

ASIAN DEVELOPMENT BANK & TONGA

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A F A C T S H E E T

The Pacific nation of Tonga has made progress toward achieving many of the targets in the internationally agreed Millennium Development Goals (MDGs) for poverty reduction. Steadily improving general health indicators join high literacy rates and good school enrollment ratios, although lifestyle diseases have increased rapidly. Against this progress, social services in Nuku'alofa are deteriorating and sanitation, drainage, roads, and waste disposal are in need of attention. Some 23% of Tongan households are estimated to experience periodic difficulties in meeting their basic needs. There are signs of rising rural-urban drift toward the main islands, attributed to a lack of income-generating opportunities and traditional obligations that some find burdensome.

The economic scenario is characterized by deteriorating fiscal and balance of payments positions, which have implications for the delivery of basic services and the restructuring of the civil service. Political reforms are being carried out through the consultation work of the National Committee on the Kingdom of Tonga on Political Reform, which will report at the end of August 2006.

At the beginning of 2006, the Government was in the final stage of preparing its Eighth Strategic Development Plan (SDP8). Objectives established include the creation of a better governance environment, macroeconomic stability, promotion of sustainable private sector led economic growth, equitable distribution of benefits of growth, and improved health and education standards. Ensuring environmental sustainability and disaster risk reduction, and the maintenance of social cohesion and cultural identity also feature in the Plan.

Relationship with ADB

The Asian Development Bank (ADB) changed its operational emphasis in 1992 when technical assistance (TA) began to focus on macroeconomic policies, the investment climate, and public sector performance. Progress has been relatively slow in implementing the reform activities emanating from these TAs. Tonga has received \$57.79 million in loans since joining ADB in 1972.

Table 1. Tonga: Development Indicators

• Population	0.102 million (2005) 0.39% growth per annum (1990–2005)
• National poverty rate	22.3% (2002)
• Population living on less than \$1 a day	4% (2001)
• Under-5 mortality rate per 1,000 live births	27 (1990) 25 (2004)
• Adult literacy rate	98.9% (2000–2004)*
• Population in urban areas	Data not available
• Population with access to improved drinking water sources	31.2% (1990) 32.7% (2002)

* No single-year data is available. Data taken from UNESCO Institute for Statistics website.

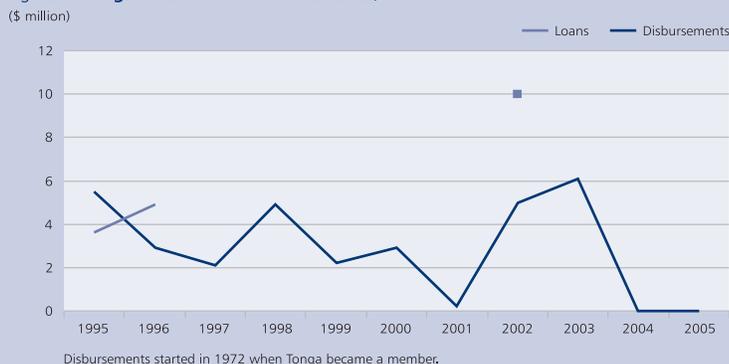
Sources: ADB. 2006. *Basic Statistics 2006*. Manila. ADB Statistical Database System. Manila.

Table 2. Tonga: Economic Indicators, 2001–2005

Economic Indicator	2001	2002	2003	2004	2005
Per capita GNI (\$)	1,500	1,430	1,510	1,830	...
GDP growth (% change per year)	2.6	3.0	3.2	1.6	2.5
CPI (% change per year)	8.3	10.4	11.6	11.0	8.0
Unemployment rate (%)
Fiscal balance (% of GDP)	-1.6	-1.5	-3.2	1.4	...
Export growth (% change per year)	9.5	49.0	-1.1	-21.2	15.9
Import growth (% change per year)	-1.6	-0.3	21.1	11.5	27.5
Current account (% of GDP)	-9.5	5.1	-3.1	4.2	...
External debt (% of GNI)	41.0	49.9	49.5

... = Data not available, CPI = consumer price index, GDP = gross domestic product, GNI = gross national income. Sources: ADB. 2006. *Asian Development Outlook 2006*. Manila. ADB Statistical Database System. Manila.

Figure 1. Tonga: Loans and Disbursements, 1995–2005



Cumulative Lending (as of Dec 2005) \$57.8 million

Cumulative Disbursements (as of Dec 2005) \$52.3 million

Figure 2. Tonga: Technical Assistance and Loans, 1972–2005

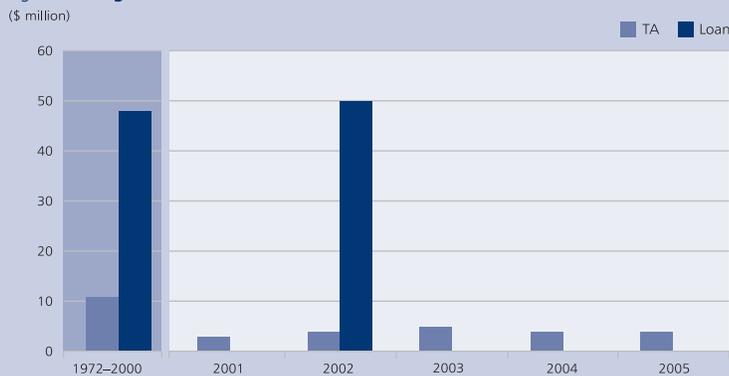


Table 3. Tonga: Cumulative ADB Lending as of 31 December 2005

Sector	Loans (no.)	Amount (\$ million)	%
Multisector	6	15.0	26.0
Energy	2	12.2	21.1
Transport and Communications	2	11.3	19.6
Law, Economic Management, and Public Policy	1	10.0	17.3
Finance	2	6.5	11.2
Agriculture and Natural Resources	1	2.4	4.2
Industry and Trade	1	0.4	0.6
TOTAL	15	57.8	100.0

Figure 3. Tonga: Project Success Rates^a



^a Includes highly successful and successful projects.

Cumulative Assistance: \$72.23 million*

* Includes loans and technical assistance (as of 31 December 2005).

In 2004, the Government of Tonga reaffirmed its commitment to achieving the development objective of improving living standards, set out in the *Strategic Development Plan 7 (SDP7)* for 2001–2003. Throughout that period, the Government focused on implementation of the Economic and Public Sector Reform Program (EPSRP), which aims at maintaining a stable macroeconomic environment and achieving sustainable economic growth, led by private sector development.

ADB's current strategy for Tonga supports the Government's development goals. The focus of assistance in the Country Strategy and Program Update (CSPU) guiding ADB assistance in Tonga during 2005–2006 has been continuing support for the Government's reform program to enhance economic and public sector management; addressing the emerging deterioration in some social indicators through targeted interventions that promote inclusive social development; and improving the enabling environment for private sector development.

The Strategy and Program Update 2005–2006 can be found at www.adb.org/Documents/CSPs/TON/2004/.

Impact of Assistance

The national strategic vision of Tonga has as its key objective the attainment of a higher standard of living for all Tongans. Achievement of this objective has been limited by a low long-term economic growth rate and the creation of fewer jobs than can keep pace with growth of the work force.

The situation reflects policy and governance environments that have discouraged private sector investment, and the crowding-out effects of a relatively large public sector. Considerable efforts by ADB and bilateral aid agencies in the past to support reforms yielded disappointing results, which were attributed to lack of political will. However, while this situation has created a lot of skeptics about Tonga, it also highlights the importance of the right macroeconomic moment, where macroeconomic vulnerability creates not just a need for borrowing, but also an increased understanding of the need for reforms and the willingness to implement them.

In 2002, ADB approved the EPSRP loan, which has made an important contribution to ensuring overall macroeconomic stability and enhancing private sector-led economic growth. Preconditions for reaching macroeconomic objectives are achieving conditions for a sustainable fiscal balance and improving the efficiency and effectiveness of the delivery of public sector services.

The EPSRP focuses on two reform areas: Firstly, fiscal reform measures are aimed at achieving a sustainable fiscal balance through strengthening public expenditure management and revenue generation, and improving the efficiency and effectiveness of resources used in the public enterprise sector. Secondly, public service reform measures seek to deliver better services to the private sector and the public by establishing the institutional framework to manage an efficient and performance-oriented public service.

The EPSRP, through these two reform areas, has contributed to building the legal and regulatory framework and the institutional capacity to achieve macroeconomic stability and, combined with financial sector and private sector reform, contribute to sustain economic growth.

In 2005, heads of government at the Pacific Islands Forum invigorated regionalism by approving the Pacific Plan for Strengthening Regional Cooperation. ADB supports programs under the Plan, which emphasizes regional public goods and services. Collective management of increased aviation safety and security requirements under the ADB-financed Pacific Aviation Safety Office is a good example of this potential.

An \$8 million grant to help improve HIV/AIDS programs in Tonga and nine other Pacific nations was also approved in 2005.

Future Directions

Under its Country Strategy and Program for 2007–2009, ADB was requested to focus on the key areas of macroeconomic stability and fiscal governance, and private sector development. Based on policy dialogue with the Government and other stakeholders, ADB could focus assistance on the second phase of the EPSRP to five areas: a sustainable fiscal balance, efficient public services, the development of the financial sector, the creation of an environment for the private sector to flourish, and the mitigation of the Program's social impacts.

Figure 4. Private Sector Operations Portfolio Distribution by Top Countries, 1983–2005 (\$ million)



Total: \$4.9 billion

Table 4. Resource Transfers to Developing Member Countries (\$ million)

	2004	2005
OCR		
Loan Disbursements	2,508	3,498
Principal Repayments ^a	(3,953)	(3,491)
Payments of Interest/Charges	(1,095)	(1,041)
Net Equity Investment	(20)	47
Net	(2,560)	(987)
ADF		
Loan Disbursements	1,055	1,247
Principal Repayments	(390)	(434)
Payments of Interest/Charges	(196)	(201)
Net	469	612
TOTAL	(2,091)	(375)

ADF = Asian Development Fund, OCR = ordinary capital resources.
 () Represents resource inflow from developing member countries.
^a Includes prepayments of \$597.4 million (\$2,790.5 million in 2004).

The second phase of EPSRP could be prepared and implemented with the harmonized support of a group of development partners, maximizing grant support and financing only residual elements with concessionary loan funds from multilateral institutions, including from ADB. A carefully designed private sector development facility, supporting optimization of resource productivity should accompany, as a core component, the second phase of the EPSRP.

Operational Challenges

There are major risks and uncertainties associated with the medium-term outlook. Gross domestic product (GDP) growth of 1.6% is forecast for 2006, but growth in the following 2 years is based on assumptions that the fiscal position can be effectively managed and that substantial donor assistance will be forthcoming. The medium-term focus for industry and trade policies should be on sectors with a comparative advantage, such as agriculture, fisheries, and tourism.

Emigration has been important in providing income support through remittances, which are likely to help cushion the adverse effects of the likely fiscal imbalance. The number of Tongans living overseas has been estimated at 35,000, but anecdotal evidence suggests that the figure is much higher. Policies should aim to build workforce skills and contribute to successful emigration, while maintaining links between the overseas workers and their families in Tonga, if standards of living are to be maintained.

Partnership

ADB has been in discussions with key development partners on a harmonized strategy for Tonga. In this regard, the message of development partners during the Tonga's Development Partners Forum of December 2005 remains valid—that any financial support to the Government required a clear and unambiguous endorsement at the highest political levels for the linked political and economic reforms.

A possible mandate for ADB to develop EPSRP under a harmonized strategy—and ideally under a cofinancing agreement—could set an appropriate framework for a closer partnership with other development partners.

ADB cooperates with civil society organizations in Tonga to strengthen the effectiveness, quality, and sustainability of the services it provides. For example, the Tonga Association of Nongovernment Organizations participated in a regional consultation on the development of ADB's medium-term action plan for cooperation with governments and NGOs, 2002–2005.

Cofinancing and Procurement

For every US dollar lent by ADB in Asia and the Pacific during 2005, cofinancing operations brought in an additional \$1.27. ADB's cofinancing operations enable its development partners—governments or their agencies, multilateral financing institutions, commercial organizations, and export credit agencies—to join ADB in financing its lending to developing members. Such additional funds are provided in varying forms of grants, guarantees, or loans.

A summary of procurement contracts awarded to companies and consultants for goods and related services, civil works, and consulting services can be found at www.adb.org/Documents/Fact_Sheets/Tonga/procurement.asp.

About Tonga and ADB

Tonga is the 36th largest shareholder among regional members and the 44th largest shareholder overall. It shares both positions with Kiribati, Maldives, Federated States of Micronesia, and Nauru.

ADB Membership

Joined	1972
Shares held	142 (0.004%)
Votes	13,529 (0.306%)

Agus Haryanto is the Executive Director and **Richard Stanley** is the Alternate Executive Director representing Tonga on the ADB Board of Directors.

The South Pacific Subregional Office (SPSO) was opened in 2004 and provides the primary operational link between ADB and the government, private-sector, and civil-society stakeholders in its activities. SPSO engages in policy dialogue and acts as a knowledge base on development issues in the Cook Islands, Fiji Islands, Kiribati, Samoa, Tonga, and Tuvalu.

Sirpa H. Jarvenpaa is the Regional Director of SPSO.

The Tonga government agency handling ADB affairs is the Ministry of Finance.

About the Asian Development Bank

ADB is dedicated to reducing poverty in the Asia and Pacific region through pro-poor sustainable economic growth, social development, and good governance. Established in 1966, it is owned by 66 members—47 from the region. In 2005, ADB operations totaled \$7.4 billion in loans, equities, guarantees, grants, and technical assistance.

With headquarters in Manila, ADB has 26 offices around the world and more than 2,000 staff from over 50 countries.

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Useful ADB websites

Asian Development Bank
www.adb.org

Country website
www.adb.org/tonga

Asian Development Outlook
www.adb.org/Documents/Books/ADO/2006/documents/spc.pdf

Annual Report
www.adb.org/Documents/reports/annual_report/2005/