

H. Country Chapter: Tonga

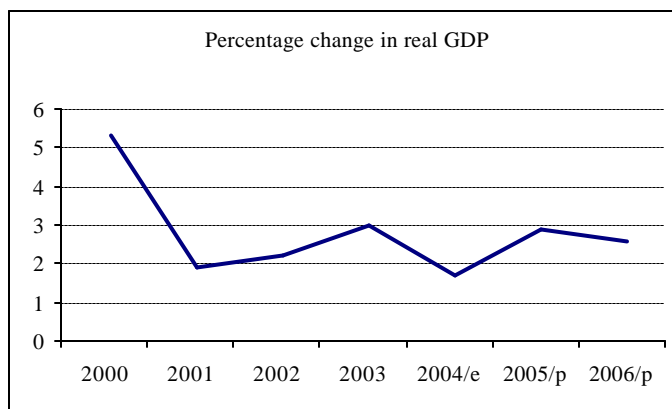
Table 28. Country Summary

Country	Kingdom of Tonga
Prime Minister	Prince Lavaka ata ULUKALALA (since February 2000)
Head of State	King Taufa'ahau TUPOU IV (since 16 December 1965)
Independence	June 4, 1970 (from UK protectorate)
Government	Hereditary constitutional monarchy; prime minister and deputy prime minister appointed for life by the monarch.
Land area	718 sq km; archipelago of 169 islands (36 inhabited)
Population	101,803 (2004 est.). Population growth is 0.3% (2004 est.).
Cities	Capital: Nuku'alofa
Provinces	Eua, Ha'apai, Niua, Tongatapu, and Vava'u.
Languages	Tongan and English.
Natural Hazards	Cyclones (October to April); earthquakes and volcanic activity in Fonuafo'ou.
Natural Resources	Fish and fertile soil.
Major Products	Tonga has a narrow export base in agricultural goods. Squash, coconuts, bananas, and vanilla beans are the main crops.

1. Economic Overview

166. The Kingdom of Tonga consists of four main island groups located in the south Pacific (Polynesia sub-region). Tonga receives moderate levels of donor support (aid per capita averaging US\$205 over 1999-2002). Annual real GDP growth averaged slightly over 2 percent in 2001-04 (see Figure 12). The forecast for 2005 is for growth to increase to 2.8 percent, with agriculture as the main driver. Inflation for 2005 is projected to remain in double-digits due to higher commodity and oil prices and pressure on public finances.

167. Adverse external shocks, a sharp rise in public sector wages in 2000-01, and rising difficulties with tax administration and compliance led to a fiscal deficit of 3 percent of GDP in 2003. Smaller deficits of about 0.6 and 0.8 percent of GDP are projected for 2004 and 2005. Public debt declined from 56 percent of GDP in 2003 to an estimated 45 percent of GDP in mid-2004.

Figure 12. Growth in Tonga's Real GDP during 2000-06.

168. A less favorable trade balance led to a turnaround of the current account surplus of 5 percent of GDP in 2002 to a deficit of 3 percent of GDP in 2003. The current account was in surplus again in 2004 attributable to stronger income and transfer receipts. Foreign reserves are estimated to stand at five months of imports of goods and services in 2004.

169. Tonga's economy depends mainly on agriculture (squash being the leading export), fishing, tourism, and remittances. The agricultural sector (27 percent of GDP in 2003) was adversely affected by lower squash export prices and low fish catch rates (caused by poor regional weather conditions), with growth at below 1 percent in 2004. However, a moderate recovery in tuna fishing and higher output and price of squash are expected for 2005. The economy's heavy dependence on squash is evident in that low prices considerably affect the performance of the whole export sector. Consequently, the government has initiated trials of domestic production of various types of vegetables to diversify the export base.

170. Tourist receipts (7 percent of GDP in 2003) increased by 33 percent in the first half of 2004 compared with the corresponding period in the previous year. Officially recorded remittance flows of about 24 percent of GDP in 2003 from the estimated 100,000 Tongans living overseas far outweigh the earnings from commodity exports, tourism and other activities (unofficial remittances are thought to be of a similar order of magnitude).

2. Outlook

171. Although Tonga's small size and isolation present a challenge to economic development, much can still be done to promote a business environment which maximizes economic growth—as evidenced by the experience of other small island states. The government's commitment to economic reform and good governance will provide the basis to capitalize on the economy's medium-term growth prospects. Key steps include strengthening governance and accountability throughout the public sector, focusing government involvement in areas of comparative advantage, and promoting private sector development. Other areas that call for attention include managing the pressure for civil service wage increases, the importance of public enterprise reform to improve the efficiency of these enterprises and significantly reduce their share of the public

budget, improving public expenditure management to bolster education, health and basic infrastructure, and strengthening revenue performance through the reform of the tax system.

3. Key Issues Shaping the World Bank's Involvement

172. Since becoming a World Bank member in 1985, Tonga has received four IDA credits totaling US\$21.8 million, primarily in the health, hazard management, and finance sectors.

173. The World Bank has a growing partnership with the Kingdom of Tonga. With evidence that the government is keen to progress key reforms, the Bank is positioning itself to support these efforts. If Tonga can sustain momentum on its reform agenda, the Bank sees significant scope to provide additional financing, analytical, and technical assistance in the coming years to help the government implement its programs.

174. The Bank currently provides a range of advisory and analytical work, complemented by targeted activities in sectors that the government has identified as priorities. The Bank intends to partner with Tonga to strengthen government capabilities and facilitate MDG attainment as well as to enhance the domestic business climate. This would entail an expansion in the Bank's involvement from the health, natural hazard management and public procurement sectors to include education, transport sector reform and tackling regulatory impediments to private sector growth.

175. Tonga is eligible for IDA resources, likely to be grants under IDA14. The IDA14 allocation over FY2006-08 is expected to be SDR 3.4 million. This amount is indicative only. The actual amount will depend on (a) the country's own performance, (b) its performance relative to the performance of other IDA recipients, (c) the amount of overall resources available to IDA, and (d) the terms of financial assistance provided (grants versus loans). Subject to further discussions with the government, the allocation is likely to be focused on infrastructure (transport sector) or on public expenditure management priorities. The Bank's program of assistance to Tonga is described in Table 29.

Table 29. Summary of World Bank Assistance Program to Tonga

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening government capabilities in service delivery.</p> <p>Improving the effectiveness of public expenditures in the social sectors.</p>	<p>Improving health outcomes - Health Sector Support Project (US\$12.1m IDA credit; approved 07/24/2003; closing date 03/31/2009). Tonga spends more on healthcare than most other Pacific countries (about 8 percent of GDP), and has made significant progress in improving the health status of its population over the last two decades. The government sought assistance from the Bank to help address the growing challenge that Tonga faces from the increase in prevalence of noncommunicable conditions – especially diabetes and cardiovascular disease. The Bank is helping the government to improve the quality of health care on the most heavily populated island of Tongatapu. The project is also providing guidance on public expenditure management issues – such as health financing mechanisms and information systems – which support the government’s efforts on cost containment and the consideration of options for revenue-raising.</p> <p>Enhancing the quality and equity of the education system - Education Support Project (US\$1.0m IDA credit; US\$4.1m NZAID trust fund managed by the World Bank, project under preparation with expected Board Date 06/16/2005). While Tonga’s high-level education indicators are on first impressions positive, the government has growing concerns about the equity and quality of education, particularly for the more disadvantaged sections of society. Skills shortages in technical trades are increasingly reported by local businesses. Continuing movement of workers overseas (and the considerable remittances they return) is also focusing attention on the ability of Tonga’s education system to meet demand. The government has asked the Bank to lead on the development of an approach that will help to improve the quality and equity of the education system. Together with NZAID, the Bank is helping to structure a sectorwide approach (SWAp).</p> <p>Procurement Reforms and Capacity Development Grant (TA; IDF Grant US\$200,000). Support to implement public procurement reforms and procurement capacity building through technical assistance activities and in-country training.</p>	<ul style="list-style-type: none"> • Improved healthcare facilities to cope better with growing demands • Improved conditions and incentives for better and more equitable outcomes for year 1-8 students. • Legal framework for public procurement is established; improved capacity of the government officials in managing public procurement.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
Improving the public expenditure management of infrastructural assets.	<p>Transport, infrastructure and asset management reform (TA). Tonga's internal, regional and international transport linkages are critical to its economic development. Institutional arrangements in the transport sector, however, are fragmented and management capacity is weak. The government has committed to policy and institutional reforms in the sector, including possible corporatization or privatization of the international airport, the establishment of a new Ministry of Transport and future infrastructure investment. The Bank is providing analytical assistance in this area and is developing a Transport Sector Review that will provide the government with advice on reform alternatives. The Bank sees considerable potential for developing a longer-term partnership and financing in this sector.</p>	<ul style="list-style-type: none"> • Appropriate institutional structures, financing mechanisms, infrastructure development and maintenance priorities are identified and agreed.
Safeguarding service delivery by improving resilience to natural hazards.	<p>Managing the risks of natural hazards - Infrastructure Emergency Recovery Project (US\$5.85m IDA credit; approved 05/30/2002; closing date 12/21/2005). . Tonga's vulnerability to natural hazards was again highlighted in December, 2001, when Tropical Cyclone Waka caused widespread social, economic and environmental damage. The Bank provided emergency assistance for reconstruction through a US\$5.8 million IDA Credit, particularly for the more than 500 homes and schools which were destroyed or damaged. In addition to replacing and strengthening the resilience of infrastructure, the Bank is helping to upgrade Tonga's emergency and risk management capacity to ensure it can cope better with future disasters and the risk posed by climate change.</p>	<ul style="list-style-type: none"> • Nationwide resilience to natural hazards and the effects of climate change is improved. • Standard of living of those affected by the cyclone is recovered
<p>Improving the incentives for private sector growth and employment.</p> <p>Reducing the costs of doing business.</p>	<p>Tackling regulatory impediments to private sector development (TA, initiated 10/22/2004). . There is growing awareness of the importance of a business environment which is conducive to the private sector for stimulating economic growth and improving living standards. However, further efforts are needed to create such an environment. The government has asked for assistance to identify and remove the main regulatory roadblocks to private investment. A joint public-private task force will be created to oversee this process and facilitate greater dialogue between the private sector and government. The Bank is supporting this initiative by providing technical assistance and analytical support in cooperation with FIAS, building on the Doing Business initiative</p>	<ul style="list-style-type: none"> • Dialogue between Government and the private sector resulting in collaborative action to reduce obstacles to private sector development.

<i>Strategic Pillar & Focal Area</i>	<i>World Bank Activities</i>	<i>Expected Impacts</i>
<p>Strengthening the management and sustainability of the resource-based sectors.</p> <p>Improving access to regional labor markets.</p>	<p>Support for small to medium-sized enterprises (TA). The IFC program in Tonga will continue to be delivered by the Pacific Enterprise Development Facility (PEDF). PEDF, as in the past, will work on private sector development with a focus on small and medium enterprises (SME's), looking to identify opportunities for both IFC investment and advice.</p>	<ul style="list-style-type: none"> Improved conditions to enable domestic (and foreign) investment to occur more rapidly.

5. Donor Coordination

176. Table 30 describes the nature of the assistance provided by Tonga's other development partners.

Table 30. Activities of Other Development Partners

Development partner	Primary activities
ADB	<p>The Country Strategy and Program Paper for Tonga 2005-06 (published August 2004) concentrates on the following thematic areas: strengthening public sector management and public expenditure management; inclusive social development; promoting an enabling environment for private sector development as well as more specific support to sectors including: agriculture and natural resources; education; energy; health, nutrition and social protection; industry and trade and transport.</p> <p>Indicative country allocations for the period 2005-07 have been set at US\$10 million of ADF resources. Tonga also has limited access to the ADB's ordinary capital resources (US\$2 million will be available over the period 2005-07). One loan is proposed for 2006 (Urban Basic Social Infrastructure, US\$5.0 ADF credit). Two nonlending products are scheduled for 2005 (Institutional strengthening of the agricultural sector; and integrated urban development project) with a further three nonlending activities scheduled for 2006 (Implementation of agricultural sector road map; population study and; integrated urban services review).</p>
Australia	<p>Bilateral aid of around A\$9.8 million (2003-4) focused in the areas of: economic and public sector reform; governance; education and training; health management; solid waste management; private sector development, natural resource management; tourism and community development.</p>
European Union	<p>The EU's 9th European Development Fund (EDF) allocation to Tonga (indicative envelope Euro 5.7 million), will be targeted to the improvement of social services in the Vava'u group of islands (including Euro 3 million for the Vava'u Social Services Support Project). Euro 0.3 million will be allocated for a new microprojects program. Euro 2 million will be used for emergency reconstruction in the event of natural disasters, of which Euro 0.89 million of this amount has already been committed for rehabilitation following cyclones Ami and Eseta. Should no further funds be required for emergency activities, undisbursed funds will be added to the Vava'u Social Services Support Project.</p>
Japan	<p>The Ministry of Foreign Affairs (MOFA) provided US\$1.17 million in grant assistance to Tonga in FY03 (April 1, 2003 - March 31, 2004). In addition, JICA provides TA through a network of volunteers contributing to programs focusing on: human resource development, health, public services, natural resource management and economic growth. The Government of Japan has no active lending operations in Tonga at present.</p>
New Zealand	<p>NZAID is providing NZ\$5.66 million in aid to Tonga (representing approximately 4.6% of its total Pacific aid budget). A five-year strategy developed jointly with the Government of Tonga focuses on five areas: education and training; development in the outer islands; community development; support for sustainable livelihoods; support for good governance and public sector reform. Some assistance is also provided in the health sector.</p> <p>Current activities include support for the Tonga Education Support Programme; support for the Public Enterprise Division of the Ministry of Finance to help strengthen the reform of the public sector enterprise sector; judicial assistance; a small-scale community development fund; and a household solar electric power project on Niuafu'ou island. NZAID is also providing assistance in the upgrading of water supplies to three of the largest villages on Tongatapu, as well as upgrading 'Eua's water supply system.</p>
Others	<p>The following UN agencies have activities: FAO, ICAO, IFAD, IMO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WMO, WtrO (applicant), UNEP, ITC, UNFPA, UNICEF, UNDP</p>