

**JOINT ANNUAL REPORT  
2003**

**TONGA**

## **1. Executive Summary**

Article 5, Annex IV of the Cotonou Agreement requires that the National Authorising Officer and Head of Delegation shall annually undertake an operational review of the indicative programme and within 30 days of completion of review, draw up and submit a report to the Development Finance Committee.

This joint annual report for 2003 fulfils this reporting requirement.

Under Cotonou, the indicative financial allocation for Tonga is 3.7 million Euro for the "A" Envelope and 2.0 million Euro for the "B" envelope. The focal area of future EC-Tonga co-operation will be social sectors, through a social sector support programme, allocating 100% of the "A" envelope.

Implementation of the programme financed under Lome IV is proceeding. The PMU was established in 2002, and the final component of the infrastructure programme (fish market) is expected to be finalised in January 2004. Phase III of the microproject programme ended in February 2003 and was evaluated later in the year. Phase IV will start in 2004, upon completion of the Phase III audit. Finally, a co-financing with the World Bank for the construction of low-cost, cyclone-proof housing is under way.

## **2. Tonga's National Policy Agenda**

Based upon the "Strategic Development Plan N° VII, 2001-2003", the national economic development should be guided by the following major objectives:

- Efficient government sector, aiming at good governance and accountability;
- Sound and encouraging environment for the development of the private sector and its increased involvement in economic activities;
- Development benefits being distributed evenly;
- Well educated and skilled labour force, healthy population as well as development of the potential of youth;
- Low crime and guaranteed national security.

Overall national objectives are ambitious: to accomplish a stable economic and financial environment with less public, but more active private sector involvement and reduced reliance on official foreign assistance will indeed take time.

### **3. Analysis of the political, economic and social situation**

#### **3.1 Political situation**

Tonga is a constitutional monarchy. It differs from other Pacific countries in that, as a protectorate, it was never really colonised. Tonga is fully independent since 6 June 1970 and a member of the United Nations. The judiciary is independent.

Traditional values and indigenous culture are widely maintained in the society. Tonga is a politically stable country, dominated by a hierarchical structure and a rather homogeneous population. However, unprecedented – although peaceful – demonstrations took place in 2003 in response to the proposed new media laws, which control the right to publish and to sell printed media in the Kingdom. The European Commission, its member states and other partners are following these developments with a certain apprehension. Although recognising the need to respect the traditional values of the Tongan society, we are also aware of the extent of the new media laws and of the large numbers who demonstrated against them. Political dialogue with the Tongan authorities will continue to be pursued on this matter.

#### **3.1.1 Democratic participation**

Citizens do not, in principle, have the ability to change their leaders or the system of government. The King appoints the Prime Minister and Ministers until they retire, and presides over the Cabinet, which makes major policy decisions. Currently, the Cabinet is made up of nine ministers and two governors; it includes both nobles and commoners, who serve at the King's pleasure. The Legislative Assembly consists of the Cabinet, nine nobles elected by their peers, and nine people's representatives elected by the general population. The King appoints the Speaker from among the representatives of the nobles. The present system is fairly conservative, but the Prime Minister (the King's younger son) tries to bring more openness and democracy to the civil service, not without causing uneasy feelings. General elections were held on 7 March 2002 and 7 out of the nine people's representatives belong to the Tonga Human Rights and Democracy Movement which, during the year 2002, proposed an alternative structure of Government. The King did not consider this proposal. In 2003, constitutional amendments were passed in Parliament which restricted news reporting, particularly by foreign-owned publications.

#### **3.1.2 Human Rights**

There are no incidents of political or other extra judicial suppression. The Constitution, which dates back to 1875, forbids torture and inhuman punishment, and provides for a fair public trial, freedom of speech and of the press. The judiciary, whose top judges have been expatriates, is independent of the King and the executive branch. However, some 10,000 people took to the streets in 2003 to protest against proposed media laws, the substance of which was later endorsed by changes in the constitution.

### 3.2 Economic and Social situation

Basic economic data are summarised in the following table:

Population	101,000 (IMF 2001 est.), of which 33% in the capital
Land area	750 square kilometres, four groups of islands
EEZ	700,000 square kilometres
GDP per capita	US\$ 1,352 (IMF 2001/2002 est.)
GDP growth rate	1.6% (2002); ..... % (2003)
Inflation rate	10.4% (2001/02); 10.8% (2003)
GOT total revenue	T\$ 93.2 million (US\$ 41.6 million), 2001/2002 estimate
GOT total expenditure	T\$ 99.4 million (US\$ 44.3 million), 2001/2002 estimate
Exports (f.o.b.)	US\$ 11.8 million (2000/01); US\$ 17.8 million (2001/02)
Imports (f.o.b.)	US\$ 60.8 million (2000/01); US\$ 65.9 million (2001/02)
Total public debt	62% of GDP (2001/2002); external debt = 50% of GDP and domestic debt = 12% of GDP
Gross internat. reserves	1.75 months (September 2002)

#### 3.2.1 Economic situation, structure and performance

With a GDP per capita of US\$1,352 (IMF 2001/2002 est.), Tonga is in the lower middle-income group of countries, similar to most other countries in the region. However, there is growing concern over modest growth rates in the past years: 0.8% in 2000/2001, 1.6% in 2001/2002 and an estimated 1.9% for 2002/2003. The country remains extremely vulnerable, not only by reason of its remoteness, insularity and high susceptibility to environmental events and natural disasters, but also on its over-dependence on a single niche market.

The inflation rate rose to 10% in 2002 and was at a high level of 10.7% by the end of June 2003.

Tonga depends on primary sector activities and tourism. Agriculture accounts for 23.7 % of GDP and is dominated by production of domestic food crops and a narrow range of cash crops (squash, root crops, vanilla, and watermelons). Services account for nearly 47% of GDP, of which at least one-third is government activity in one form or another. Lack of economies of scale, limited capital and human resources, and physical isolation hinder the development of a strong manufacturing sector. Tonga's main commodity exports are squash (its exported variety is unique to Tonga) and fish. The potential in the fisheries sector is enormous. At present, production values vary between US\$ 3-8 million and only 7 or 8 licences are given out.

Emigration has played an important role in shaping economic activity. Nearly 80,000 ethnic Tongans are estimated to be residing overseas, with the majority in New Zealand, Australia and the USA. Overseas migrants come disproportionately from the highly educated segment of the population and are most likely to be in the productive age group. Cash remittances from overseas residents are estimated

in the order of TOP\$144 million per annum, or the equivalent of 40% of nominal GDP.

Substantial levels of official assistance have been provided to Tonga. During 1995-1998, external loans and grants averaged 17.5 % of GDP. Such flows have supported development of economic infrastructure and human resource services. Aid flows have also contributed to the build-up of a large public sector and to wage pressure in the formal sector.

### **3.2.2 Social Aspects**

According to official statistics, absolute poverty does not exist in Tonga. Traditional community-oriented lifestyles and strong extended family ties provide safety nets for most community and family members. Nevertheless, the official statistics mask some serious emerging problems (e.g. high urban concentration, unhealthy living conditions, malnutrition, migration and increasing criminality), with implications for social services, the labour market, and living standards.

### **3.2.3 Structure of the public sector and recent developments**

The public sector plays a dominant role in Tonga. Total central government revenue and grants have averaged about 30 % of GDP over the past five years, while total expenditure has been slightly higher. In addition, the public enterprise sector is large and diverse, comprising of enterprises engaged in a wide range of activities (e.g. utilities, tourism, transportation, banking, and fishing). As a result, the government is also a major employer in the economy.

The size of the public sector and its role in the economy remain major issues. Efforts are underway, through the Public Enterprise Reform Programme, to reform the public sector by privatising certain enterprises which are at present government-owned. Some progress has been made, but gains made continue to be offset by continuing heavy losses in other areas – notably by the continued support to the hugely unprofitable Royal Tongan Airlines.

Wages and salaries of the public sector accounted for 44 % of current expenditures and represented 14.8 % of GDP in 2001/02. This large share crowds out expenditures on purchases of essential goods and services, and limits the domestic resources available for capital investment. It is particularly relevant for economic growth over the medium term and for higher standards of living for the population that current and capital expenditures on productive and social sectors rise substantially more, while the amount spent on general public services has to decline.

### **3.3 External Environment**

#### **3.3.1 Balance of Payments**

Tonga's external balance of payments can be characterised by large trade deficits, workers' remittances and tourism receipts. While large trade deficit positions are not uncommon in small South Pacific countries, Tonga is unique in its heavy reliance on workers' remittances. External current account deficits have averaged 5-6% of GDP, largely financed by official inflows, comprising concessionary loans and grants. At June 2003, the current account deficit reached 7.3% of GDP.

#### **3.3.2 Merchandise Trade**

Squash, the main export item since the late 1980s, accounts for about 40 – 50% of total merchandise exports. Prospects for exporting more root crops and vanilla are not good due to high transportation costs and competition from other countries. To diversify its exports, Tonga is experimenting with other products such as kava, nonu leaves, and pearl farming. Tonga is also promoting the fishing industry as a new source of foreign exchange earnings.

### **3.4 Sustainability of Current Policies**

#### **3.4.1 Economic Development**

For an economically sustainable development it is crucial that the authorities conceive policies which favour the existing potential for economic growth, which reduce the public sector expenditure for services, which promote capital expenditure and create employment for the young and unemployed. This is a difficult and time-consuming task, but the Government has made first efforts in this direction and it is decided to continue.

#### **3.4.2 Unemployment**

Unemployment is an area of increasing concern, particularly youth unemployment. About 2000 school-leavers enter the labour force each year, of which an estimated 500 are able to find regular paid employment. Youth represents a substantial percentage of the unskilled and untrained labour force. This suggests a need to better coordinate the education system and the needs of the labour market. Public sector reform may also lead to an increase in job losses in the longer term, which will place additional strain on the private sector to re-employ immediately those made redundant. However, the Government will focus on core functions, to improve the quality and performance of essential services, and to create additional private sector opportunities to take over activities formerly undertaken by the Government. This trend is anticipated to provide for additional employment opportunities and to increase the probability of more sustainable economic development - if the labour market is able to supply the adequate staff with the appropriate training.

This suggests a need for a re-orientation of education policy and strategy at all levels, and in particular at the level of primary education and vocational training - levels on which the 9<sup>th</sup> EDF cooperation programme for Tonga will focus.

### **3.4.3 Gender Issues**

The Pacific Human Development Report (UNDP 1999) reveals that the Human Development Index (HDI) for females in Tonga is 6% higher than for males. This largely reflects the higher life expectancy of 71 years for women, compared with 65 years for men. Women's status as measured by the Human Poverty Index (HPI) is also slightly higher than men's.

The status of women in Tongan society is inextricably linked to the highly stratified feudal order that lies at the heart of this constitutional monarchy. Women in Tonga have traditionally had a nominal status generally superior to that of men, but this status has gradually been declining as a result of demographic and social changes. Rapid urbanisation has also seen a decline in traditional values, and one consequence of large-scale international migration is that women are often left behind to manage as single parents.

### **3.4.4. Environment**

Tonga's limited land resources in conjunction with high population growth rates in urban centres have put considerable pressure on the country's natural resources and worsened its environmental problems. Due to limited land resources, mangrove forests have been cleared and filled to make home sites. Conversion of forest land for agricultural purposes in the past has virtually destroyed Tonga's entire indigenous forestry resources with the remaining area of natural hardwood forest being estimated at about 4,000 hectares, most of which is located on steep and inaccessible areas of 'Eua island.

### **3.4.5 Governance: Sound Development Management**

As noted earlier, Tonga's constitutional monarchy represents a unique political system in the Pacific region. The fact having never been colonised has given strength to the country's aristocratic system and cultural values over the years, but pressure to match ongoing economic reform with political reform is now growing. The government has embarked on an integrated economic and public service reform programme. The four core legislative changes, which form the foundation of the reform, namely the Public Finance Management Act, the Public Enterprise Act, the Revenue Administration Act and the Public Service Act was approved by Parliament in November 2002. These four pieces of legislation form the foundation for restructuring the public sector and refocusing on private sector -led growth. The core legislation was complemented by the approval by Parliament of the Foreign Investment Act and the Business Licence Act.

With the approval of the Public Service Act, the government is implementing far reaching changes which will improve productivity and efficiency. The Public

Service Commissioners have been appointed, and the Commission is implementing a work programme which will cover the following:

- Heads of departments to be placed on employment contracts from 1<sup>st</sup> July 2003;
- The delegation of powers of appointment and promotion over remaining occupational groups;
- Service wide job evaluation exercise to ensure that the remuneration structure is appropriate

The ultimate objective is to improve the quality of Government services and to create an enabling environment in which the private sector can expand and so create new employment opportunities.

At the same time, the government has approved the appointment of a higher salaries review committee of independent members who are tasked with advising the government on the pay and pension and allowances of Ministers, holders of judicial office; senior civil servants; senior officers of the armed forces; senior officers of the police force and other such public appointments as may from time to time be specified.

Tax Reform: During the 2003 session of the Legislative Assembly five bills were approved with regards to tax reform:

1. Tonga Consumption Tax Act
2. Repeal of Port and Services Tax Act
3. Repeal of Sales Tax Act
4. Repeal of Fuel Sales Tax Act, and
5. Revenue Administration (Amendment) Act

The new tax reform programme has the following characteristics:

- (i) a minimum number of broad based taxes;
- (ii) fairness and equity across all;
- (iii) sectors of the taxpayer base;
- (iv) transparency, clarity and simplicity of law;
- (v) simple and cost effective administration (both taxpayer and revenue administration); and
- (vi) a system suitable to the development of Tonga.

#### **4. Overview of past and on-going cooperation in the Region**

The regional allocation amounts to € 29 million and includes three focal sectors “Economic Integration and Trade” (€ 9 million), “Human Resources Development” (€8 million) and “Fisheries” (€ 5 million) and a non-focal sector, for extension of the 8<sup>th</sup> EDF programmes to the 6 new ACP countries (€ 7



million). The RSP was signed in 2002 by Commissioner Nielson, during his first visit to the Pacific.

- **“Regional Economic Integration Programme” (REIP) - € 9.2 million**

The programme aims to assist the region in strengthening its capacity to implement PICTA (free trade area among the Pacific island countries), negotiate trade agreements with developed partners (eg.: EPA), participate in multilateral trade negotiations (WTO) and assist the private sector in addressing supply-side constraints.

The EDF approved the programme in its November meeting and at the end of the year the Financing Agreement had been finalised. It will be officially signed, together with the Contribution Agreement, by the RAO and the Commissioner during his visit to Fiji in February 2004. Disbursements will start immediately after. This schedule matches last year’s forecasts, which had indicated early 2004 for start of implementation.

- **“Human Resources Development” (HRD) – PRIDE programme - € 8 million**

The objective of the programme is two-pronged: to assist Pacific island countries (PICs) in developing a sector-wide strategy for Education and subsequently to finance the implementation of some parts of that strategy. Most PICs have identified Education as a focal sector in their NIP and a number of other donors are very active in the sector in all of them. Therefore the parts of the strategies that have a more national character will be implemented with national funding (both governments’ own resources and donors’) and those that have the capacity to be shared by the region can be selected for funding by this programme. The programme is implemented by the Institute of Education of the University of the South Pacific.

The financing proposal was finalised during 2003 and approved by the EDF Committee in September. Both the Financing Agreement and Contribution Agreement were signed in Suva in November.

A very positive development occurred during 2003: at the invitation of the Pacific Island Countries, led by Samoa, and with the consent of the Commission, NZAid agreed to provide funding for PRIDE, to the tune of NZD 5 million for three years, with the possibility of additional funding after that. This allowed USP to proceed with the recruitment of the project management team during the second half of 2003. At the end of the year all but one element of the team have been selected and all have either ACP or EU nationality. USP is also finalizing works in the PRIDE office building. The team will start working in February 2004.

Implementation of this programme went faster than expected: we had forecasted implementation to start early 2004, but at the end of 2003 almost all the team has already been selected and works in the office are almost completed.

- **“Fisheries” - € 5 million**

This section will be composed of two projects:

a) Extension of PROCFISH to the 6 new ACPs - €1.997 million  
The complementary financing proposal was approved. The Financing Agreement will be signed in February 2004, during Commissioner Nielson’s visit to Fiji, for immediate implementation (cf. 8<sup>th</sup> EDF, below, for further details on PROCFISH).

b) DEV FISH, a project to be managed by the Forum Fisheries Agency (FFA) in collaboration with the Secretariat of the Pacific Community (SPC) - €3 million

The objective of the project is to increase the benefits received by PICs from sustainable use of marine resources, by increasing the capacity of PICs to directly participate in the tuna fishing and processing industry, and reinforcing national and regional policies and strategies for the sector.

mid-2004. Implementation should start immediately after.

- **Non-focal sector - € 7 million**

The non-focal sector is composed of extensions for the new 6 ACP countries and the Palau Festival of Arts:

a) All extensions refer to the participation of the 6 new ACP countries (Cook Islands, Federated States of Micronesia, Nauru, Niue, Palau and the Republic of the Marshall Islands), which cannot benefit from 8<sup>th</sup> EDF funding, in projects recently approved and financed under the 8<sup>th</sup> EDF. Three extension proposals were approved during 2003 and one other is being finalised, as per the table below.

PROJECT	EURO Millions	EDF SOURCE	STATUS
SPC/DSAP ext.	1.981	9th NF	Approved. FA to be signed by Com. Nielson in Feb 2004
SPC/PPP ext.	1.512	9th NF	Approved. FA to be signed by Com. Nielson in Feb 2004
SOPAC ext.	2.55	9th NF	Approved. FA to be signed during the first quarter of 2004
SPREP/PIEN ext.	0.56	9th NF	being finalised by HQ in view of a decision by mid-2004

b) The **Palau Festival of Arts** is a co-financing with the Pacific OCT: € 330.000 from the 9<sup>th</sup> EDF RIP (including balances of previous EDFs, transferred into the 9<sup>th</sup>) and € 250.000 from the OCTs. The RIP part will finance the

purchase of sound and light equipment, its installation and training of Festival staff for its operation. The OCT part will finance lodging, local transport and catering for the participants from the French Pacific territories. The Festival will take place in Palau in July 2004 and the organisation wanted to start tendering for the sound and light equipment in November 2003.

The financing proposal was presented to the Delegation in May 2003 and, after further processing, to AIDCO at the end of the same month. Staff rotations in headquarters and the usual difficulties in coordinating funding from different sources resulted in serious delays. Approval is expected at the end of the first quarter of 2004.

#### **8<sup>th</sup> EDF and balances of previous EDFs**

At the end of 2003 all 8<sup>th</sup> EDF and most balances of previous EDFs are committed. The second phase of the TA to the RAO project (€1.3 million), financed from 6<sup>th</sup> and 7<sup>th</sup> EDF balances, starts implementation on January 1<sup>st</sup> 2004, the day after the previous team ends its contract. The 8<sup>th</sup> EDF is advancing according to schedule, a table providing information on each project's progress in annexed.

A total of €461.779,83, from previous EDFs, was added to the 9<sup>th</sup> EDF allocation. Once all the projects identified above have been approved only €330.000 will remain uncommitted. This will be used for any necessary studies, in particular in view of preparing financing proposals to substantiate the RAO's intention to request additional funding during the mid-term review of the 9<sup>th</sup> EDF.

### **4.1. NIP Focal sectors**

Since Lome III, the EU programme has focussed as core donor on the development of the Vava'u Group of islands. This approach of integrated regional development and the concentration of core donors in each of the regional groupings have ensured that there are funds available for concerted development efforts. The Vava'u Region has benefited from a total of € 15.8 million EU funds to its development over the last fifteen years (EDF 6, 7 and 8). Under a three-phase programme funds were spent especially for infrastructure, energy and agricultural projects, but no activities in the social sectors of the Group. After the first phase of the Vava'u Development Programme (VDP) implemented in 1997/98, a second phase (VDP II) confirmed the benefits of this approach for both, the target groups and the donor organisation. The financing decision for the continuation of the Programme (VDP III) was taken by the Commission in June 2001 and implementation has started.

#### **4.1.1 9<sup>th</sup> EDF NIP Focal sector – Vava'u Social Sector Support Programme**

The CSP foresees the allocation of 100% of the NIP, i.e. €3.7 million for the enhancement of social services in Vava'u, including participation of the NSA. This will be implemented through: (1) a new Microprojects programme (€0.7

million + €0.3 million from balances) and (2) the Vava'u Social Sector Support Programme (€3 million).

**a) Results – Vava'u Social Sector Support Programme**

The financing proposal was approved by the EDF Committee in September 2003, and a financing decision was subsequently taken by the Commission in November.

The programme focuses on Education, Health and Sanitation, on the Vava'u group of islands, in the North of Tonga. It will be implemented by the responsible Ministries, in line with the outcomes of the Education and Health sector reforms that are being elaborated by the government of Tonga with support from several donors (NZAid, ADB, World Bank, EU). The programme will be implemented through programmes-estimates and will support the government of Tonga's initiatives in improving the delivery of services in the above areas, including structural improvements, provision of essential medical and educational equipment and supplies, sanitation operations and related public awareness campaigns.

**b) Progress in activities**

The financing proposal was drafted by the Delegation during the first quarter of 2003 and approved by the EDF Committee in September.

The GoT is currently preparing the first programme-estimate, which will run until the end of the current budget year, i.e. 30 June 2004. The Financing Agreement and the first programme-estimate will be signed in Nuku'alofa on the same occasion, during the 1<sup>st</sup> quarter of 2004. Disbursements will start immediately after. This schedule is in line with the forecasts presented in the CSP and in the 2002 Joint Annual Report.

**8<sup>th</sup> EDF – Vava'u Development Programme III**

The 8<sup>th</sup> EDF's NIP envisaged interventions aimed at increasing the production of goods and services, in particular in the sectors of agriculture, fisheries and tourism.

**a) Results**

In 2003, several important contracts under the VDP III programme were finalised, which enabled the start of the disbursement of funds. Significant progress was achieved in the 3 sectors of the programme.

**b) Progress in activities**

In 2003, the Project Management Unit from Agristudio went on with the implementation of the VDP III programme, which consisted in tendering and conclusion of new infrastructure contracts, supervision of the related works

contracts and administration of the work programme for activities in agriculture, fisheries and tourism.

The works contract for the main infrastructure development was signed in April 2003 with the contractor Fletcher Construction, for an amount of € 1.8 million and a duration of 15 months. The works, including a small boat area and a new fisheries wharf, are scheduled to be finished in May 2004. To conclude the infrastructural component of the programme, a final tender was launched for a fish market in October 2003. The contract for the works is expected to be finalised in January 2004

The tourism road component of the project (€ 406,000), concluded under a Work Plan and Cost Estimate with the Ministry of Works, was finished in June 2003. Two other Work Plan and Cost Estimates were drawn with the Ministry of Works in 2003: extension of the tourism roads (€ 76,000) and roads providing access to the Vava'u refuse initiative (€ 117,000).

The PMU achieved an important progress in the implementation of its own work programme. The work programme for year one (€ 419,000) was achieved in July 2003. The work programme for year 2 was signed in September 2003 for an amount of € 381,000.

The key figures for the project are as follows (31/12/2003):

Primary Commitment:	5,200,000
Secondary Commitment:	3,795,000
Disbursed:	1,612,000

#### **4.2 Projects and programmes outside focal sectors**

- A financing agreement for € 0.89 million was signed in October 2003 following cyclones Ami and Eseta, which both stroke Tonga in 2003. The funds, from 9<sup>th</sup> EDF envelope B, will be used to reimburse retroactively the repairs of the Ferry Olovaha, which ensures transport between Tongatapu and Vava'u, together with the rehabilitation of the wharf in Eua, which was badly damaged after cyclone Eseta. For the moment, no funds have been disbursed yet. The reimbursement of the ferry is awaiting an audit, while the rehabilitation works are dependent from the design, which is to be carried out by Ministry of Works.

- The EU portion (€ 532,169) of the cofinancing of a World Bank Project was completed in 2003. The funds have been used for the construction of cyclone resistant housing.

- The last project outside focal sector is a Microprojects Programme, the implementation of which was completed in February 2003, following a short extension. The project was supported by a microproject unit, based in Vava'u, and

financed microprojects not only in the geographical area of concentration in Vava'u, but also in other part of the country. The projects were focusing on 4 areas: health, education, water and sanitation and transport. A final evaluation was completed in October 2003, giving recommendations on areas of action for the 9<sup>th</sup> EDF programme. The project is still to be audited before closure.

The key figures of the project are:

Primary Commitment: 1,000,000  
 Secondary Commitment: 1,000,000  
 Disbursement: 597,000

## 5. Programming perspectives for the following years

Vava'u Social Sector Support	2004	2005	2006	2007
Commitments (in € million)	1	1	1	0.75
Disbursements (in € million)	0.75	0.75	0.75	0.75
<b>Total (cumulative)</b>	<b>0.75</b>	<b>1.5</b>	<b>2.25</b>	<b>3.0</b>

Fisheries, tourism, trade and disaster preparedness are areas of particular relevance in the context of Tonga-EU cooperation. All received support under the 8<sup>th</sup> and 9<sup>th</sup> EDF regional programme referred to above (4).

Of particular relevance for Tonga is the link between the NIP and PRIDE, the programme financed under the second focal sector (HRD) of the 9<sup>th</sup> EDF RIP. It is expected that Tonga will benefit from the regional programme to strengthen its Education planning capacity and strategy for the sector. The timing of the regional programmes fits in well with the country's on-going reform of the Education sector. Tonga can also benefit from regional funding for implementation of some aspects of the strategy and, most importantly, will benefit from the building of a pool of knowledge on Pacific Education reforms, allowing for the sharing of good practices and for learning from other countries' experiences.

## 6. 2003 Annual Operational Reviews – specific themes

### 6.1 The speeding up of the use of old EDF Resources

The financial overview at the end of 2003 (annex 1) provides the necessary information about completed and ongoing projects. 2 programmes are still open under the 7<sup>th</sup> EDF. All the 8<sup>th</sup> EDF programmes are classified as ongoing at the end of 2002. Two of them are about to be closed: the Microproject programme under Lome IV bis, which will undergo an audit in 2004 and the cofinancing with

the World Bank. The feasibility study for the Lupepau'u airport should be also closed in 2004.

## **6.2 Setting indicators and targets for measuring poverty reduction and results in focal sectors**

### **6.2.1 Indicators for measuring poverty reduction**

In March 2003, the government of Tonga attended a Pacific Regional Workshop on Millennium Development Goals. During that meeting, two issues were addressed:

- To assess how the country has achieved the targets specified in the MDG.
- To develop a draft National Action Plan for the Millennium Development Goals.

For this occasion, ADB compiled a document explaining that Tonga has already achieved several of the targets specified in the MDG. It has a very high literacy rate and high primary and secondary enrolment ratios. Health indicators have been steadily improving, but there is a rapid increase in non-communicable diseases. Available data suggest that access to safe water and sanitation is widespread. There are, however, signs of rising unemployment and a rural-urban drift towards main islands. Efforts need to be strengthened to ensure that all parts of the population have access to essential basic social services and quality education (ADB, 2003).

The main activities the government is planning to undertake by the end of 2004 are (see annex 2):

- Aligning the MDG with National Development Strategies
- Tailoring the targets and indicators
- Creating a MDG taskforce that is going to organize data collection, data analysis and eventually publication of the MDG report.
- Finally create national awareness about the MDG.

At this occasion, it is important to note that the Commission has also worked jointly with Member States and international organizations to define a short set of indicators (see annex 3) drawn from the MDG, that should be monitored across all countries to give a comparable overview of progress towards poverty reduction. It will be interesting that the MDG taskforce of Tonga integrates these indicators before June 2003, deadline for the Tongan "tailoring of indicators".

### **6.2.2 Indicators for measuring results in focal sectors**

The Vava'u Social Sector Support Programme will have two types of indicators:

- impact indicators - long-term indicators based on the objectives of the Tonga sector strategies for education and health. They shall be measured at the end of the programme as part of the final evaluation.

For **education** two impact indicators have been identified. The source of verification for both will be MoE statistics (collected annually):

**1. Reduce the rate of repeaters for class 6**

In 2000 this was 1024 (182 in Vava'u) out of a total 15337 students (rate: 6.677%) and in 2001 it was 1016 (no data available for Vava'u) out of 15467 (rate: 6.567%). MoE aims to reduce the rate of class 6 repeaters by 10% up to the end of this programme, bringing it close to 6%.

**2. Increased achievement rate at the end of secondary school**

In 2001 the national average for the "Pacific Senior Secondary Certificate Examination" was 60%. MoE aims to improve this by nearly 10% and bring the national average close to 65% by the end of the programme.

For **health** also two impact indicators have been identified and the source of verification for both will be MoH statistics (collected on a regular basis and compiled annually):

**1. Greater accessibility of primary health service, bringing health care closer to the people**

By the end of the programme all the four health outposts in Vava'u (two in the main island – Ta'anea and Tefisi - and two in small islands – Falevai and Hunga) will be renewed, equipped and staffed by at least one nurse.

**2. Decrease by 5% in the number of non-communicable diseases in the Vava'u health district, through improved health services, and public awareness campaigns.**

- Short-term indicators will be identified annually as part of the programme-estimates and will stem directly from the activities identified (eg. so many schools/clinics refurbished and equipped, so many houses for education/health staff built, etc.)

### **6.3 Dialogue in-country with the Office of the NAO and non-State actors**

There has been a constant dialogue between the Office of the NAO and the Delegation during 2003. It is recognised that the heavy workload of the NAO's office has contributed to delays, in particular in what concerns the finalisation of the Annual Work Programme of the 9<sup>th</sup> EDF. By the end of the year advertisements had been sent out for the position of programme manager of the 9<sup>th</sup> EDF programme, to assist with the preparation of the AWP, as well as with supervision of the implementation of the programme.

As concerns the 9<sup>th</sup> EDF and the involvement of the NSA, the system has been working satisfactorily. A Civil Society Forum of Tonga was constituted to bring



the NSA into the Cotonou process and the Friendly Islands Teachers' Association provides its secretariat. The NSA have been invited to participate in all relevant discussions and decision points and on the occasion of missions. The Vava'u Social Sector Support Programme includes an allocation for the NSA equal to 10% of the programme total.

## 7. Conclusions

The Kingdom of Tonga is the only constitutional monarchy in the Pacific, with a population of 101,000 people. Nearly 80,000 ethnic Tongans are also estimated to be residing overseas, the majority in New Zealand, Australia and the USA. The Kingdom covers nearly a thousand times more sea than land. The recent high population growth rates in urban centres and the rural-urban drift towards main islands have put considerable pressure on the country's natural resources and created environmental problems.

Tonga differs from other Pacific countries in that, as a protectorate, it was never really colonised. The country has been fully independent since 6 June 1970. It has traditionally been, and still is, a politically stable country, dominated by a hierarchical structure and a homogeneous population. The potential for violent conflicts is minimal at present, although there are indications that popular pressure for political reform is on the rise. Traditional values and indigenous culture remain strong, with relationships based on a community-oriented lifestyle and on strong extended family ties.

Macroeconomic performance has fluctuated in Tonga in recent years. Economic growth has been sluggish. Estimates of higher growth, of 1.9%, are envisaged for 2002/2003. Inflation rates over 10% are high and budget deficits continue. Unemployment has become an area of increasing concern, particularly among youths, who represent a substantial percentage of unskilled and untrained labour force.

To improve the economic performance, Tonga's government set up a Strategic Development Plan 2001-2003, the objectives of which are to accomplish a stable economic and financial environment with less public and more private sector involvement and reduced reliance on official foreign assistance. A comprehensive and integrated economic and public service reform programme was launched in 2001 and implementation commenced in mid-2002, with major funding being provided through a loan from the ADB. Six major pieces of legislation form the foundation of the reform that was passed during the 2002 Parliamentary Session. Five supporting pieces of legislation were also approved in 2003 targeted specifically at Tax Reform. The improvement of the economic situation will take time. Government has many challenges, which have to be addressed, including the rationalisation of the civil service, the review of the level and composition of public expenditure and revenues as well as the observation of more budgetary discipline.

Other indicators are nonetheless positive for Tonga: according to a report recently compiled by ADB, the country has already achieved (or almost achieved) several of the targets specified in the MDG. It has a very high literacy rate and high primary and secondary enrolment ratios. Health indicators have been steadily improving, although there is a worrying increase in non-communicable diseases. Available data suggest that access to safe water and sanitation is widespread. Efforts need to be strengthened to

ensure that all parts of the population have access to basic social services and quality education.

Development co-operation continues to be crucial to the development of the Tongan economy. The Kingdom is almost completely reliant on donor funds for infrastructure and provision of technical assistance for human resource development. Since 1975 (first Lome Convention), Tonga has been signatory to all of the Lome Conventions covering a twenty-five year period. Through the various instruments of the Conventions, it has received a sizeable amount of grant and (concessionary) loan funding. The total allocation to Tonga's National Indicative Programmes (NIP) under the successive Lome Conventions alone amounts to € 26.8 million.

Since Lome III, the European Union has focused as core donor on the development of the Vava'u Group of islands. Under a three-phase programme, funds were spent especially for infrastructure, energy and agricultural projects, but no activities in the social sectors of the Group. The 8<sup>th</sup> EDF NIP envisaged solutions aimed at increasing the production of goods and services in the sectors of agriculture, fisheries and tourism. The actual implementation of the projects is proceeding, with the fielding of a Project Management Unit, the negotiation of the contract on the infrastructure works, the construction of a tourism road and the implementation of several project activities by the PMU under a work programme. Overall, the disbursements in 2002 were low, mainly due to the delay caused by the unsuccessful tender for works. Expenditures picked up substantially in 2003 with the award of the main works contract to Fletcher Construction for an amount of 1.8 million Euros. Outside the focal sector, the Microprojects Programme, involving projects in areas like education, water supply, village roads and health, was completed in February 2003. An evaluation of the Microproject Programme was carried out during the year. Continuation of the Microproject Programme has been held in abeyance pending the completion of the Auditing work on the Phase III Microproject programme.

Today, the 9<sup>th</sup> EDF cooperation between Tonga and the European Union is shifting from infrastructure development to improvement of the delivery of social services in Vava'u, including the participation of the Non State Actors (NSA). The NIP foresees the allocation of € 3 million for the Vava'u Social Sector Support Programme and € 0.7 million for a new Microproject Programme (+ € 0.3 million from balances). This programme is in line with the outcomes of the Education and Health sectors reforms that are being drawn up by the government of Tonga with support from several other donors. The programme will directly help to ensure that the population has better access to essential social services and quality education and will work towards improving the targets set in the MDG.

Initial meetings with the NSA have been well attended and they have been accepted by government as a full partner in the context of Cotonou.

**ANNEX 1: Financial Overview 2003, Situation as of 31.12.2003 (€ million)**

<b>A</b>	<b>Available Funds</b>	<b>1975-1980</b>	<b>1980-1985</b>	<b>1985-1990</b>	<b>1990-1995</b>	<b>1995-2000</b>	<b>2002-2007</b>	<b>Total</b>
		<b>(Lomé I)</b>	<b>(Lomé II)</b>	<b>(Lomé III)</b>	<b>(Lomé IV)</b>	<b>(Lomé IV bis)</b>	<b>Cotonou</b>	
	NIP	3,20	4,1	6,5	6,0	7,0	3,7	30,5
	Stabex	1,20	4,0	4,0	2,0	0,37		11,6
	NGO's, Cyclone aid	0,10	1,4			0,14		1,6
	EIB		2,3	3,8	5,7			11,8
	<b>total</b>	<b>4,5</b>	<b>11,8</b>	<b>14,3</b>	<b>13,7</b>	<b>7,5</b>	<b>3,7</b>	<b>55,5</b>
<b>B</b>	<b>Disbursed Funds</b>	<b>1975-1980</b>	<b>1980-1985</b>	<b>1985-1990</b>	<b>1990-1995</b>	<b>1995-2000</b>	<b>2002-2007</b>	<b>Total</b>
		<b>(Lomé I)</b>	<b>(Lomé II)</b>	<b>(Lomé III)</b>	<b>(Lomé IV)</b>	<b>(Lomé IV bis)</b>	<b>Cotonou</b>	
	NIP	3,2	4,1	6,4	5,05	1,0		19,8
	Stabex	1,2	4,0	4,0	1,9	0,4		11,5
	NGO's, Cyclone aid	0,1	1,4					1,5
	EIB		2,3	3,8	5,7			11,8
	<b>total</b>	<b>4,5</b>	<b>11,8</b>	<b>14,2</b>	<b>12,7</b>	<b>1,4</b>	<b>0,0</b>	<b>44,6</b>
<b>C</b>	<b>Projects under 1990-1995 (Lomé IV) NIP</b>							
	<b>Project title</b>	<b>Allocated</b>	<b>Disbursed</b>	<b>Status</b>				
	Training in PCM	0,01	0,01	Completed				
	Multannual Microproject Prog - Vava U	0,50	0,31	Ongoing				
	TA to NAO	0,10	0,10	Completed				
	Neiafu Harbour Improvement - design	0,06	0,06	Completed				
	Neiafu Water Supply - Survey	0,04	0,04	Completed				
	Fua'amotu Airport Project	0,27	0,27	Completed				
	Vava'U Development Programme Phase II	5,00	4,23	Ongoing				
	<b>TOTAL</b>	<b>6,0</b>	<b>5,0</b>					
<b>D</b>	<b>Projects under 1995-2000 (Lomé IV bis)</b>							
	<b>Project title</b>	<b>Allocated</b>	<b>Disbursed</b>	<b>Status</b>				
	Vava'U Development Programme Phase III	0,30	0,27	Completed				Identificat. Study
	Microproject Prog	1,00	0,59	Completed				
	Vava'U Development Programme Phase III	5,20	1,61	Ongoing				
	Feasibility study – Lupepau'u Airport	0,08	0,05	Ongoing				
	<b>TOTAL</b>	<b>6,6</b>	<b>2,5</b>					
<b>E</b>	<b>Projects under 2002-2007 (Cotonou) NIP</b>							
	<b>Project title</b>	<b>Allocated</b>	<b>Disbursed</b>	<b>Status</b>				
	Vava'u Social Sector Support Programme	3,0		Ongoing				
	Post Cycl. Rehab.Progr.	0,89		Ongoing				

**ANNEX 2: Proposed National Action Plan TONGA  
(March 2003-December 2004)**

Strategies	Activities	Timeline	Lead Agency (Ministry/Department)	Comments (incl. resource requirements)
1. Achieving MDGs	Aligning the MDGs with National Development Strategies/Plans  Tailoring the targets & indicators  ➤ <i>Obtaining Government approval</i>	June 2003	Ministry of Foreign Affairs (Central Planning Dept, National Statistics Office, Ministry of Finance and NGOs)	
2. Monitoring and Reporting	➤ MDG Taskforce  ➤ Data Collection/Collating  ➤ Data Analysis	July 2003  August 2003 through to November 2004	Central Planning Dept  National Statistics Office	Need:  ➤ Technical Assistance ➤ Grants ➤ Domestic budget allocation
3. Campaign/Advocacy	National awareness  ➤ Public ➤ Private ➤ Others	March 2003 through to December 2004	MDG Taskforce	Need:  ➤ Financial resources

### ANNEX 3: MDG indicators selected by the EU

Indicators	( <b>%</b> )			
	1990	1995	2001	2002
<b>Impact indicators</b>				
1. Proportion of population below \$1 per day	-	-	-	-
2. Prevalence of underweight children (under 5 years of age)	-	-	-	-
3. Under-five mortality rate	27.0	25.6	20.0	20.0
<b>Outcome</b>				
4. Net enrolment ratio in primary education	-	-	91.5	-
5. Primary Completion Rate	-	-	-	-
6. Ratio of girls to boys in primary, secondary and tertiary education	92.1	91.1	102.0	-
7. Proportion of births attended by skilled health personnel	92.0	-	-	-
8. Proportion of 1 year old children immunised against measles	-	-	93.0	-
9. HIV prevalence among 15-24 year old pregnant women	-	-	-	-
10. Proportion of population with sustainable access to an improved water source	-	-	-	-