20. The government had actively promoted universal access to health and education services to improve living standards and social equity. However, these lacked avenues in providing other formal social safety net programs.³⁰ Instead, nongovernment organizations and churches took an active role in providing social services, particularly to vulnerable groups such as the disabled, the elderly, and children.

²⁵ For example, the business registration process was slow (about 25 days) and mainly done manually.

²⁶ ADB. 2011. *Finding Balance 2011: Benchmarking the Performance of State-Owned Enterprises in Fiji, the Marshall Islands, Samoa, Solomon Islands, and Tonga*. Manila.

²⁷ For example in 2008, progress had been made, with the boards of five PSEs consisting of directors only from the private sector.

²⁸ Rationalization could involve different methods such as liquidation, divestiture, and privatization.

²⁹ ADB. 2009. *Pacific Economic Monitor*. Manila (August). In June 2009, remittances declined by 14% on a year-on-year basis.

³⁰ Other than the pension system, no formal welfare system existed in Tonga.

21. In the case of primary and secondary education and basic health services,³¹ difficulties remained in identifying and delivering adequate assistance to the most vulnerable segments of society. There was a lack of systematic data that could identify vulnerable groups within the population. Also, there was insufficient understanding on how well traditional social safety nets were responding to demographic and economic changes within Tongan communities. It was therefore vital to base priority setting and targeting on rigorous analysis of the situation. This was to ensure that delivery of services could meet the needs of vulnerable groups and complement existing informal safety nets.

22. Against this economic backdrop, an opportunity existed to support vulnerable groups and protect them from the effects of the crisis while helping the country continue its reform momentum. The rationale informing the program design was in line with the economic situation.

B. Time, Cost, Financing, and Executing Arrangements

23. ADB was the first development partner to recognize the possible effects of the global economic crisis on Pacific island economies. The program was approved by ADB on 3 December 2009 in the amount of a \$10 million grant to be disbursed in two tranches of \$5 million each. The grant helped partly offset the costs of the budget's overall financing requirement, which was equivalent to \$13 million in FY2010. There was no deviation on the program amount.

24. The program was scheduled to be completed 18 months after grant effectiveness, including audit and reporting requirements. The grant agreement was signed on 21 December 2009 and became effective on 26 February 2010, about 1 month earlier than the planned effectiveness date of 21 March 2010. The program was closed on 30 June 2011, with a 6-month delay from the planned closing of 31 December 2010. The grant closing date was extended thrice. The first tranche of \$5 million was disbursed on 24 March 2010 and the second tranche of \$5 million was disbursed on 3 June 2011. The program consisted of 16 policy actions under tranche 1 and 18 policy actions under tranche 2. In its development policy letter to ADB, the government intended to complete all of 34 policy actions within 1 year. The release of the first tranche was delayed by 3 months because of prolonged consultations with the government to clarify procedures for program lending and the government's delay in complying with prerelease actions.³² The second tranche was delayed by 8 months. The delay was because of lack of clarity regarding ADB's verification requirements on the policy actions and measures, difficulties in complying with the policy action related to financial ratios, and an overly ambitious timeline for completion of all policy actions (paras. 76–77).

25. The envisaged implementation arrangement was followed. The Prime Minister's Office (PMO) was the executing agency and assumed overall responsibility for program implementation, including coordination of policy actions. The implementing agencies were the MFNP; Ministry of Public Enterprises; Ministry of Labor, Commerce and Industry; Ministry of Education (MOE); and Ministry of Health (MOH).

³¹ These services have received strong development partner support such as from the Ministry of Foreign Affairs and Trade and the World Bank. Tonga ranked first among the six Pacific island countries in achieving human development outcomes in primary school enrollment, literacy, under-5 mortality, and life expectancy. United Nations Development Programme *Human Development Report 2007/2008*. New York.

³² These were actions related to tranche 1, which were administrative and verification requirements.

26. The Expenditure Review Committee (ERC) functioned as the steering committee and provided guidance for program implementation and coordination.³³ The Policy Unit of the PMO served as secretariat to the ERC. The implementation arrangements were properly defined. However, the Policy Unit's capacity to support the ERC was inadequate in terms of providing robust analysis and evaluation, which affected the ERC's ability to adequately carry out its role.

C. Technical Assistance

27. There was no technical assistance (TA) associated with the grant, although ADB provided related analytical work and TA in public sector and financial management reforms, which continued during program implementation.³⁴ These included assistance for strategic planning, budgeting, and developing a medium-term budget framework. ADB and the Pacific Financial Technical Assistance Center also helped the government in developing a road map for PFM reform, based on the 2007 and 2010 PEFA findings.

28. Regional TA projects on the Pacific Private Sector Development Initiative³⁵ and the Pacific Economic Management³⁶ provided support to government requests for analytical work. ADB also provided TA projects for public sector reform in Tonga through improved public sector productivity and PSE rationalization.³⁷ These TA projects complemented the reform areas under the program.

D. Procurement, Consultants, and Scheduling

29. There were no consultant services hired specifically for the program. Program implementation was supported by ADB capacity development TA projects that were ongoing at the time.

E. Safeguard Arrangements and Gender

30. The program was category C for potential environmental impacts and risks, requiring no environmental management plan or resettlement action. The independent evaluation mission did not find any program-related environmental issues nor any involuntary resettlement issues or impacts on indigenous people. There were no issues that negatively affected women.

F. Design Changes

31. There were no changes made in the original design of the program. However, a waiver was approved on the policy action related to meeting the financial ratios set out in the program budget guidelines for FY2011 (para. 61).

³³ The ERC was chaired by the Prime Minister and comprised the deputy prime minister, minister of finance and national planning, and chairperson of the Public Service Commission.

³⁴ ADB. 2007. *Country Partnership Strategy: Tonga, 2007–2012*. Manila; ADB. 2010. *Technical Assistance to the Kingdom of Tonga for Support for Economic and Strategic Management*. Manila; ADB. 2011. *Technical Assistance to the Kingdom of Tonga for Implementing Strategic Economic Management*. Manila.

³⁵ ADB. 2006. *Technical Assistance for the Private Sector Development Initiative*. Manila; ADB. 2009. *Technical Assistance for the Private Sector Development Initiative (Phase 2)*. Manila.

³⁶ ADB. 2009. *Technical Assistance for Pacific Economic Management*. Manila.

³⁷ ADB. 2003. *Technical Assistance to the Kingdom of Tonga for Rationalization of Public Enterprises*. Manila; ADB. 2004. *Technical Assistance to the Kingdom of Tonga for Public Enterprise Reform, Phase 2*. Manila; ADB. 2006. *Technical Assistance to the Kingdom of Tonga for Rationalization of Public Enterprises, Phase 3*. Manila; ADB. 2009. *Technical Assistance to the Kingdom of Tonga for Reforming Public Enterprises*. Manila.

G. Grant Covenants, Monitoring and Reporting Arrangements

32. The 49 covenants under the grant agreement were fully complied with, except for the covenant on meeting the financial ratios in the program budget guidelines for FY2011, which was partly met. A waiver was obtained on this partly completed action (para. 61). No other covenants were modified, suspended, or waived during program implementation. The covenants were adequate and linked with policy actions under the program. These included covenants on targeted actions and budget support for protection of the vulnerable, maintenance of fiscal responsibility, PSE structural and governance reforms, and communication of economic and fiscal initiatives. These actions were formulated to deliver the program outputs.

33. In terms of depth, 16 (47%) of the policy actions were low depth, 10 (29%) were medium depth, and 8 (24%) were high depth (footnote 4). Most of these actions were administrative and process oriented in nature, which required development of systems, processes, and procedures; preparation of documents and reports; and administrative decisions of approving authority or expression of commitment to take action (Appendix 4).

34. ADB used the DMF and policy matrix to monitor and report the progress of the reform program and tranche release conditions. The PMO complied with the covenant on the submission of semiannual reports to ADB on program implementation and accomplishments of the measures as set forth in the policy matrix.

Performance Assessment

35. The focus of the evaluation criteria was on the program's performance and development results and not on the performance of the executing agency and ADB. The Independent Evaluation Department's guidelines identify four core criteria when evaluating public sector operations: (i) relevance of the program to the government's development priorities and ADB's development strategies, and relevance of the design to achieving the intended outcomes; (ii) effectiveness of program outputs and outcome(s); (iii) efficiency of the program's use of resources to achieve its outcome(s); and (iv) sustainability of the program outputs and outcome(s) (footnote 3). Noncore assessments were undertaken on the program's development impact and the performance of ADB and the borrower.

A. Relevance

36. The program sought to address the serious fiscal difficulties Tonga was facing because of the global economic crisis through reforms needed to improve PFM, PSEs, and the business environment. The envisaged impact, outcome, and outputs statements were consistent with the government's development priorities and with ADB's country strategy and program. However, in terms of program design, the DMF had shortcomings. Policy actions could have been simplified or reduced, given the limited time frame, small size of the grant, and government's capacity constraints (para. 39). Performance targets were either overambitious, too general, or not well defined (paras. 40–42). Also, policy actions covered multiple objectives but lacked complementarity (para. 44), with weak linkage with the results chain (para. 45), while policy actions targeting the vulnerable were poorly sequenced (para. 47). Likewise, the treatment of risks and underlying assumptions could have been more adequately considered in the design (para. 46).

37. On a strategic level, the program was aligned with Tonga's development priorities encapsulated in the Strategic Development Plan Eight,³⁸ and its successor, the National Strategic Planning Framework.³⁹ These plans aimed to promote prudent and effective macroeconomic and fiscal management, and private sector development for sustainable and equitable economic growth. The program was likewise consistent with (i) ADB's country partnership strategy, 2007–2012,⁴⁰ which was aimed at sustainable poverty reduction through prudent fiscal management and private sector development; and (ii) ADB's country operations business plan, 2009–2011.⁴¹ ADB was the only development partner positioned at that time of the onset of the crisis to provide budget support.

³⁸ Government of Tonga. 2006. *Kingdom of Tonga: Strategic Development Plan Eight, 2006/2007–2008/2009*. Nuku'alofa.

³⁹ Government of Tonga, Prime Minister's Office. 2009. *National Strategic Development Framework*. Nuku'alofa.

⁴⁰ ADB. 2007. *Country Partnership Strategy: Tonga, 2007–2012*. Manila.

⁴¹ ADB. 2008. *Country Operations Business Plan: Tonga, 2009–2011*. Manila.

38. The program was built on ADB's long-term engagement in reforming PFM and PSEs in the Pacific to ensure that budget support could help in assisting the Government of Tonga's development objectives. It was formulated when the effects of the global economic crisis were being felt in Tonga's economy. Declines in remittances, tourism arrivals, and export demand began to affect economic growth (paras. 9–11). There was also a need to maintain expenditures on basic social services and address structural constraints (para. 12). These conditions provided the driving force for advancing the reforms on PSEs, PFM, and the business environment, while at the same time protecting vulnerable groups. The government pursued these reforms by implementing the program. In view of the crisis and the prevailing economic conditions, the choice of policy-based grant financing, with its quick-disbursing feature, was the most suitable instrument for providing the much-needed budget support.

39. However, the quick-disbursing feature was negated by the number of policy actions to be accomplished for the release of funds for each tranche over too short a period. The policy actions could have been simplified or reduced, considering the relatively small size of the grant and the limited capacity within the public sector. The 34 policy actions for a crisis response operation stretched the government's capacity in absorbing a substantial reform agenda. Constraints to capacity were reflected in the delays in complying with the policy actions, in particular with the policy action on financial ratios, which resulted in waiver of this action.

40. The intended impact and its indicators that pertained to GDP growth, improvements in standard of living of most vulnerable groups, and poverty reduction objectives were overambitious and could not be achieved with one-time budget support. Such an expectation was beyond the limits of a short-term crisis operation and a government with constrained resources. Also, given the tight timeline to complete 34 policy actions with support of \$10 million, the achievement of a higher and more inclusive economic growth path proved unrealistic.

41. A few DMF targets were too general and not well defined. For instance, the impact indicator targeting an improved relative standard of living of the most vulnerable groups of the community⁴² was not clear and was difficult to monitor properly in the absence of baseline data. Likewise, a precise definition of vulnerable groups should have been provided, including the baseline figure. It was difficult to measure changes in household income distributions since regular and consistent surveys were required. Moreover, this impact indicator implied income redistribution, which was not in consonance with the impact statement.

42. In terms of outcome indicators, the performance targets did not directly lead to the attainment of the outcome statement ("timely and effective response to the global economic crisis"). There was no clear indicator for measuring timely response, and both GDP growth and Tonga's Doing Business ranking were too broad as indicators for measuring effectiveness of response. Also, with regard to the outcome indicator on "maintenance of access and service standards on outer islands as evidenced by health and education and Public Service Commission administrative data," the DMF did not specify how "access" would be defined and how "service standards" could be measured. In fact, the same impact indicator appeared as a performance target under output 4. The design should have been clearer and more specific on the indicator selected.

⁴² Measured by the proportion of household income received by the bottom quintile of households.

43. The policy actions under the program generally reflected the conditions related to the crisis, business environment, and PFM. The actions supported the government's reform priorities and sought to improve the legal commercial framework, create a more convenient business licensing process, improve access to finance,⁴³ improve PFM processes, and achieve restructuring⁴⁴ and rationalization⁴⁵ of PSEs. The other policy actions supported the vulnerable to help mitigate the effects of the economic crisis. However, in general, the policy actions lacked depth in triggering long-lasting policy and institutional change, as many were process oriented and required development of processes and systems as well as preparation of reports and administrative decisions. The number of policy actions could have been reduced, especially the low-depth measures, as more policy actions did not translate into deeper reforms. Greater selectivity could have distilled down the set of policy actions to the ones most vital for achieving the envisaged program results. Such actions should also have been possible for the government to undertake, given its constrained capacity.

44. Moreover, the policy actions covered multiple objectives (i.e., improved performance of PSEs, strengthening of PFM systems, protection and targeting of the vulnerable, and greater awareness of the government's reforms and response to the global economic crisis) and were not strongly interconnected. Complementarity of policy actions was weak and cohesiveness insufficient. For instance, PFM reforms were unlikely to directly benefit the vulnerable in the short run. Budget support to protect expenditures on basic social services was a short-term crisis response measure that was distinct and separate from the other policy actions that targeted long-term structural issues.

45. The program design could have considered how the policy actions were linked with the results chain (i.e., how policy actions and activities lead to outputs resulting in outcome and impact) and the limited time frame for achieving these targets. For example, administrative actions (e.g., expressing commitment to adopt prudent budget management, and reviewing existing health facilities) did not directly affect GDP growth.

46. The assumptions in the DMF were optimistic. Achieving the program's impact hinged on two assumptions: (i) an early global recovery from the economic crisis, especially in high-income partner countries; and (ii) private sector responding to improved economic conditions. The first assumption did not fully materialize since effects of the crisis remained after program completion. And for the second assumption, it was not clear how the private sector responded, since improved economic conditions did not occur. On the assumption indicated for the achievement of outputs, it was already well recognized during program appraisal phase that the government had limited absorptive capacity. This assumption does not seem to have been adequately mitigated under the program. Also, the program risks identified could have been carefully assessed to balance out the assumptions made, especially on possibility of additional external shocks and rapid rise in international oil prices, which were not really borne out. On the whole, program design could have prudently assessed the validity of assumptions and risks to incorporate mitigation measures in the program design.

⁴³ The program included enactment of the Personal Property Securities Bill to facilitate the use of chattels as collateral for loans.

⁴⁴ This involved restructuring PSEs toward more commercially oriented operations. The policy actions included the removal of government ministers and civil servants from each PSE board of directors in order to establish an independent board.

⁴⁵ The intent of rationalization was to release fiscal resources from PSEs and increase private sector investment in service provision. This could involve different methods such as liquidation, divestiture, and privatization. It could also be through the public-private partnership options of concessions, performance-based contracts, and outsourcing.

47. Likewise, the actions targeting the most vulnerable were not appropriately sequenced. The design provided budget support for these groups, but the system for delivery was not clearly defined or established. Moreover, there was no measure used to identify these groups and no mechanism used to monitor how they responded to the crisis. Since targeting the vulnerable was a key component of the program, the systems for identification and for delivery should have been clearly established at the outset, or as part of tranche 1 conditions. Thus, the program is assessed less than relevant.

B. Effectiveness

48. The envisaged outcome of a timely and effective response to the global economic crisis was not achieved. Of the three outcome indicators, two were partially met (improvement in the business environment and maintenance of access and service standards on outer islands) and one outcome indicator was met (positive economic growth in FY2010 and FY2011). However, the effect of the program on economic growth in the short term was likely to be relatively small. Other factors aside from the amount of ADB-financed budgetary support could have contributed to GDP growth.

49. About 73% of output targets were realized. Of the 34 policy actions, 33 were achieved and one was waived. However, the configuration of these policy actions, which largely lacked depth, and the subsequent outputs did not result in the achievement of the envisaged outcome and impact. The effects of the global economic crisis continued to persist, which precipitated another stand-alone budget support program (footnote 8). Hence, the program is assessed less than effective.

1. Program Outcome

50. The program did not achieve its intended outcome. Of the three outcome indicators, only one was met. The first indicator (positive economic growth in FY2010 and FY2011) was met, with real GDP growing to 4.2% in FY2010 and 2.7% in FY2011.⁴⁶ The grant provided under the program comprised 77% of the budget's overall financing requirement in FY2010, although it represented only about 2.6% of GDP.⁴⁷ Thus, it is difficult to attribute the achievement of the GDP targets solely to the program's budget support. Tonga's GDP growth was also affected by several other factors, such as economic policies adopted.

51. The second indicator was an improvement in the business environment, as reflected in a better ranking than the baseline ranking of 43 achieved in the 2009 Doing Business survey.⁴⁸ Tonga's Doing Business ranking was 52 in 2010, 71 in 2011, 58 in 2012, 62 in 2013, and 57 in 2014. Tonga's business environment can be better appreciated in the context of its performance relative to other economies in the Pacific. In 2014, Tonga was the best performing Pacific country in the World Bank's Doing Business ranking and ranked way above the average of countries in East Asia and the Pacific (Figure 1). During 2004–2014, Tonga reduced the amount of time needed to start a business and performed better than the regional average (para. 67 and Figure 2). The online business registry initiated under the program was the first of its kind in the Pacific and has been

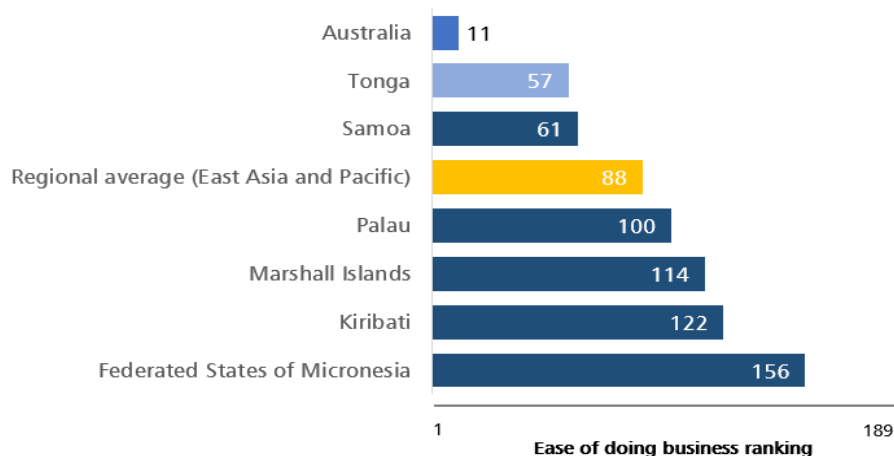
⁴⁶ IMF. 2016. Tonga: Staff Report for the 2016 Article IV Consultation. *IMF Staff Country Report*. No. 16/178. Washington, DC.

⁴⁷ The budget's financing requirement in FY2010 was \$13 million.

⁴⁸ The 2009 baseline ranking could no longer be used as a baseline because of a change in the methodology for generating the rankings. World Bank Doing Business 2013. www.doingbusiness.org

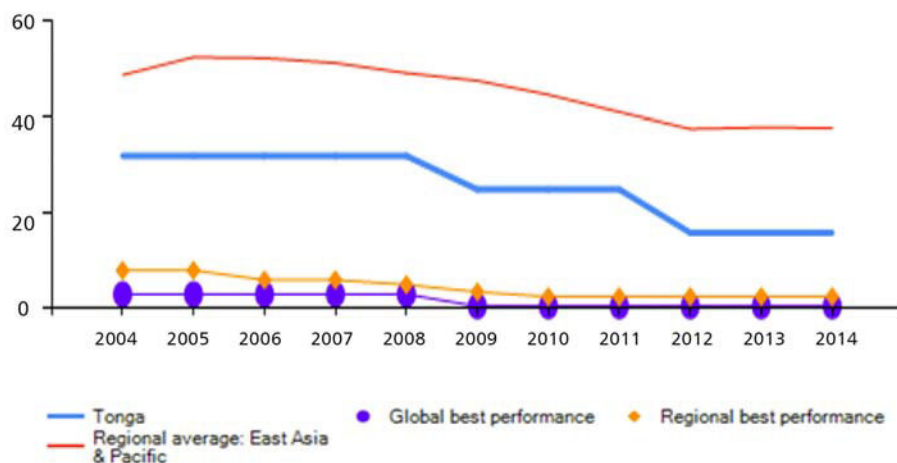
useful to businesses.⁴⁹ While these were notable achievements compared to other Pacific countries, Tonga's Doing Business ranking has still not recovered to the 52 ranking achieved in 2010. This indicates that the policy actions did not go far enough to achieve the envisaged outcome. In view of this, the indicator on improved business environment was partly achieved.

Figure 1: Tonga's Doing Business Ranking Relative to Comparator Economies, 2014



Sources: World Bank. 2013. *Doing Business 2013: Smarter Regulations for Small and Medium Enterprises*. Washington, DC. and World Bank. 2014. *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Washington, DC.

Figure 2: Number of Days in Completing Procedures for Starting a Business, 2004–2014



Sources: World Bank. 2013. *Doing Business 2013: Smarter Regulations for Small and Medium Enterprises*. Washington, DC. and World Bank. 2014. *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Washington, DC.

⁴⁹ Discussion during the independent evaluation mission with a representative of the Tonga Chamber of Commerce confirmed that the online registry reduced the number of days needed for registration, which helped reduce costs.

52. The third outcome indicator was maintenance of access and service standards on outer islands as evidenced by health and education and Public Service Commission administrative data.⁵⁰ These service standards broadly meant the services, facilities, and positions or personnel provided on the outer islands. Funding for outer island staffing positions was reported to have been maintained in the FY201–FY2013 budgets,⁵¹ but such funding did not confirm if the standards were met. Further, no administrative data was available from the Public Service Commission.⁵² These standards had no baseline specified in the DMF, were not clearly defined in the design, and were not effectively monitored during implementation. This indicator was, at best, partly achieved.

2. Outputs

53. **Output 1: Budget support to protect expenditure on basic social services for the vulnerable.** Output 1 was partly achieved. The program supported the protection of spending on social services. The policy action under this output was for the government to make a commitment to adopt principles in managing its FY2010 budget which were not cutting essential social services and generating savings through a planned and strategic reduction (e.g., in low-value added current expenditure). This policy action was considered achieved.⁵³ The policy action under this output was low in depth and could have been made more substantive by requiring specific levels of allocation.

54. The output target was for the FY2010 budget allocation for basic health and primary education expenditure to be met in budget outturn. This was difficult to measure because of the lack of disaggregated data at the basic health and primary education expenditure levels, which should have been addressed at formulation. The indicator should have been more oriented to protecting the vulnerable. Also, it could have measured actual expenditures for the outer islands, or those targeted at specific vulnerable groups. Using instead the total budgets for health and education as proxy indicators, the target was not fully achieved. The FY2010 budget outturn for health was 11% lower than the FY2010 budget target. In the case of education, the FY2010 budget outturn was 7% lower than budgeted.⁵⁴

55. The program's DMF targeted only the FY2010 budget allocation for basic health and primary education without specifying the baseline for these expenditures or the budgetary allocations. Thus, it is difficult to assess the government's performance in protecting vulnerable groups using budget allocations for a single year. Also, in most cases, budget allocations and expenditure outturns did not match. A more meaningful assessment could only be made with better metrics and disaggregated information on budget allocation versus actual expenditures over time.

56. **Output 2: Maintenance of fiscal responsibility.** Output 2 was achieved. The policy actions included improved processes and tools for budget preparation, forecasting of

⁵⁰ The same indicator was used for output 4.

⁵¹ The program completion report indicated that funding was maintained in the outer islands, but it was not clear if the standards were met (footnote 2). Data from the 2015 World Health Organization Health System Review of Tonga reported that the overall density of health workers per 1,000 population remained constant at 7.9 from 2005 to 2013, indicating that positions in health facilities were maintained. In the Ministry of Education, the number of positions in primary and secondary schools increased from 917 in 2010 to 970 in 2012 based on the ministry's annual reports. While these data indicated that health and education positions were maintained, they did not confirm if access and service standards on the outer islands were adequately maintained.

⁵² Administrative data from the Public Service Commission was a data source identified in the DMF.

⁵³ The commitment was confirmed in the recorded minutes of the ERC, which were certified by the ERC secretariat.

⁵⁴ Based on data submitted by the MOF to the independent evaluation mission.

economic growth and revenue, public procurement, debt management, and development of financial ratios. These policy actions comprised a mix of low- and medium-depth policy actions that focused mainly on processes and tools for fiscal management and did not cover substantive fiscal consolidation measures aimed at reducing the fiscal deficit. The 10 policy actions under this output were all met, while the required action on financial ratios was waived.

57. The program helped the MFNP address weaknesses in the 2007 PEFA assessment. The first output target was to improve the overall PEFA outcome from the 2007 baseline of 16 “C” ratings or better out of the 27 applicable indicators. In the 2010 PEFA assessment, 20 “C” ratings were achieved, which met the target but with only a marginal improvement. The improvement was brought about by the policy action to implement PFM reforms in response to the PEFA assessments.

58. The program supported the MFNP in operationalizing improved processes for macroeconomic and revenue forecasting, which included the use of a credible model for such forecasting and 3-year forecasts in the FY2011 budget. The Macroeconomic Technical Committee, chaired by the secretary of finance, was formed to monitor the macroeconomic environment, develop economy-wide forecasts, maintain a macroeconomic and revenue forecasting model, and advise the minister for finance and national planning on these matters. The Macroeconomic Technical Committee provided regular growth forecasts and macroeconomic analyses to the ERC, which were used in the budget development process.

59. The government met the policy action to operationalize a cabinet-approved debt risk management and mitigation policy and strategy. The policy included processes and responsibilities for the analysis and approval of proposed new guarantees and debt, processes for prioritizing and scheduling debt repayment, and a schedule of timely and standardized reporting on the government’s debt portfolio. Data on debt were produced monthly for public financial management and quarterly for the cabinet, and published in annual budget documents. Quarterly debt bulletins were also made available on the MFNP website. Thus, the second output target for strengthened reporting on debt in the FY2011 budget was achieved.

60. The third output target on reporting of financial ratios in the FY2011 budget was achieved, as reporting was evident in the FY2011, FY2012, and FY2013 budgets. Under tranche 1, the government, through the ERC, was to develop financial ratios to enhance fiscal sustainability over the medium term in relation to measures of capital expenditures and maintenance, public debt, government personnel costs, and other operating costs. The ratios were to guide preparation of budgets from FY2011 onward and were incorporated in the medium-term budget framework. The achievements included reduction of external debt from 36.3% of GDP in FY2011 to 31.1% of GDP in FY2012 and only nominal increases in the wage bills in FY2012 (1.2%) and FY2013 (6.6%). The government’s efforts to reduce debt through prudent fiscal management improved Tonga’s ranking in the International Monetary Fund (IMF) Debt Sustainability Analysis from high risk of debt distress in 2012 to moderate risk of distress in 2013.⁵⁵

61. Under tranche 2, the required policy action of achieving the financial ratios set out in the program budget guidelines for FY2011 was not realized. The government largely adopted medium-term targets for the financial ratios rather than easily achievable short-term targets. However, it could not meet these medium-term targets in FY2011.

⁵⁵ IMF. 2013. Tonga: Staff Report for the 2013 Article IV Consultation. *IMF Staff Country Report*. No. 13/234. Washington, DC.

Thus, the government sought a waiver, which was subsequently granted by ADB. This failure to meet the financial ratios (and the resulting waiver) indicated issues with government capacity. Specialized skills are built over time, and earlier actions should have been taken to address inadequate analytical and technical skills.

62. In line with strengthening PFM, the Privy Council⁵⁶ approved the regulations for public procurement under the Public Financial Management Act (footnote 21). These included detailed inclusion of planning procurements, determining bidder eligibility and procedures for evaluation of bids, announcing outcomes, assessing complaints, and dealing with appeals. The regulations were developed with inputs from procurement specialists from ADB and the World Bank.⁵⁷

63. The program also supported the completion of treasury instructions and a treasury manual, and establishment of an internal audit unit within the MFNP to strengthen financial management. In January 2010, the internal Audit Division within the MFNP began its operations and an internal auditor was appointed, reporting directly to the Audit Committee.⁵⁸ To improve monitoring and control of cash flows and to streamline bank reconciliations, redundant bank accounts were closed and various revolving funds that undermined the clarity of budget data and documentation were closed or consolidated. From November 2010 to March 2012, 45 banks accounts were closed or consolidated into the government's five main accounts.

64. **Output 3: Structural and governance improvements.** Output 3 was largely achieved. Under this output, the program supported continuation of the government's planned and ongoing structural reforms geared toward improving productivity of the economy and achieving a private sector-led growth path over the medium term. The policy actions that delivered this output, which were mostly substantive and high in depth, involved institutional reforms and enactment of laws. Specifically, the policy actions under tranche 1 for this output were the privatization of Leiola Duty Free; the liquidation of Tongatapu Machinery Pool; the restructuring of at least five public enterprise boards; and the development of rationalization strategies for Tonga Power, Tonga Water Board, and Tonga Waste Authority. Under tranche 2, the policy actions were the restructuring of five additional public enterprises, submission to the Legislative Assembly of the Public Enterprise Bill (2010) and Personal Property Securities Bill (2010) to improve the business environment, interim operationalization of the new business registry, implementation of the Companies Amendment Act (2009) and approval by the cabinet of the government's prioritized medium- to long-term infrastructure investment plan. The policy actions under output 3 were all achieved. The status on private sector reforms after program completion is shown in the box.

⁵⁶ The highest-ranking council to advise the Monarch in the Kingdom of Tonga.

⁵⁷ While regulations are in place, their implementation has been difficult. For example, some procurements have not been carried out in accordance with formal rules, and there has been a lack of competition in some procurement processes. World Bank. 2016. *Strengthening Public Financial Management Reform in Pacific Island Countries*. Washington, DC.

⁵⁸ Chaired by the minister for finance, and including the secretary for finance and chief accountant.

Reforms to Promote Private Sector Development

Tonga has been one of the Pacific region's leading reformers in promoting private sector development. The following were the key reform achievements from 2009 to 2012:

- The Companies Act, 1995 was amended in 2009 to simplify procedures for incorporation. In line with this, the new electronic business registry was operationalized in 2012.
- The Personal Property Securities Act was enacted in 2010 and a new electronic registry went live in 2011.
- Rationalization strategies were developed for state-owned enterprises.
- The Public Enterprise Act, 2002 was amended in 2010, enhancing the legal framework of state-owned enterprises to operate as successful businesses.
- Initiatives were undertaken to improve corporate governance of state-owned enterprises (e.g., removal of government ministers from boards, restriction of appointments of public servants to boards, a skills-based selection process for directors, director performance reviews).
- Leiola Duty Free and Tonga Machinery Pool were privatized.

Sources: Asian Development Bank (ADB). 2012. *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga*. Manila; ADB. 2012. *Completion Report: Economic Support Program in Tonga*. Manila; ADB. 2016. *Finding Balance 2016: Benchmarking the Performance of State-Owned Enterprises in Island Countries*. Manila.

65. The program supported the submission of the Public Enterprise Amendment Act (2010) to the Legislative Assembly which was enacted into law in 2010. The Act enhances governance practices of public enterprises and strengthens their monitoring frameworks. It also formalizes the rule that politicians cannot serve as public enterprise directors, establishes the objective that public enterprises should operate as successful businesses, clarifies the rules and processes regarding approval of community service obligations, among other things.

66. The first indicator for output 3 pertaining to improved governance arrangements in PSEs was partly achieved. Government ministers were removed from the boards of PSEs and no longer served as board members. Four PSEs still have civil servants on their boards, but they work on a restricted basis, in line with the Public Enterprise Amendment Act.⁵⁹ Also, PSEs were required to account for their performance. The second output indicator on the completion of rationalization plans for at least three additional PSEs was achieved. The rationalization plans for Tonga Waste Authority, Tonga Water Board, and Tonga Power were realized and completed under the program. To overcome shortages of qualified and appropriately skilled directors, one of the steps taken was for these enterprises to share a common board composed of members with established competence and expertise who are not government ministers or civil servants. The shared board also encouraged the development of shared services, such as accounting, billing, and customer services, which help in reducing costs and improving efficiencies.

67. The third indicator on improved business environment was achieved. The Companies Amendment Act (2009) was enacted, clarifying the law and simplifying the procedures for incorporation. Likewise, the Personal Property Securities Act was enacted in 2010 and operationalized, thus facilitating the use of chattels as collateral for loans. During 2011–2016, 2,527 properties were registered as a result of the operationalization

⁵⁹ These public servants do not chair the boards and are allowed to participate in board activities when there is a lack of skilled personnel.

of the Personal Property Securities Act.⁶⁰ The enactment of both laws was a significant step forward in improving the business processing and collateral framework in Tonga. Also, in line with the Companies Amendment Act, an interim business registry was introduced to make the process of company registration simple and fast. This contributed to a reduction in processing time in completing the procedures for starting a business from 25 days in 2010 to 16 days in 2012.⁶¹ The total number of companies registered under the registry grew from 564 in 2009 to 1,260 in 2016 (footnote 60).

68. The policy action on cabinet approval of the Tonga National Infrastructure Investment Plan was completed. The plan established the government's medium- to long-term infrastructure investment priorities in energy, telecommunications, water, solid waste management, and transport. The plan was used to prioritize capital investment proposals during the preparation of budgets from FY2011 to FY2013.

69. **Output 4: Support the vulnerable through targeted actions.** Output 4 was partly achieved. The program supported the government's efforts to improve its capacity for priority setting, targeting, and delivery of services to the vulnerable. The policy actions under this output were completed. However, the policy actions that delivered this output were mostly low in depth; they were mainly administrative and process oriented. Under this output, the program should have benefited from policy actions that clearly identified vulnerable groups and established the mechanisms for reaching them with basic services.

70. The MOH adopted the action plan to implement the recommendations of a review on services provided in the outer islands, districts, and community health centers. It also reviewed the existing facilities and equipment to ensure that these were fully staffed and supported the delivery of services in the said locations. The first output indicator pertaining to the maintenance of access and service standards on the outer islands was partly achieved. Although the FY2011–FY2013 budgets indicated that funding for outer island health facility positions was maintained, there were no clear indications if these standards were met (para. 52).

71. The second output target of implementing a new community program in at least two districts was met. The government contracted nongovernment organizations to provide social services for the elderly and the disabled. Pilot social services were undertaken in the Haapi and in the rural areas of Tongatapu by nongovernment organizations Ma'a Fafine Mo e Famili (focusing on the elderly) and Mango Tree (focusing on people with disabilities). In October 2010, a vulnerable persons issues paper was approved by the cabinet, which included the identification of vulnerable groups, adequacy of existing social safety net systems, and options for enhanced social protection policies. However, it was not clear how the analysis and results of the paper were used in targeting and delivering services to vulnerable groups during program implementation. Nonetheless, the government followed through on these policy actions on vulnerable groups after program completion with the establishment in January 2015 of the new Social Protection and Disability Division within the Ministry of Internal Affairs. As of 24 March 2017, 743 persons with disabilities had been provided with cash assistance and care services, and social payments of T65 per month had been provided to 3,971 elderly people aged 70 and above.⁶²

⁶⁰ Based on data gathered by the independent evaluation mission from the Ministry of Labor, Commerce and Industry.

⁶¹ World Bank Doing Business Reports 2010 to 2012. www.doingbusiness.org.

⁶² Based on data gathered by the independent evaluation mission team from the Ministry of Internal Affairs.

72. The third output indicator on public expenditure tracking for the health and education sectors was achieved. Both the MOH and the MOE conducted expenditure reviews, which recommended increases in budget allocations. Over the medium term, the MOE recommended increasing its recurrent budget allocation from 15% to 20% of total government spending while the MOH recommended an increase in its recurrent budget allocation from 12% to 15%. While these increases in recurrent budget allocations indicate the government's commitment to the social sector, it is also important to ascertain the extent to which the most vulnerable benefited from these expenditures. The tracking of expenditures for health and education sectors was achieved. However, the lack of a system for specifically tracking the vulnerable groups limits the assessment on the results of these budgets.

73. **Output 5: Communication and ownership of economic and fiscal management initiatives.** Output 5 was achieved. The program supported the government's development and delivery of a communications strategy that explained its response to the global economic crisis. The policy actions were mainly administrative and process oriented and were therefore assessed low in depth. The target for this output was met. The MFNP published a monthly report highlighting key macroeconomic and fiscal information, including monthly trends for inflation, remittances, exports, total revenue and grants, expenditure and net lending, and total debt. In December 2010, the government also published in local newspapers aggregated data on the performance of PSEs. The annual reports of PSEs were also presented in the Legislative Assembly. Moreover, the IMF Article IV reports were released publicly on a regular basis by the government. These helped create greater transparency in disclosing key information and data on macroeconomic, fiscal, and PSE performance.

C. Efficiency

74. ADB provided budget support in the form of a \$10 million grant from its Special Funds resources through the program. Factors that were considered in determining the grant amount included the projected economic, fiscal, and social impact of the global economic crisis on the economy; the scope and fiscal implications of an appropriate policy response to the crisis; and the government's continued commitment to its economic reform agenda. Grant proceeds were used to support measures pertaining to fiscal, structural, and PFM reforms, and the protection of core social expenditures.

75. Process efficiency was assessed in two aspects. First, in terms of efficiency in the preparation process, there was an initial delay in configuring the program in view of differences between the government's and ADB's perspectives on the economic forecast and the urgency of policy actions. The government expected a longer lag before the impacts of the global economic crisis were to be felt. Also, projections of key macroeconomic indicators (e.g., GDP and revenue) were initially on the positive side. This required two successive appraisal missions, including up-front engagement and policy discussions, to conduct more robust analysis that could underpin the program's economic rationale and lead to better understanding of the economic situation. Engagement continued during program implementation when there were difficulties in getting cabinet approval on matters involving enactment of key legislation and public enterprise reforms.

76. The second aspect of assessing process efficiency related to the efficiency of the implementation process. There was delay of 3 months in disbursement of the first tranche because of the prolonged process of clarifying procedures with the government for program lending and in complying with prerelease actions. The second tranche was

delayed by 8 months because of problems in meeting ADB's verification requirements. This was compounded by the difficulty in complying with the policy action related to financial ratios (para. 61).

77. The delays in the release of the tranches (i) led the government to resort to rolling over treasury bills of about T30 million as bridge financing, and (ii) reduced the timeliness of budget support needed during the height of the crisis period when the effects were being strongly felt. The difficulties encountered in compliance reflected the government's capacity constraints. Structural reforms required time to implement, especially when laws had to be enacted and implemented, and when the PSEs had to be restructured and rationalized.

78. The program could not be subjected to conventional cost-benefit analysis since it did not create tangible assets. Also, benefits and costs were difficult to quantify or be attributed conclusively to the program. Attainment of benefits may well extend over the program's duration. The program period was too short to allow the expected depth of reform measures to materialize.

79. However, some of the policy actions under the program contributed to initial efficiency gains, especially in business processing. For instance, the enactment of the Companies Amendment Act and the Personal Property Securities Act marked significant progress toward spurring private sector development. In line with the Companies Amendment Act, the interim business registry reduced the time for starting a business from 25 days to 16 days (Appendix 5).⁶³ The operationalization of the Personal Property Securities Act, which is aimed at facilitating the use of chattels as collateral for loans, has contributed to improved access to credit. This was indicated by the improvement in Tonga's ranking for getting credit in the World Bank's Doing Business survey from 109 in 2009 to 78 in 2012 to 44 in 2014 (Appendix 5). Also, PSE reforms through strengthening of their governance practices and rationalization contributed to improving PSEs' efficiency and reducing their drain on the budget and economy. The increase in the overall return on equity of PSEs from 0% in 2009 to 4.3% in 2012 reflected their improved operational efficiency.⁶⁴ On the whole, the program is assessed less than efficient in the use of resources to meet the targeted outcome and outputs.

D. Sustainability

80. Economic conditions after program completion indicate that the likelihood of having a sustained timely and effective response to the global economic crisis was difficult to attain. In terms of outcome, the effects of the global economic crisis persisted, with GDP growth contracting to -3.1% in FY2013 and fiscal position continuing to be in deficit at -1.3% of GDP (footnote 46). The effects of the global economic crisis were not effectively contained, as the government had to reduce spending to strengthen the fiscal position.⁶⁵ This triggered further budget support by ADB in 2013 of \$4.5 million through a policy-based grant under the Strengthening Public Financial Management Program to leverage reforms in fiscal policy and PFM (footnote 8). A strained fiscal position could

⁶³ The interim registry became a fully operational electronic registry system in 2012.

⁶⁴ ADB. 2014. *Finding Balance 2014: Benchmarking Performance of State-Owned Enterprises in Island Countries*. Manila.

⁶⁵ For example, through a freeze in civil service recruitment. The wage bill was reduced to 50% of recurrent expenditure in FY2013 from more than 57% in FY2011. Total expenditure was reduced to 25.7% in FY2014 from 33.7% in FY2011. IMF. 2013. Tonga: Staff Report for the 2013 Article IV Consultation. *IMF Staff Country Report*. No. 13/234. Washington, DC; IMF. 2016. Tonga: Staff Report for the 2016 Article IV Consultation. *IMF Staff Country Report*. No. 16/178. Washington, DC.

lead to difficulty in maintaining budgetary provisions for the delivery of health and education services in the outer islands. Further, Tonga's ranking in the World Bank's Doing Business survey has still not recovered to the 52 ranking achieved in 2010 (para. 51).

81. The outputs under the program were delivered by 34 policy actions, 16 of which (47%) were low in depth (para. 33 and Appendix 4). In view of this, most of the outputs are likely less than sustainable except for those that involved legislation, PSE restructuring, and privatization.

82. The government has limited fiscal space. Without adequate buffers, difficulties will likely remain in withstanding external and internal shocks, which affect the sustainability of program outcome and outputs. The goal of higher long-term and more inclusive growth will be difficult to achieve with constrained fiscal resources.

83. The government's institutional capacity remains weak and is affected by high staff turnover that leaves insufficient qualified and experience personnel to manage and sustain the reforms. This poses a risk to the sustainability of program results. Further, the program was not supported by a capacity building TA project that would have helped sustain the results of the policy actions taken. The reform areas under the program were complemented by a mix of regional and sovereign TA projects that were mostly in progress during program formulation and implementation (paras. 27–28). These TAs were not formulated in response to the global economic crisis and not primarily designed for the program, as each had its own area of focus. This shortcoming plus the continuing institutional capacity constraints bears on the sustainability program outcome and outputs.

84. In terms of the durability of reforms, Tonga's development context has been beset by political economy issues, although the government has been committed to pursuing reforms. However, the risks of policy reversals and protracted deliberations of vital reform measures have remained, largely in view of political volatility and the need for strong buy-in from stakeholders. Thus, sustainability of the program regarding outcome and outputs is assessed less than likely sustainable.

CHAPTER 4

Other Assessments

A. Development Impact

85. The envisaged impact of the program (“achievement of a higher and more inclusive economic growth path”) did not materialize. The target under the program was for real GDP to grow progressively to a higher long-term growth rate of about 3.0% per annum. Real GDP grew to 4.2% in 2010, moderated to 2.7% in 2011, and slowed down to 0.9% in 2012. While the target of positive growth was met for these years, it was below the long-term target of 3%. In 2013, GDP growth contracted to -3.1%, diminishing further the prospects of a progressively higher long-term growth rate.

86. The program targeted (i) improvement in the relative standard of living of the most vulnerable groups as measured by the proportion of household income received by the bottom quintile of households, and (ii) a reduction in the proportion of the population living below the national poverty baseline. The achievement of these targets cannot yet be measured because there are no updated surveys available on poverty rates or income shares of households.⁶⁶ Also, there were no baselines established in the DMF on these indicators. The envisaged impact of higher and more inclusive economic growth was difficult to achieve within the timeline of the program and with only stand-alone budget support. Further, the policy actions and outputs were not sufficient in synergy and depth to effectively lift the economy to a higher growth path with a trickle-down effect on vulnerable groups.

87. In terms of institutional development, the policy actions helped improved the processes and systems for PFM, governance of PSEs, and modernized the registries for companies and personal property. These actions enhanced the capacity of the government for promoting private sector development, and for budgeting and debt management. The legislative actions formed the core of the policy reforms under the program and laid the bases for future reforms. Also, the program provided the basis for continuous and close dialogue among development partners. ADB’s early engagement set the foundation for other partners to come in.

88. From a broader point of view, achieving desired development results requires an integrated approach that combines elements of partnership, reform leadership, and institutional capacity. ADB’s partnership with the government and stakeholders, including development partners, could be based on a shared understanding of the nature of reforms, processes, choices, and likely results. Government ownership and buy-in is key to effective implementation and achievement of the desired results. Institutional capacity should be adequately assessed and addressed in the program design. On these bases, the program’s development impact is assessed less than satisfactory.

⁶⁶ Poverty data is only collected every 5–10 years. At the time of evaluation, the latest household and income expenditure survey was from 2009. During the independent evaluation mission in Tonga, the mission team was informed by the Statistics Office that a new household expenditure and income survey is being prepared covering 2015–2016 but the results are not yet ready for release.

B. Asian Development Bank Performance

89. During the four missions fielded to Tonga, ADB discussed and explained program lending and the design of the program to the government. ADB also communicated closely with development partners such as the Australian and the New Zealand governments, and the European Union. In view of ADB's leadership, other development partners subsequently joined a coordinated policy discussion to help address the lingering effects of the global economic crisis in Tonga. There were difficulties in convincing the government that the economy was extremely vulnerable to the global economic crisis, but these were overcome through policy dialogue, the involvement of economists in the processing missions, and coordination between development partners. At the outset, verification requirements, such as meeting the documentation and administrative prerequisites, and standards for each tranche or policy action should have been made clear. The government could have been made fully aware of the risks of noncompliance with policy actions to avert delays. ADB could have taken a more active role in guiding the government in meeting these requirements.

90. A key outcome indicator envisaged under the program was the upkeep of health and education service standards on the outer islands. This was not successfully monitored, either because there was an absence of data or because the required data was not collected during implementation. There was also a lack of clarity in the design on what this outcome indicator meant. Budget allocations were made for social services for outer island health facility positions, but these did not conclusively lead to meeting social service standards. The lack of attention given to this outcome indicator reflects a significant shortcoming by ADB in monitoring the program's social aspects. ADB could have been more diligent in monitoring progress based on the specified performance indicators. Further, ADB could have done better in designing a more coherent DMF (paras. 40–42 and para. 46). In particular, the targeted impact and outcome were too ambitious and the related performance indicators unrealistic, given the policy actions that were set out under the program. Hence, ADB's performance is assessed less than satisfactory.

C. Borrower and Executing Agency Performance

91. The government has shown ownership of and commitment to the reforms. This was demonstrated by the continuation of the reforms after the change in government following the general elections of November 2010. There were initial difficulties in getting cabinet approval for the program, particularly in relation to PSE reform and improvements to the business regulatory environment. During implementation, these challenges continued, with the minister of finance and minister of public enterprises having difficulties in getting their cabinet colleagues to support policy actions, particularly those involving enactment of key legislation such as the Personal Property Securities Act. Nonetheless, the agreed policy actions were finally achieved, with the MFNP taking a proactive role. In terms of monitoring, there was a lack of attention given to monitoring of program outcomes on social services, which was a deficiency on the part of the government.

92. The program was developed in close consultation with the government, and ADB worked closely with the government in identifying policy actions. However, there were initial difficulties in convincing the government that the economy was extremely vulnerable to the lingering effects of the global economic crisis. There were also difficulties in getting the cabinet to approve the program, particularly in relation to PSE

reform and improvements to the business regulatory environment. These were abated through close consultations, extensive engagement, and policy discussions.

93. Program preparation was coordinated and aligned with other development partners. In the area of PFM, close coordination was undertaken in consultation with the Government of Australia and the IMF through the Pacific Financial Technical Assistance Centre. Broader regional dialogue on appropriate responses to the global economic crisis was used to consult with and inform development partners of the preparation of the program. Therefore, the performance of the grant recipient and executing agency is assessed satisfactory.

Overall Assessment, Issues, and Lessons

A. Overall Assessment

94. In general, the program helped alleviate the effects of the global economic crisis on Tonga's economy. It also helped pave the way for subsequent programs from ADB and other development partners. However, the extent of the crisis appeared to have been underestimated, and the economy's long-standing weaknesses could have been more strongly addressed. Overall, the program is assessed less than successful on the basis of the non-attainment of the impact and outcome targets (Table).

95. The program enabled the government to continue its reforms in PFM, PSEs, and the business environment. However, there were shortcomings in the DMF. Outcome and impact performance indicators were overambitious, too general, or not well defined. The 34 policy actions for a crisis response stretched out the capacity of government given the ambitious time frame for completion and the relatively small grant amount. The policy actions could have been simplified or reduced, taking into account the government's capacity constraints in absorbing a substantial reform agenda and what was realistically achievable within the agreed time frame (paras. 36–47). Thus, the program is assessed less than relevant.

96. The envisaged outcome of a timely and effective response to the global economic crisis was not achieved. The outcome indicator on maintenance of access and service standards to the outer islands was partly achieved, while the indicator on an improved business environment was partly met. Although the target of positive economic growth in FY2010 and FY2011 was attained, the program's effect on economic growth was likely to be relatively small and it was difficult to attribute this solely to the program. In terms of outputs, about 64% of the output targets were realized. Of the 34 policy actions, 33 were achieved and one was waived. However, these actions and the subsequent outputs did not result in the achievement of the envisaged outcome and impact (paras. 48–73). Hence, the program is assessed less than effective.

97. The program was beset by delays in the preparation process and during the implementation phase. There was an initial delay in configuring the program, which continued during implementation when there were difficulties in getting cabinet approval on matters involving enactment of key legislation and PSE reforms. The disbursement of both tranches was delayed, which caused the government to roll over treasury bills as bridge financing to cover its operational costs. These delays reduced the timeliness of the budget support during the crisis period. The program period was too short to allow the expected depth of reform measures to materialize (paras. 74–79). Thus, the program is assessed less than efficient.

98. Conditions after program completion indicated that the likelihood of sustaining a timely and effective response to the global economic crisis was unlikely. The effects of the global economic crisis persisted and were not contained; GDP growth contracted in FY2013 and fiscal position continued to be in deficit. A weak fiscal position could lead to difficulties in maintaining budgetary outlays and service standards on the outer islands. Achieving the planned outcome would require more time and deeper reform measures (paras. 80–84). Therefore, the program is assessed less than likely sustainable.

Overall Assessment of Program Performance

Evaluation Criteria	Program Completion Report Assessment	Program Performance Evaluation Report Assessment	Key Reasons for Disagreements and Comments
Relevance	Relevant	Less than relevant	Design shortcomings diminished the relevance of the program.
Effectiveness	Effective	Less than effective	Achievement of the outputs was mixed and did not result in the envisaged outcome.
Efficiency	Efficient	Less than efficient	Initial delays in the preparation and verification processes resulted in the government rolling over treasury bills as bridge financing.
Sustainability	Sustainable	Less than likely sustainable	The effects of the global economic crisis remained and were not contained; gross domestic product growth contracted in FY2013 and fiscal position continued to be in deficit. Most of the policy actions were not deep enough to result in long-lasting institutional and policy changes.
Overall assessment	Successful	Less than successful	
Preliminary assessment of impact	Not rated	Less than satisfactory	The targeted impact was not attained. Reform measures need to be deepened to have a more tangible effect toward achieving higher and more inclusive economic growth path.
Performance of recipient and executing agency	Satisfactory	Satisfactory	
Performance of the Asian Development Bank	Partly satisfactory	Less than satisfactory	The Asian Development Bank could have (i) done more in clarifying the verification requirements and (ii) monitored the outcome indicator on health and education services standards more attentively.

Source: Independent Evaluation Department, Asian Development Bank.

B. Issues

99. **Unrealistic program targets.** The program's intended results were too ambitious considering its short duration. It was difficult for this single program, scheduled for completion within 18 months, to achieve lofty targets and indicators such as progressively increasing GDP growth rates, improving standard of living and poverty indicators, improving the business environment, and overseeing governance improvements and rationalization of selected PSEs. The program's linkages between policy actions and outputs, the targeted outcome, and the intended impact were weak. Close to one-half of the policy actions were low in depth and were insufficient in meeting expected results. Also, targeting ambitious targets with disparate policy actions was difficult. Taken together, these actions and outputs did not constitute a timely and effective response to the global economic crisis. Also, there was no strong connection that achievement of these directly contributed to positive GDP growth rates in FY2010 and FY2011.

100. **Lack of assessment of program's results on vulnerable groups.** The program sought to protect the most vulnerable during the crisis mainly through budget outturns in core social services. However, it was not clear on how these groups were reached and protected from the crisis. Specifically, the targeting mechanisms, existing system, and entities involved were unclear. One policy action under the program called for review of a paper on vulnerable groups, but no further action was taken to set up mechanisms or safety nets to protect vulnerable groups. Since targeting the poor was a key component of the program, the systems for identification and delivery should have been clearly established at the outset, or as part of tranche 1 conditions. Also, the program focused more on budgetary allocations in protecting vulnerable groups than on tracking their status. There should have been a monitoring system incorporated in the program design to track changes in the socioeconomic status of vulnerable groups.

C. Lessons and Actions

1. Lessons

101. **Limited capacity of government staff should be considered in designing reform programs.** The 34 policy actions for a crisis response operation stretched out the government's capacity in absorbing a substantial reform agenda. Constraints to capacity were reflected in the delays in complying with the policy actions, in particular with the policy action on financial ratios, which resulted in waiver of this action. Institutional capacity to manage the reform process and to implement agreed-upon reforms should be factored into the program design and continue to be reassessed during program implementation. The need to continuously strengthen the technical and managerial capacity of institutions, in terms of translating policy actions into workable, concrete measures and assessing reform options, should be carefully considered in designing reform programs.

102. **Reform prioritization and sequencing could lead to more durable results.** A steady, step-by-step pace of reforms may be more suitable in the Tongan context, given prevailing capacity constraints. The process of implementing reforms takes time, especially for reforms that require specialized skills, such as those in PFM and those that are structural in nature; these types of reforms take time to implement and cannot be completed by a single quick-disbursing stand-alone program. The program's sequence of policy actions in the reform areas of PFM, PSEs, and business environment could have prioritized the binding constraints, such as the legal and regulatory issues, before getting

into the operational aspects of the reform issues. However, this was not the case for the policy actions on social protection, which targeted vulnerable groups without an established system for identification, delivery, and monitoring. Also, ADB's coverage of areas for policy reforms under the program could have focused on key needs and constraints. A gradual approach that considers more realistic timelines and proper sequencing could allow more flexibility in prioritizing and refining key policy actions in successive stages of the reform process. This could help strengthen the enabling environment for reforms, foster learning, and build capacity for policy-making and implementation.

2. Follow-up Actions

103. As inputs to future operations in Tonga, the evaluation suggests the following follow-up actions (paras. 104–105).

104. **Conduct country and sector diagnostic studies to ascertain the most critical constraints.** Past and current policy-based programs for Tonga have been largely focused on PFM, fiscal consolidation, and PSE reforms. ADB could consider examining the country's binding constraints to growth and assess whether there are other areas where ADB could make more meaningful contributions. Also, ADB could explore support for other areas concerning privatization initiatives such as competition policy reform, establishment of a multisector regulator, and review of options for business outsourcing opportunities, among other things.

105. **Provide support in identifying and monitoring vulnerable groups.** It is important to know who the vulnerable groups are and to understand how they respond to and cope with external shocks and crisis conditions. This would facilitate better ways of reaching them with needed social services. As such, ADB should coordinate with the development partners on properly identifying these targeted vulnerable groups and determining the specific types of social services to be protected, including monitoring systems and indicators to measure changes in their status.

Appendixes

APPENDIX 1: DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Assessment	Program Achievements/Remarks
Impact Achievement of a higher and more inclusive economic growth path	<p>Real GDP growth progressively raised to a higher long-term growth rate (about 3% per annum)</p> <p>Relative standard of living of the most vulnerable groups of the community improved as measured by the proportion of household income received by the bottom quintile of households</p> <p>The proportion of the population living below the national poverty baseline reduced.</p>	<p>Partly achieved</p> <p>Achievement not clear</p> <p>Achievement not clear</p>	<p>Real GDP growth was 4.2% in 2010, 2.7% in 2011, and 0.9% in 2012. The target of positive growth was met but below the long-term target of 3%.</p> <p>The latest available household and income and expenditure survey is from 2009.</p> <p>The latest available household and income and expenditure survey is from 2009.</p>
Outcome Timely and effective response to the global economic crisis	<p>Positive economic growth in FY2010 (>0%) and FY2011 (>1.5%)</p> <p>Improvement in the business environment (Doing Business ranking improved, baseline 2009 rank: 43)</p> <p>Maintenance of access and service standards on outer islands as evidenced by health and education and Public Service Commission administrative data</p>	<p>Achieved</p> <p>Partly achieved</p> <p>Partly achieved</p>	<p>Real GDP growth was 4.2% in 2010 and 2.7% in 2011.</p> <p>During 2010–2011, Tonga’s ranking in the Doing Business survey fell from 52 to 71. In 2014, Tonga’s ranking was 57. Tonga has not recovered to the level of 52 achieved in 2010.</p> <p>Data is not available on whether service standards were met.</p>
Outputs 1. Budget support to protect the vulnerable	<p>FY2010 budget allocation for basic health and primary education expenditure met in budget outturn</p>	<p>Partly achieved</p>	<p>The FY2010 budget outturn for health was 11% lower than the FY2010 budget target. The outturn for education was 7% lower than the budget target.</p>
2. Maintenance of fiscal responsibility	<p>Improved overall PEFA outcome (baseline 2007 report, new PEFA scheduled for 2010)</p> <p>Strengthened reporting on debt in FY2011 budget</p>	<p>Achieved</p> <p>Achieved</p>	<p>In 2010, PEFA performance assessment improved, with 20 “C” ratings.</p> <p>Data on debt was collected monthly and published in annual budget documents. A quarterly debt bulletin was available on the MFNP website.</p>

Design Summary	Performance Targets/Indicators	Assessment	Program Achievements/Remarks
	Reporting on financial ratios in FY2011 budget	Achieved	Financial ratio reporting was evident in the FY2011, FY2012, and FY2013 budgets.
3. Structural and governance improvements	Improved governance arrangements in public enterprises, as indicated by (i) ministers and civil servants removed from at least 10 public enterprise boards; and (ii) the passing and enactment of the Public Enterprise Amendment Bill	Partly achieved	Ministers were removed from the boards of public enterprise. Four public enterprises still had civil servants on their boards, but their participation was in line with the Public Enterprise Amendment Act.
	Rationalization plans completed for at least three additional public enterprises	Achieved	Rationalization plans for Tonga Waste Authority, Tonga Water Board and Tonga Power were completed.
	Improved business environment as indicated by (i) passing and enactment of a new Companies Amendment Bill; (ii) commencement of operation of the companies registry (International Finance Corporation-supported); and (iii) passing and enactment of a new personal securities act.	Achieved	The Companies Amendment Act (2009) and new Personal Securities Act (2010) were enacted and the business registry was operationalized.
4. Support the vulnerable through targeted actions	Maintenance of access and service standards on outer islands as evidenced by health and education and Public Service Commission administrative data	Partly achieved	Data not available on whether service standards were met.
	Implementation of a new community program in at least two districts, with relevant community-based activities (subprojects) underway	Achieved	Government-contracted nongovernment organizations are to provide services for the elderly and disabled. Pilot services in two districts were implemented.
	Public expenditure tracking for health and education sectors	Achieved	The MOH and MOE conducted expenditure reviews and made recommendations on their budgets over the medium term.
5. Communication and ownership of economic and fiscal management initiatives	Effective communication strategy in place explaining the government's response to the global economic crisis.	Achieved	The MFNP published a report highlighting key macroeconomic and fiscal information, and the government released IMF Article IV reports to the public on a regular basis.

GDP = gross domestic product, IMF = International Monetary Fund, MFNP = Ministry of Finance and National Planning, MOE = Ministry of Education, MOH = Ministry of Health, PEFA = public expenditure and financial accountability.

Sources: Asian Development Bank (ADB). 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant Fund to the Kingdom of Tonga for the Economic Support Program*. Manila; ADB. 2012. *Completion Report: Economic Support Program in Tonga*. Manila; and Independent Evaluation Department.

APPENDIX 2: POLICY MATRIX

First Tranche Actions (December 2009)		Status
Output 1: Budget support to protect services to the vulnerable		
1.1	The government through the ERC, will have made a commitment to adopt the following principles in managing its FY2010 budget expenditure in light of reduced growth and revenue forecasts: (i) essential social services (including primary education and basic health services) will not be cut, and (ii) savings will be made through a planned and strategic reduction, such as in low value-added current expenditures.	Complied with
Output 2: Maintenance of fiscal responsibility		
2.1	The government, through the MFNP, will have implemented the following public financial management reforms in response to the 2007 PEFA assessment to strengthen fiscal responsibility: (i) preparation of the FY2010 budget using a medium-term budget framework or multiyear projects; (ii) existence of, and adherence to, a budget calendar; (iii) updating of public accounts; (iv) completion of bank reconciliations on a monthly basis; (v) commitment to establish a medium- to long-term infrastructure investment plan; and (vi) improvements in terms of tax registration and collection of tax arrears.	Complied with
2.2	The government, through the ERC, will have made a commitment to complete the second PEFA assessment by June 2010.	Complied with
2.3	The government, through the MFNP, will have created the Macroeconomic Technical Committee (i) comprising the secretary for finance as the chair; and a representative from the National Reserve Bank of Tonga, a government statistician, representatives from the Prime Minister's Office, and Policy and Planning (Secretariat) as members to more effectively utilize the strengths available within these various agencies; (ii) with terms of reference including being responsible for monitoring the macroeconomic environment; developing macroeconomic forecasts; developing, using, and maintaining an improved macroeconomic and revenue forecasting model; and advising the minister for finance on these matters; (iii) that meets at least quarterly; and (iv) that has the overarching objective of improving the quality of economic forecasts and macroeconomic analysis being supplied to the ERC (and hence being used in the budget development process).	Complied with
2.4	The government, through the ERC, will have made a commitment to develop financial ratios by the end of December 2009 to promote fiscal sustainability over the medium term, in relation to measures of (i) capital expenditure and maintenance, (ii) public debt, (iii) government personnel costs, and (iv) other (non-personnel) operating costs.	Complied with
2.5	The cabinet will have approved the development of a debt risk management and mitigation policy and strategy, with the intent of ensuring debt is kept to sustainable levels, and which shall include (i) processes and responsibilities for the analysis and approval of proposed new guarantees and debt, (ii) processes for prioritizing and scheduling debt repayment, and (iii) a schedule of timely and standardized reporting on the government's debt portfolio.	Complied with

First Tranche Actions (December 2009)		Status
Output 3: Structural and governance improvements		
3.1	The government, through the Ministry of Public Enterprises, will have privatized Leiola Duty Free and liquidated Tongatapu Machinery Pool.	Complied with
3.2	The government, through the Ministry of Public Enterprises, will have restructured at least five public enterprise boards to comply with the government's decision that politicians and civil servants should not serve as public enterprise directors.	Complied with
3.3	The government, through the Ministry of Public Enterprises, will have completed and accepted rationalization strategies for three additional public enterprises: Tonga Waste Authority, Tonga Water Board and Tonga Power.	Complied with
3.4	The Legislative Assembly will have approved the Companies Amendment Act, which: (i) clarifies the law, and (ii) simplifies procedures for incorporation. The MFNP will have provided a copy of the enacted legislation.	Complied with
Output 4: Support the vulnerable through targeted actions		
4.1	The cabinet will have adopted the community development program design document, which has the goal of alleviating poverty and hardship at the community level through devolving decision-making and responsibilities in local and regional development to more effectively address community needs, promote self-reliance, and enhance service delivery in rural areas. The program design includes the following features: (i) strengthening and financing inclusive community groups, (ii) facilitating community access to information, and (iii) promoting an enabling environment through policy and institutional reform.	Complied with
4.2	The government, through the Prime Minister's Office, will have established a community development program structure and systems (including district offices, personnel, and committees) in two pilot districts.	Complied with
4.3	The government, through the Ministry of Health, will have made a commitment to undertake, by December 2009, a review of existing facilities and equipment to ensure these support the provision of services in the outer islands and districts and community health centers.	Complied with
Output 5: Communication and ownership of economic and fiscal management initiatives		
5.1	The cabinet will have endorsed a communications and engagement strategy that explains the government's programmatic response to the economic crisis.	Complied with
5.2	The government, through the Ministry of Public Enterprises, will have published aggregated public enterprise performance data (using the most recent financial information available where FY2009 is not available) in a local newspaper in Tongan and English, comparing it with prior year results and explaining major trends.	Complied with
5.3	The government, through the MFNP, will have released publicly the 2009 IMF Article IV Staff Report.	Complied with
Second Tranche Actions (indicative by November 2009)		Status
Output 2: Maintenance of fiscal responsibility		
2.1	The government, through the MFNP, will have completed the second PEFA assessment.	Complied with
2.2	The government, through the MFNP, will have operationalized improved processes for macroeconomic and revenue forecasting in which a credible model for macroeconomic and revenue forecasting is used. Additionally, the following will occur: (i) the Macroeconomic Technical Committee meets quarterly and reports against their terms of reference, and (ii) 3-year macroeconomic and revenue forecasts are presented in the FY2011 budget.	Complied with
2.3	The government, through the MFNP, will have met financial ratios set out in the program budget guidelines for FY2011.	Waived

First Tranche Actions (December 2009)		Status
2.4	The government will have operationalized the cabinet-approved debt risk management and mitigation policy and strategy, which includes (i) processes and responsibilities for the analysis and approval of proposed new guarantees and debt, (ii) processes for prioritizing and scheduling debt repayment, and (iii) a schedule of timely and standardized reporting on the government's debt portfolio.	Complied with
2.5	The Privy Council will have approved the regulations for public procurement under the Public Financial Management Act.	Complied with
2.6	The government, through the MFNP, will have (i) completed the treasury instructions, (ii) completed treasury manual, and (iii) made a commitment to establish an internal audit unit within the MFNP to strengthen financial management.	Complied with
Output 3: Structural and governance improvements		
3.1	The government, through the Ministry of Public Enterprises, will have restructured five additional public enterprise boards to comply with the decision that ministers, members of the Legislative Assembly, and civil servants should not serve as public enterprise directors.	Complied with
3.2	The government will have submitted to the Legislative Assembly the Public Enterprise Amendment Act, which (i) enhances the commercial governance practices of public enterprises, (ii) strengthens the monitoring framework for public enterprises, (iii) formalizes the government's decision that politicians and civil servants should not serve as public enterprise directors, (iv) establishes a principle objective for all public enterprises to operate as successful businesses, (v) clarifies the rules and processes associated with the approval of community service obligations, (vi) establishes clear guidelines on the selection and appointment of directors, and (vii) clarifies director accountabilities.	Complied with
3.3	The government will have submitted to the Legislative Assembly the Personal Property Securities Act, which facilitates the use of chattels as collateral for loans.	Complied with
3.4	The government, through the Ministry of Labor, Commerce and Industries, will have operationalized the new business registry to simplify and speed up the company registration process, in line with the Companies Amendment Act.	Complied with
3.5	The government will ensure that the Companies Amendment Act will have received royal assent and will have made effective the implementing regulations of the act.	Complied with
3.6	The cabinet will have approved the government's prioritized medium- to long-term infrastructure investment plan.	Complied with
Output 4: Support the vulnerable through targeted actions		
4.1	The government, through the Ministry of Health and the Ministry of Education, will have commissioned a public expenditure tracking system for the health and education sectors.	Complied with
4.2	The government, through the Ministry of Health, will have adopted an action plan to implement recommendations of the review of outer island districts and community health center services.	Complied with
4.3	The cabinet will have reviewed a vulnerable persons issues paper, which will include (i) the identification of the vulnerable groups, (ii) the adequacy of existing social safety net systems, and (iii) the options for enhanced social protection policies.	Complied with
Output 5: Communication and ownership of economic and fiscal management initiatives		
5.1	The government, through the MFNP, will have rolled out the communication and engagement strategy.	Complied with

First Tranche Actions (December 2009)		Status
5.2	The government through the Ministry of Public Enterprises, will have published enterprise-level performance data for public enterprises for FY2009 following the tabling of the respective annual reports in the Legislative Assembly.	Complied with
5.3	The government, through the MFNP will have released publicly the 2010 PEFA assessment.	Complied with

ERC = Expenditure Review Committee, IMF = International Monetary Fund, MFNP = Ministry of Finance and National Planning, PEFA = public expenditure and financial accountability.

Sources Asian Development Bank (ADB). 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant Fund to the Kingdom of Tonga for the Economic Support Program*. Manila; ADB. 2012. *Completion Report: Economic Support Program in Tonga*. Manila; and Independent Evaluation Department.

APPENDIX 3: GRANT COVENANTS

Covenant	Reference in Grant Agreement	Status of Compliance
1. In the carrying out of the Program, the Recipient shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement.	Article IV Section 4.01	Complied with
2. (a) The Recipient shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Grant and to record the progress of the Program.	Article IV Section 4.02(a)	Complied with
3. (b) The Recipient shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Article IV Section 4.02(b)	Complied with
4. (a) As part of the reports and information referred to in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (i) the Counterpart Funds and the use thereof; and (ii) the implementation of the Program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Article IV Section 4.03(a)	Complied with
5. (b) Without limiting the generality of the foregoing or Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB quarterly reports on the carrying out of the Program and on the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Article IV Section 4.03(b)	Complied with
Effectiveness		
6. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Recipient shall have complied with all of the First Tranche release conditions set out in Attachment 2 to Schedule 2 of this Grant Agreement to the satisfaction of ADB.	Article V Section 5.01	Complied with
7. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.	Article V Section 5.02	Complied with
First Tranche Policy Actions <u>Budget Support to Provide Economic Stimulus and Protect the Vulnerable</u>		
8. The Recipient, through the ERC, shall have made a commitment to adopt the following principles in managing its FY 2010 budget expenditure in light of the reduced growth and revenue forecasts: (a) essential social services (including primary education and basic health services) will not be cut; and (b) savings will be made through a planned and strategic reduction, such as in low-value added current expenditure.	Attachment 2 to Schedule 2, para. 1	Complied with

Covenant	Reference in Grant Agreement	Status of Compliance
<u>Maintenance of Fiscal Responsibility</u>		
9. The Recipient, through the Ministry of Finance and National Planning, shall have implemented public financial management reforms in response to the 2007 PEFA to strengthen fiscal responsibility, including: (a) preparation of the FY2010 budget using a medium term budget framework or multi-year projects; (b) existence of, and adherence to a budget calendar; (c) public accounts are brought up to date; (d) bank reconciliations are completed on a monthly basis; and (e) commitment to establish a medium to long term infrastructure investment plan; and (f) improvements in terms of tax registration and collection of tax arrears.	Attachment 2 to Schedule 2, para. 2	Complied with
10. The Recipient through the ERC shall have made a commitment to complete the second PEFA by June 2010.	Attachment 2 to Schedule 2, para. 3	Complied with
11. The Recipient, through the Minister of Finance and National Planning, shall have created a macroeconomic technical committee which shall (a) meet on quarterly basis; (b) be chaired by the secretary of finance with the Governor of the Reserve Bank, the Recipient's statistician and representatives from the PMO and the Policy and Planning (Secretariat) as members; (c) have the responsibility for (i) monitoring the macroeconomic environment, (ii) developing macroeconomic forecasts, (iii) developing and maintaining an improved macroeconomic and forecasting model, and (iv) advising the Minister of Finance and National Planning on the above matter; and (d) have the overarching objectives of improving the quality of economic forecasts and macroeconomic analysis being supplied to ERC and to be utilized in the budget development process.	Attachment 2 to Schedule 2, para. 4	Complied with
12. The Recipient, through the ERC, shall have made a commitment to develop financial ratios by the end of December 2009 to promote fiscal sustainability over the medium term, in relation to (a) capital expenditure and maintenance; (b) public debt; (c) personnel costs; and (d) other (non-personnel) operating costs.	Attachment 2 to Schedule 2, para. 5	Complied with
13. The Recipient, through the Cabinet, shall have approved the development of a debt risk management and mitigation policy and strategy, with the intent of ensuring debt is kept to sustainable levels, and which shall include (a) processes and responsibilities for the analysis and approval of proposed new guarantees and debt; (b) processes for prioritizing and scheduling debt repayment; and (c) a schedule of timely and standardized reporting on the debt portfolio of the Recipient.	Attachment 2 to Schedule 2, para.6	Complied with
<u>Structural and Governance Improvements</u>		
14. The Recipient, through MPE, shall have privatized Leiola Duty Free Ltd and liquidated Tongatapu Machinery Pool.	Attachment 2 to Schedule 2, para. 7	Complied with
15. The Recipient, through MPE, shall have restructured at least five (5) public enterprise boards to no longer include ministers or civil servants as directors.	Attachment 2 to Schedule 2, para. 8	Complied with

Covenant	Reference in Grant Agreement	Status of Compliance
16. The Recipient, through MPE shall have completed and accepted the rationalization strategies for additional three public enterprises, being Waste Authority, Tonga Water Board and Tonga Power Limited.	Attachment 2 to Schedule 2, para. 9	Complied with
17. The Legislative Assembly shall have enacted the Companies Amendment Bill, which clarifies the earlier version of the law and simplifies the procedures for incorporation.	Attachment 2 to Schedule 2, para. 10	Complied with
<u>Support the Vulnerable through Targeted Actions</u>		
18. The Cabinet shall have adopted the community development program design document.	Attachment 2 to Schedule 2, para. 11	Complied with
19. The Recipient, through the PMO, shall have established community development program structure and systems (including district offices, personnel, committees) in two pilot districts.	Attachment 2 to Schedule 2, para. 12	Complied with
20. The Recipient, through the Ministry of Health, shall have made a commitment to undertake, by December 2009, a review of existing health facilities and equipment to ensure that these facilities and equipment support the provision of health services in the outer islands and district and community health centers.	Attachment 2 to Schedule 2, para. 13	Complied with
<u>Communication and Ownership of Economic and Fiscal Management Initiatives</u>		
21. The Cabinet shall have endorsed a communications and engagement strategy which shall explain the programmatic response of the Recipient to the economic crisis.	Attachment 2 to Schedule 2, para. 14	Complied with
22. The Recipient, through MPE, shall have published aggregated public enterprise performance data (using the most recent financial information available where FY2009 is not available) in a local newspaper in Tongan and English with comparison to the prior year results and explanation on the major trends.	Attachment 2 to Schedule 2, para. 15	Complied with
23. The Recipient, through the Ministry of Finance and National Planning, shall have released publicly the Article IV Staff Report prepared by IMF in 2009.	Attachment 2 to Schedule 2, para. 16	Complied with
Second Tranche Policy Actions		
<u>Maintenance of Fiscal Responsibility</u>		
24. The Recipient through the Ministry of Finance and National Planning shall have completed the second public expenditure financial accountability.	Attachment 3 to Schedule 2, para. 1	Complied with
25. The Recipient shall have operationalized the improved processes for macroeconomic and revenue forecasting, in which (a) credible model for macroeconomic and revenue forecasting are in use; (b) the macroeconomic technical committee meet quarterly and submit report against terms of reference; and (c) three (3) year macroeconomic and revenue forecasts are presented in the budget for FY 2011.	Attachment 3 to Schedule 2, para. 2	Complied with

Covenant	Reference in Grant Agreement	Status of Compliance
26. The Recipient shall have met the financial ratios in program budget guidelines for FY 2011.	Attachment 3 to Schedule 2, para. 3	Partly complied with
27. The Cabinet shall have operationalized the Cabinet approved debt risk management and mitigation policy and strategy, which shall include (a) processes and responsibilities for the analysis and approval of proposed new guarantees and debt; (b) processes for prioritizing and scheduling debt repayment; and (c) a schedule of timely and standardized reporting on the debt portfolio of the Recipient.	Attachment 3 to Schedule 2, para. 4	Complied with
28. The Privy Council shall have approved the regulations for public procurement under the Public Financial Management Act.	Attachment 3 to Schedule 2, para. 5	Complied with
29. The Recipient through the Ministry of Finance and National Planning shall have (a) completed treasury instructions, (b) completed treasury manual, and (c) made a commitment to establish an internal audit unit within Ministry of Finance and National Planning to strengthen financial management.	Attachment 3 to Schedule 2, para. 6	Complied with
<u>Structural and Governance Improvements</u>		
30. The Recipient, through the MPE, shall have restructured at least five (5) additional public enterprise boards to no longer include ministers, members of the Legislative Assembly, or civil servants as directors.	Attachment 3 to Schedule 2, para. 7	Complied with
31. The Recipient shall have submitted the Public Enterprise Amendment Bill to the Legislative Assembly which (a) enhances the commercial governance practices of public enterprises; (b) strengthens the monitoring framework for public enterprises; (c) formalizes the decision that politicians should not serve as public enterprise directors; (d) establishes a principle objective for all public enterprises to operate as a successful business; (e) clarifies the rules and processes associated with the approval of community service obligations; (f) establishes clear guidelines on the selection and appointment of directors; and (g) clarifies director accountabilities.	Attachment 3 to Schedule 2, para. 8	Complied with
	Attachment 3 to Schedule 2, para. 9	
32. The Recipient shall have submitted the Personal Property Securities Bill to the Legislative Assembly, which facilitates the use of chattels as collateral for loans.	Attachment 3 to Schedule 2, para. 10	Complied with
33. The Recipient, through the MPE, shall have operationalized the new companies' registry to make the process of company registration simple and fast in line with the Companies Amendment Act.	Attachment 3 to Schedule 2, para. 11	Complied with
34. The Recipient shall have ensured that (a) the Companies Amendment Act receives the royal assent, and (b) the implementing regulations of the Companies Amendment Act are made effective.	Attachment 3 to Schedule 2, para. 12	Complied with
35. The Cabinet shall have approved the prioritized medium to long term infrastructure plan of the Recipient.	Attachment 3 to Schedule 2, para. 13	Complied with

Covenant	Reference in Grant Agreement	Status of Compliance
<u>Support the Vulnerable through Targeted Actions</u>		
36. The Recipient, through the Ministry of Health and the Ministry of Education, shall have commissioned the public expenditure tracking system for health and education sectors.	Attachment 3 to Schedule 2, para. 14	Complied with
37. The Recipient, through the Ministry of Health, shall have adopted the action plan to implement the recommendations of the review of outer island districts and community health center services.	Attachment 3 to Schedule 2, para. 15	Complied with
38. The Cabinet shall have reviewed the issues paper on vulnerable persons which shall (a) identify vulnerable groups; (b) consider the adequacy of the existing social safety net systems; and (c) provide options for enhanced social protection policies.	Attachment 3 to Schedule 2, para. 16	Complied with
<u>Communication and Ownership of Economic and Fiscal Management Initiatives</u>		
39. The Recipient, through the Ministry of Finance and National Planning, shall have commenced the rolling out of the communication and engagement strategy.	Attachment 3 to Schedule 2, para. 17	Complied with
40. The Recipient, through the MPE, shall have published enterprise level performance data for the public enterprises for FY2009 following the tabling of the respective annual reports in the Legislative Assembly.		
41. The Recipient, through the Ministry of Finance and National Planning, shall have released publicly PEFA.		
<u>Program Implementation</u>		
42. The Recipient shall appoint PMO as the Program Executing Agency and in that capacity assume overall responsibility for the implementation of the Program, including the coordination of the policy reform measures undertaken under the Program. The PMO shall appoint its chief secretary and secretary to cabinet, supported by its existing advisory unit, to assume day to day responsibility over the implementation of the Program. The chief secretary and secretary to cabinet shall (a) ensure close coordination with other relevant ministries and government agencies; (b) address capacity issues with the implementing agencies, as they occur, to ensure the timely Program implementation; and (c) engage other stakeholders and raise awareness in the wider public domain on matters related to the Program.	Schedule 4, para.1	Complied with
43. The Recipient shall appoint the Ministry of Finance and National Planning, the Ministry of Health, MPE and MLCI as the main implementing agencies. The Recipient shall designate ERC as the Program steering committee to provide guidance for the Program implementation and coordination. ERC shall meet on monthly to discuss the progress of the Program.	Schedule 4, para. 2	Complied with
<u>Policy Dialogue</u>		
44. The Recipient shall (a) ensure that the policies already adopted and actions already taken as described in the Policy Letter, including the policy matrix, continue in effect for the duration of the Program period and subsequently; and (b) promptly adopt all	Schedule 4, para. 3	Complied with

Covenant	Reference in Grant Agreement	Status of Compliance
other policies and take all other actions indicated in the Policy Letter, including the policy matrix, and ensure that such policies and actions continue in effect for the duration of the Program period and subsequently.		
45. The Recipient shall keep ADB informed of policy discussions with other multilateral or bilateral aid partners that have implications for implementation of the Program, keep ADB informed of the progress made in carrying out the policies and actions set out in the Policy Letter, including the policy matrix, and provide ADB with an opportunity to comment on any resulting policy proposals. The Recipient shall continue policy dialogue with ADB on problems and constraints encountered during implementation of the Program and on desirable changes to overcome or mitigate such problems and constraints.	Schedule 4, para. 4	Complied with
<u>Anti-corruption</u>		
46. The Recipient shall undertake necessary measures to create and sustain a corruption-free environment; ensure that its anticorruption law and regulations and ADB's Anticorruption Policy (1998, as amended to date) are strictly enforced and complied with during the Program implementation; and facilitate ADB to exercise its right to investigate, directly or through its agents, any alleged corrupt, fraudulent, collusive, or coercive practices relating to the Program.	Schedule 4, para. 5	Complied with
<u>Report and Review Missions</u>		
47. The Recipient shall submit to ADB (a) semiannual reports on Program implementation and accomplishments of the measures set forth in the Policy Letter, including the policy matrix, which shall describe progress that have been made and any problem encountered and remedial actions taken; and (b) a Program completion report within three (3) months of Program completion.	Schedule 4, para. 6	Complied with
48. The Recipient and ADB shall undertake periodic review missions prior to the release of the second tranche to assess status and progress towards achieving the second tranche release conditions. Within three (3) months of the Effective Date, the Recipient, through PMO, shall have established and maintained a Program performance monitoring system that shall include a database on the status of policy measures and program indicators based on the policy matrix and the design and monitoring framework.	Schedule 4, para. 7	Complied with
<u>Use of Counterpart Funds</u>		
49. Throughout the implementation of the Program, the Recipient shall ensure that adequate resources are allocated and released in a timely manner in order to ensure proper implementation of the Program as described in the Policy Letter. The Recipient shall ensure that the Counterpart Funds generated out of the Grant proceeds are directed to fiscal, structural, and social protection policy measures as described in the Policy Letter.	Schedule 4, para. 8	Complied with
50. The Recipient shall ensure that the Counterpart Funds shall be used to support fiscal stimulus measures, implementation of	Schedule 4, para. 9	Complied with

Covenant	Reference in Grant Agreement	Status of Compliance
structural and public financial management reform measures, and the protection of core social expenditure.		

Sources Asian Development Bank (ADB). 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Asian Development Fund Grant Fund to the Kingdom of Tonga for the Economic Support Program*. Manila; ADB. 2012. *Completion Report: Economic Support Program in Tonga*. Manila; and Independent Evaluation Department.

APPENDIX 4: DEPTH OF POLICY ACTIONS

1. The policy actions were assessed in terms of depth, i.e., the extent to which an action is sufficient to set off long-lasting policy and institutional changes. The framework for assessing depth is based on Inter-American Development Bank's evaluation approach to policy-based loans.⁶⁷ The depth of policy actions was assessed into three categories: low, medium, and high. Table A4.1 describes the depth levels.

Table A4.1: Depth of Policy Actions

Depth	Description
Low	Process oriented and administrative, and usually involving development of processes, procedures, and tools; preparation of action plans; or strategies and announcements. These actions by themselves would not bring about any significant policy and/or institutional changes.
Medium	Policy actions that have immediate and possibly significant effects but need to be followed through on to achieve long-lasting policy and institutional changes. For example, institutional mechanisms set in place or organizational changes are substantive actions but are considered medium in depth, since the actions by themselves do not trigger long-lasting effects.
High	Policy actions that by themselves trigger long-lasting changes in policy and the institutional environment. For example, enactment of laws or actions critical to completion of a reform process is categorized as high in depth.

Source: Inter-American Bank, Office of Evaluation and Oversight. 2016. *Design and Use of Policy-Based Loans at the Inter-American Development Bank*. Washington, DC.

2. Using the Inter-American Development Bank's evaluation approach, 16 (47%) of the policy actions were low in depth, 10 (29%) were medium depth, and 8 (24%) were high depth. Table A4.2 shows the depth assessment for each policy action.

3. The need to protect the vulnerable was critical in the wake of the global economic crisis, but the nature of the policy actions did not fully satisfy that need. The actions lacked depth in that there was no clear mechanism that ensured target groups were reached and monitored. The policy actions to protect the vulnerable were mainly administrative and process oriented in nature. These involved a commitment to (i) providing budget support to protect essential social services to the vulnerable, (ii) tracking health and education expenditure, and (iii) undertaking a review of a vulnerable persons issues paper. The policy action on providing budget support to protect services could have been made more substantive by requiring specific levels of allocation for basic social services rather than just a commitment. With regard to the policy action on the review of a vulnerable persons paper, the cabinet approved this paper in October 2010, but its review of the paper did not result in any follow-up action, which could have provided a basis for more focused targeting and delivery of social services. In general, policy actions should have benefited from clearly identifying vulnerable groups and establishing mechanisms for reaching them with basic services.

4. The policy actions on communication and ownership were mainly administrative. The public release of information on financial performance of public sector enterprises (PSEs), staff reports for the Article IV International Monetary Fund consultations, public expenditure and financial accountability assessments, and the government's response to the global economic crisis were intended to create awareness, transparency, and accountability of the government on economic and fiscal management initiatives. The policy actions on communication and ownership were not critical to the reforms in that they were not directly linked to measures taken in public financial management, PSEs, improving Tonga's

⁶⁷ Inter-American Bank, Office of Evaluation and Oversight. 2016. *Design and Use of Policy-Based Loans at the Inter-American Development Bank*. Washington, DC. Available at: <https://publications.iadb.org/bitstream/handle/11319/7513/OVE-Annual-Report-2015-Technical-Note-Design-and-Use-of-Policy-Based-Loans-at-the-IDB.pdf?sequence=4>

Doing Business survey ranking, and social protection. Nonetheless, the policy actions under this output provided some awareness and transparency on the reform actions taken by the government.

5. The amendments to the Companies Act in 2009 and Public Enterprise Act in 2010 and the enactment of the Personal Property Securities Act in 2010 were critical in laying the legal foundation for company licensing, use of chattels as collateral for loans, and governance of PSEs. These were significant achievements under the program. The actions on privatization, restructuring, and development of rationalization plans were important steps in improving productivity of the economy and promoting development of the private sector.

6. On the whole, these policy actions lacked the necessary depth to trigger long-lasting institutional and policy change. The outputs delivered by these actions were not sufficient to achieve the envisaged outcome of a timely and effective response to the global economic crisis. The number of policy actions could have been reduced, especially the low-depth measures. More policy actions did not translate into greater depth of reforms. Greater selectivity could have been undertaken to ensure that the set of policy actions were vital for achieving the envisaged program results. At the same time, these actions should have been within the government's ability to undertake measures, given prevailing constraints.

Table A4.2 Nature and Depth of Policy Actions

First Tranche Actions (December 2009)		Depth Assessment	Remarks
1.1	The government, through the ERC, will have made a commitment to adopt the following principles in managing its FY2010 budget expenditure in light of reduced growth and revenue forecasts: (i) essential social services (including primary education and basic health services) will not be cut, and (ii) savings will be made through a planned and strategic reduction, such as in low value-added current expenditure.	Low	Action was process oriented and easy to comply with. Expressions of commitment to adopt prudent measures by themselves did not bring about meaningful changes.
2.1	The government, through the MFNP, will have implemented the following public financial management reforms in response to the 2007 PEFA assessment to strengthen fiscal responsibility: (i) preparation of the FY2010 budget using a medium-term budget framework or multiyear projects; (ii) existence of, and adherence to a budget calendar; (iii) updating of public accounts; (iv) completion of bank reconciliations on a monthly basis; (v) commitment to establish a medium- to long-term infrastructure investment plan; and (vi) improvements in terms of tax registration and collection of tax arrears.	Low	The policy action called for implementation reform measures in public financial management, but these were mainly administrative and process oriented.
2.2	The government, through the ERC, will have made a commitment to complete the second PEFA assessment by June 2010.	Low	This action was process focused. Making a commitment or announcement to complete the second PEFA assessment did not bring significant and long-lasting institutional and policy change.
2.3	The government, through the MFNP, will have created the Macroeconomic Technical Committee (i) comprising the secretary for as the chair; and a representative from the National Reserve Bank of	Medium	The nature of the action had significant effect since it called for the setting of an institutional mechanism to support the budget

First Tranche Actions (December 2009)		Depth Assessment	Remarks
	<p>Tonga, a government statistician, representatives from the Prime Minister's Office, and Policy and Planning (Secretariat) as members to more effectively utilize the strengths available within these various agencies;</p> <p>(ii) with terms of reference including being responsible for monitoring the macroeconomic environment; developing macroeconomic forecasts; developing, using, and maintaining an improved macroeconomic and revenue forecasting model; and advising the minister for finance on these matters;</p> <p>(iii) that meets at least quarterly, and;</p> <p>(iv) that has the overarching objective of improving the quality of economic forecasts and macroeconomic analysis being supplied to the ERC (and hence used in the budget development process).</p>		process. These one-off measures needed to be followed by other measures for the effects to be lasting.
2.4	<p>The government, through the ERC, will have made a commitment to develop financial ratios by the end of December 2009 to promote fiscal sustainability over the medium term, in relation to measures of</p> <p>(i) capital expenditure and maintenance,</p> <p>(ii) public debt,</p> <p>(iii) government personnel costs, and</p> <p>(iv) other (non-personnel) operating costs.</p>	Low	Development and formulation of financial ratios was process oriented. The action could have been made more substantive through the setting of specific targets for the ratios to help efforts for fiscal sustainability.
2.5	<p>The cabinet will have approved the development of a debt risk management and mitigation policy and strategy, with the intent of ensuring debt is kept to sustainable levels, and which shall include</p> <p>(i) processes and responsibilities for the analysis and approval of proposed new guarantees and debt,</p> <p>(ii) processes for prioritizing and scheduling debt repayment, and</p> <p>(iii) a schedule of timely and standardized reporting on the government's debt portfolio.</p>	Medium	The approval and adoption of a debt risk management and mitigation policy and strategy was a step in the direction of achieving a sustainable debt level.
3.1	The government, through the Ministry of Public Enterprises, will have privatized Leiola Duty Free and liquidated Tongatapu Machinery Pool.	High	Privatization has had a long-lasting effect on development of the private sector.
3.2	The government, through the Ministry of Public Enterprises, will have restructured at least five public enterprise boards to comply with the government's decision that politicians and civil servants should not serve as public enterprise directors.	High	Restructuring has been key in making public enterprises more efficient. This action has had a lasting effect on the governance of public enterprises.
3.3	The government, through the Ministry of Public Enterprises, will have completed and accepted the rationalization strategies for three additional public enterprises: Tonga Waste Authority, Tonga Water Board, and Tonga Power.	Low	This action was process focused. The rationalization strategies indicated commitment, but there was no follow-up action on implementation to ensure that envisaged results were achieved.
3.4	<p>The Legislative Assembly will have approved the Companies Amendment Act, which</p> <p>(i) clarifies the law, and</p> <p>(ii) simplifies procedures for incorporation.</p> <p>The MFNP will have provided a copy of the enacted legislation.</p>	High	This action was substantive. Amendments to the act have had long-lasting effects on the legal environment.

First Tranche Actions (December 2009)		Depth Assessment	Remarks
4.1	The cabinet will have adopted the community development program design document, which has the goal of alleviating poverty and hardship at the community level through devolving decision-making and responsibilities in local and regional development to more effectively address community needs, promote self-reliance, and enhance service delivery in rural areas. The program design includes the following features: (iv) strengthening and financing inclusive community groups, (v) facilitating community access to information, and (vi) promoting an enabling environment through policy and institutional reform.	Low	This action was process oriented. The adoption of the community development program design needed to be followed up by other concrete measures.
4.2	The government, through the Prime Minister's Office, will have established a community development program structure and systems (including district offices, personnel, and committees) in two pilot districts.	Medium	This action was significant. It established the mechanism for a community development program in pilot areas.
4.3	The government, through the Ministry of Health, will have made a commitment to undertake, by December 2009, a review of existing facilities and equipment to ensure these support the provision of services in the outer islands and districts and community health centers.	Low	The government's commitment to review existing facilities and equipment was process oriented. It did not bring about long-lasting policy and institutional change.
5.1	The cabinet will have endorsed a communications and engagement strategy that explains the government's programmatic response to the economic crisis.	Low	This action was easy to comply with. Endorsement of the strategy did not trigger significant and long-term policy change.
5.2	The government, through the Ministry of Public Enterprises, will have published aggregated public enterprise performance data (using the most recent financial information available where FY2009 is not available) in a local newspaper in Tongan and English, comparing it with prior year results and explaining major trends.	Low	This action was administrative and process oriented, and it contributed minimal value to the reforms.
5.3	The government, through the MFNP, will have released publicly the 2009 IMF Article IV Staff Report.	Low	This action was administrative in nature and did not trigger long-lasting policy and institutional change.
Second Tranche Actions (indicative by November 2009)		Depth Assessment	Remarks
2.1	The government, through the MFNP, will have completed the second PEFA assessment.	Medium	The completion of the second PEFA assessment was an important step in setting the basis for further reform in public financial management.
2.2	The government, through the MFNP, will have operationalized improved processes for macroeconomic and revenue forecasting in which a credible model for macroeconomic and revenue forecasting is used. Additionally, the following will occur: (i) the Macroeconomic Technical Committee meets quarterly and reports against their terms of reference, and (ii) 3-year macroeconomic and revenue forecasts are presented in the FY2011 budget	Low	This action was process oriented. The use of a forecasting model supported the budget process, but did not trigger long-lasting policy and institutional change.

First Tranche Actions (December 2009)		Depth Assessment	Remarks
2.3	The government, through the MFNP, will have met financial ratios set out in the program budget guidelines for FY2011.	Medium (waived)	The setting of specific targets was in line with prudent budget management.
2.4	The government will have operationalized the cabinet-approved debt risk management and mitigation policy and strategy, which includes <ul style="list-style-type: none"> (i) processes and responsibilities for the analysis and approval of proposed new guarantees and debt, (ii) processes for prioritizing and scheduling debt repayment, and (iii) a schedule of timely and standardized reporting on the government's debt portfolio. 	Medium	The operationalization of the debt risk management and mitigation policy and strategy was a significant policy action that had an immediate but not necessarily long-lasting effect in terms of policy and institutional change.
2.5	The Privy Council will have approved the regulations for public procurement under the Public Financial Management Act.	Medium	This action set the regulations for procurement. This needs to be followed by measures to ensure effective implementation.
2.6	The government, through the MFNP, will have <ul style="list-style-type: none"> (i) completed the treasury instructions, (ii) completed the treasury manual, and (iii) made a commitment to establish an internal audit unit within the MFNP to strengthen financial management. 	Low	The completion of the treasury instructions and manuals was procedural. It did not result in long-lasting policy change.
3.1	The government, through the Ministry of Public Enterprises, will have restructured five additional public enterprise boards to comply with the decision that ministers, members of the Legislative Assembly, and civil servants should not serve as public enterprise directors.	High	This action was important in enhancing good corporate governance.
3.2	The government will have submitted to the Legislative Assembly the Public Enterprise Amendment Act, which <ul style="list-style-type: none"> (i) enhances the commercial governance practices of public enterprises, (ii) strengthens the monitoring framework for public enterprises, (iii) formalizes the government's decision that politicians and civil servants should not serve as public enterprise directors, (iv) establishes a principle objective for all public enterprises to operate as successful businesses, (v) clarifies the rules and processes associated with the approval of community service obligations, (vi) establishes clear guidelines on the selection and appointment of directors, and (vii) clarifies director accountabilities. 	High	This policy action led to enactment of the act, which has long-lasting effects.
3.3	The government will have submitted to the Legislative Assembly the Personal Property Securities Act, which facilitates the use of chattels as collateral for loans.	High	The act was enacted and implemented, which has a long-lasting effect on the property legal framework.
3.4	The government, through the Ministry of Labor, Commerce and Industries, will have operationalized the new business registry to simplify and speed up the company registration process, in line with the Companies Amendment Act.	High	During the program, the registry was implemented on interim basis, which later on was fully operationalized. This had significant effect on the ease of registration.

First Tranche Actions (December 2009)		Depth Assessment	Remarks
3.5	The government will ensure that the Companies Amendment Act will have received royal assent and will have made effective the implementing regulations of the act.	High	This policy action was a legal act, which supports private sector development.
3.6	The cabinet will have approved the government's prioritized medium- to long-term infrastructure investment plan.	Medium	The plan established the medium- to long-term infrastructure investment priorities in budget preparation.
4.1	The government, through the Ministry of Health and the Ministry of Education, will have commissioned the public expenditure tracking system for the health and education sectors.	Low	This action was process oriented. In addition to tracking expenditures, the benefits of these expenditures should have been monitored.
4.2	The government, through the Ministry of Health, will have adopted an action plan to implement recommendations of the review of outer island districts and community health center services.	Medium	Adoption of an action plan to implement the recommendations supports the goal of protecting the vulnerable.
4.3	The cabinet will have reviewed a vulnerable persons issues paper, which will include (i) the identification of the vulnerable groups, (ii) the adequacy of existing social safety net systems, and (iii) the options for enhanced social protection policies.	Low	This action was process oriented. No further action was taken to ensure target groups are reached.
5.1	The government, through the MFNP, will have rolled the communication and engagement strategy.	Medium	This policy action involved actual implementation and was significant.
5.2	The government, through the Ministry of Public Enterprises, will have published enterprise-level performance data for public enterprises for FY2009 following the tabling of the respective annual reports in the Legislative Assembly.	Low	This action was administrative and process oriented and contributed minimal value to the reforms.
5.3	The government, through the MFNP, will have released publicly the PEFA assessments.	Low	This action was administrative and contributed minimal value to the reforms.

ERC = Expenditure Review Committee, IMF = International Monetary Fund, MFNP = Ministry of Finance and National Planning, PEFA = public expenditure and financial accountability.

Source: Independent Evaluation Department.

APPENDIX 5: TONGA DOING BUSINESS RANKING, 2009–2014

Indicator	2009	2010	2011	2012	2013	2014
Ease of doing business (rank)	43	52	71	58	62	57
Starting a business (rank)	19	32	30	33	35	42
Procedures (number)	4	4	4	4	4	4
Time (days)	25	25	25	16	16	16
Cost (% of income per capita)	9.6	8.2	7.0	10.3	8.3	7.7
Minimum capital (% of income per capita)	0	0	0	0	0	0
Getting credit (rank)	109	113	116	78	83	55
Strength of legal rights index (based on a scale of 0-10)	7	7	7	9	9	9
Depth of credit information index (based on a scale of 0-6)	0	0	0	0	0	2
Public registry coverage (% of adults)	0	0	0	0	0	0
Private bureau coverage (% of adults)	0	0	0	0	0	6.5

Source: World Bank. 2013. *Doing Business 2014: Understanding Regulations for Small and Medium-Size Enterprises*. Washington, DC.