



KINGDOM OF TONGA

**NATIONAL STRATEGIC PLANNING FRAMEWORK
(NSPF)**

NEXT 5 - 10 YEARS

**MINISTRY OF FINANCE AND NATIONAL PLANNING
NUKU'ALOFA, TONGA - 2010**

Acronyms:

ACP	African, Caribbean and Pacific countries	MOW	Ministry of Works
ADB	Asian Development Bank	NCD	Non-Communicable Diseases
EIA	Environment Impact Assessment	NEDC	National Economic Development Council
EPA	Economic Partnership Agreement	NES	National Export Strategy
EU	European Unions	NGOs	Non-Government Organizations
FY	Fiscal Year	NIIP	National Infrastructure and Investment Plan
GDP	Gross Domestic Products	NRBT	National Reserve Bank of Tonga
HDI	Human Development Index	NSPF	National Strategy Planning Framework
HIES	Household Income and Expenditure Survey	PACER	Pacific Agreement on Closer Economic Relations
HPI	Human Poverty Index	PEs	Public Enterprises
HODs	Head of Departments	PICTA	Pacific Island Countries Trade Agreement
IMF	International Monetary Fund	PMO	Prime Minister's Office
NAP	National Actions Plan	PPP	Public-Private Partnership
MAFFF	Ministry of Agriculture, Food, Forestry and Fisheries	SDP8	Strategic Development Plan 8
MDG	Millennium Development Goals	TNQAB	Tonga National Qualification and Accreditation Board
MDGIs	Millennium Development Goal Indicators	TVET	Technical & Vocational Education and Training
MECC	Ministry of Environment and Climate Change	UNDP	United Nations Development Programs
MEWAC	Ministry of Education, Women Affairs and Culture	WB	World Bank
MLCI	Ministry of Labour, Commerce and Industries	WTO	World Trade Organization
MOH	Ministry of Health	UNHDI	United Nations Human Development Index
MOFNP	Ministry of Finance and National Planning		
MOTEYS	Ministry of Training, Employment, Youth and Sports		

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Foreword



The *National Strategic Planning Framework (NSPF) for the next 5 – 10 years* presents the Kingdom of Tonga's development vision "to create a society in which all Tongans enjoy higher living standards and better quality of life through good governance, equitable and environmentally private sector- led economic growth, improved education and health standards and cultural development". The Framework identifies several key outcome objectives as priorities that the government is targeting to realise its vision for Tonga.

The Ministry of Finance and National Planning led the planning exercise through a consultative process with government line ministries/departments. Specifically, there was an inception workshop with government's Heads of Department (HODs) to discuss the new strategic approaches and priority areas with subsequent rounds of individual consultation with line ministries/departments. At departmental level, HODs were encouraged to hold consultations and to strengthen dialogue with each of their relevant key stakeholders including the private sectors and communities in their respective sectors, regarding the priority areas of NSPF. These views are expected to have been incorporated into the ministries/departments Corporate Plans and Annual Management Plans. This draft of the NSPF has been made after a number of revisions and further consultations.

I would like to acknowledge with sincere appreciation the continuing support provided by AusAID in facilitating the planning process.

The NSPF will:

- Guide the formulation of the public sector's corporate and annual management plans and the annual budgets through which resources are allocated
- Inform the private sector and civil society of the Government's policy intentions
- Provide the foundation in which the Government can develop its external economic relations and aid donors can construct their country strategies and assistance programs
- Provide indicators by which the Government's progress in policy/strategy implementation can be monitored and measured.

The successful implementation of NSPF will require the concerted efforts of Tongans in communities, civil society organisations, and the private sector, and most particularly it requires committed efforts from the public servants charged with the task of improving public service delivery. Let us all work with renewed vigour to improve our economic and social wellbeing.



Hon. 'Otenifi Afu'alo Matoto
Minister of Finance & National Planning



Introduction

This document provides a new Strategic Planning approach for the Government of Tonga. The previous Strategic Development Plan 8 (SDP8), which covered the years 2006/07 – 2008/09, was the appropriate one for the time, but this new framework takes a longer term view of 5-10 years. Policies must look beyond the present and build the foundation for sustainable and lasting growth. While the fundamental economic analysis and the strategic direction of recent years remain valid, there are issues that have progressively increased in importance.

The Framework requires a long-term strategic approach that focuses on the key determinants of economic and social development. Many of these need, by their very nature, to be addressed through consistent and sustained policy implementation over many years. Some have very long lead times – for example, the investment in the early years of children’s education to provide eventual but long-lasting economic and social returns.

Moreover, rather than the broad and all inclusive approach used for SDP8 and its predecessors, this plan focuses on a limited number of uniquely national or whole of government priorities, with action in other supporting areas being required of Ministers through their Ministries’ corporate plans. Ministries will be required to focus on the areas in which they can develop outcomes and outputs that they can influence or control which are then translated into projects or programs to achieve these outputs which will contribute to the achievement of the national vision and goals. The private sector will also contribute by focusing on the areas that they can improve, through for example, policy dialogue with government on the appropriate enabling environment.

THE GOVERNMENT'S VISION REMAINS

"To create a society in which all Tongans enjoy higher living standards and a better quality of life through good governance, equitable and environmentally sustainable private sector-led economic growth, improved education and health standards, and cultural development".

OUTCOME OBJECTIVES

- Facilitate Community Development by involving district/village communities in meeting their service needs
- Support the private sector through better engagement with government, appropriate incentives, and streamlining of rules and regulations
- Maintain and develop infrastructure to improve the everyday lives of the people
- Increase performance of Technical Training Vocational Education & Training to meet the challenges of maintaining and developing services and infrastructure
- Improve the health of the people by minimising the impact of Non-Communicable Diseases
- Integrate environmental sustainability and climate change into all planning and executing of programs

Four Enabling Themes

Continue progress to smaller and more efficient government to transfer resources to improved services and maintenance of resources

Improve the effectiveness of revenue collection to ensure a level playing field and that services to the people can be appropriately funded

Ensure a more coordinated whole of government approach to donor funding

Ensure State Owned Enterprises are accountable to government as owner and that they provide dividends for the benefit of the people in proportion to capital invested

Chapter 1: National Strategic Planning Framework

This chapter presents in detail the link between the objectives and the enabling themes that have been identified as the collective means by which Tonga's development will be focused in the next 5-10 year period.

The Government's vision remains as:

"To create a society in which Tongans enjoy higher living standards and a better quality of life through good governance, equitable and environmentally sustainable private sector-led economic growth, improved education and health standards and cultural development".

The vision expresses the aspirations of the Tongan people and the ultimate aims of all the development efforts that will be undertaken during the Framework period. To achieve this vision, it is essential to create a Tonga where enterprise can flourish, where opportunity exists for all, and where Tongans have the confidence to face the challenges of a global society.

- **Development Objectives**

Achieving the vision requires a well-articulated strategic approach to address the nation's economic growth, social justice, sustainable development objectives and their clear interdependence.

The Government's objectives are therefore expressed in two levels: at the top level, there are the *primary outcome objectives* and the second level is underpinned by *the enabling themes* that support the achievement of these outcomes.

1.1 The Primary Outcome Objectives

1.1.1 Facilitate Community Development by involving district/village communities in meeting their service needs

Community development is among the important priorities of this strategic framework and will support all other initiatives. There have been profound changes in the rural economy, with long-term decline being experienced in many of the primary and traditional industries, somewhat balanced by the growth of the service sector, diversification into new activities and the growing importance of tourism. Many rural areas could absorb more people without losing their sustainable environment conditions, and modern communication technologies can reduce the isolation and remoteness of communities and thereby make economic activities more viable.

Under this Objective, the Government pledges to ensure equity across communities through:

- *Formulation and implementation of regional and rural development programs through local communities*

This Framework sees a fundamental change in the governance structures for rural communities & outer islands. The government in consultation with local communities has already formulated Regional Development Master Plans for 'Eua, Vava'u and Ha'apai. The Master Plan for the Niuaus will be developed following the completion of the disaster recovery program. To facilitate implementation, Government will strengthen and support village districts and councils with the objective to give communities a greater say in local and regional development. The Framework will focus on developing functional government systems at all levels (region, district, and town/village), that are consultative and responsive to the needs of communities. This will empower communities and build more self-reliance at all levels to address community development needs. Further, this strategy will assist the communities to gain a clear understanding of the development process and the possible sources of development assistance that will support their development needs and priorities.

The purpose of the Island/regional Master Plans is to steer the priorities that will support the development of the Regional Islands and rural areas. To date Government has been piloting a

community-based approach to setting up of the Lapaha District Council by scaling up the experience from Lapaha Town Council (launched in July 1 2007), as well as adapting an appropriate local governing model and structure based on the principles of good governance. This model will be further advanced under the Framework and a priority will also be the establishment of the Nuku'alofa Town Council. Further, this program is coordinated by the Prime Minister's Office to support the districts and villages by establishing district offices.

- *Implementing the Government's gender and development policy*

This Framework is based on the goal that all regions should enjoy the same economic and social opportunities, with regional development contributing to national prosperity. The Framework has to support an increase in the level of gender-balanced economic opportunities and activities throughout Tonga by promoting skills, enterprises and innovation through training men, women and youth in the community level and informal sectors. It must also serve to engage them in productive employment through participation in income generating commercial activities. In addition, efforts will be made through training interventions to encourage product development, creativity and craftsmanship, while paying attention to gender-specific needs

- *Increasing institutional care and support services for the elderly and other vulnerable groups, including investigation of the potential private sector role.*

Analysis of the 2009 household income and expenditure survey has identified vulnerable groups including children and the elderly, especially elderly and widowed women. Government will encourage local authorities to protect and develop rural services by utilising their community planning powers. In order to increase effectiveness and efficiency in service delivery, the Government of Tonga's structural reform envisages strengthening good governance principles and committing funds from its annual budget directly to the outer islands for communities to have a direct say on how this money is spent.

- *Implementing a youth development program for unemployed youth including those in urban areas*

It is a great challenge to deal with a total population of which half are under the age of 25 with a majority living in rural areas and outer islands. Around 60 per cent, male and female and both youth and mature age, of those who are labour active are in the community level informal sector. The Ministry of Training, Employment, Youth and Sports is encouraging participation in income generation and commercial activities to help these groups meet their basic economic needs. This is to be accompanied by strategies and activities to promote other social needs including healthy living, community service and good governance.

Beyond this, there may be a need for targeted regional interventions to promote more balanced growth and social inclusion. Encouraging economic dynamism throughout Tonga should improve both the size of the national economy and the relative distribution of regional shares in wealth and employment.

1.1.2 Support the private sector through better engagement with government, appropriate incentives, and streamlining of rules and regulations

Every year an estimated 1,500 young people enter the labour force, the economy needs to be structured to create sufficient employment or other livelihood opportunities for these young people. In Tonga, as elsewhere the private sector must be the engine of growth to generate the necessary employment and opportunity. Supporting Tongans to open businesses and engage in lawful commerce is a key of element the government's program.

Under this broad objective, there are two sub-objectives and several activities that help to facilitate commerce and ensure the development of a vibrant and expanding private sector in Tonga.

A. Creating the enabling environment for Private Sectors

▪ *Maintaining Macroeconomic Stability*

Private sector investment and decision making cannot occur in an atmosphere of uncertainty, especially in regards to prices, exchange rates, and inconsistent and non transparent government actions. To avoid these undesirable effects, the government in conjunction with NRBT will continue maintaining prudent fiscal and monetary policies, including undertaking careful reviews of expenditures and maintaining international best practices in budgeting and financial management.

Progress in achieving macroeconomic stability will be measured through the rate of growth. The conclusions of the annual IMF Article IV missions will also provide clear indications of government's achievements towards economic stability and sustainability.

▪ *Promoting Financial Sector Development*

Access to capital is the key prerequisite for a market economy: it is not practical to have capitalism without capital. The global financial slowdown of 2008-09 demonstrated the need to have a healthy financial system that works according to prudent lending strategies and due diligence. The government will support the continued development of both traditional financial sector institutions and their pursuit of better risk management, as well as the development of non-bank financial institutions. The government will also focus on the development of microfinance and financial inclusion, targeting those who are presently not well served by the existing financial system.

▪ *Investing in a Healthy, Well-educated, and Skilled Workforce*

The private sector cannot function without skilled and committed workers and to this end the government will continue to support both primary education and vocational training. Appropriate skills training, coupled with opportunities for life-long learning, will benefit all Tongans. The government will also utilize local businesses and organizations for broader business training, advisory training for businesses/private sector and continue its cooperation with international organizations willing to impart business knowledge.

▪ *Fostering Technological Development*

The adoption of new technologies is an essential prerequisite for faster and more sustained economic growth. Tonga has a pool of reasonably well educated young people, many of them studying abroad, who can be utilized to foster technological development. Tonga could be an innovator in many different fields with appropriate government policy and the removal of barriers to investment. To encourage both the transfer and development of technology within the Kingdom, the government will continue to encourage foreign investment and the opening of foreign businesses in the country. The government will also provide appropriate policies in facilitating recruitment of the foreign experts for hiring highly-skilled workers. In addition, the government will continue to encourage scientific cooperation across borders and the development of Technical Institutions.

• *Involving the Private Sector More Closely in Policy Formulation*

For the private sector to achieve the objective of making a greater contribution to GDP and employment the government must engage with the sector to better understand the challenges and opportunities that are being faced by entrepreneurs. The government resolves to continue its successful public consultations regarding policies impacting on business, as well as continuing successful public/private institutions such as the Task Force on Regulatory Reform and its Working Groups. The Ministry of Labour, Commerce and Industries had completed the development of the Private Sector Development Strategy with regular inputs from the private sector to be further considered by government. In addition, the National Economic Development Committee (NEDC) has been established to support and engage with the private sectors.

- *Promoting international and regional trade*

The Tongan economy is dependent on trade to meet the needs of its people for both import and export opportunities. Remittances from Tongan communities abroad are also essential to sustain economic growth and help to lift people out of poverty. Government will continue to liberalize trade policy during this National Planning Framework period.

Tonga has already begun several initiatives to open its markets to trade, and will build on these successes in the coming years. This will include continuing its active membership in several international and regional trade bodies such as the World Trade Organization (WTO), Pacific Island Countries Trade Agreement (PICTA). Regional trade will be encouraged by the elimination of non-tariff barriers in the short term and of all tariff barriers by 2011. The foundation for negotiation for membership in the Pacific Agreement on Closer Economic Relations (PACER) is also underway. Finally, through the Pacific Islands Forum and in concert with African, Caribbean, and Pacific Island (ACP) countries, the government will finalise an Economic Partnership Agreement (EPA) with the European Union (EU). The EPA is expected to comprise a master agreement aimed at enhancing the trading and investment-attracting capacity of ACP states, and subsidiary agreements covering trade in goods and services (including tourism), investment and fisheries.

As part of the Custom Reform program and accession to the World Trade Organization, Tonga's custom duties and tariff rates were revised, and tariffs on 800 items that were considered capital goods necessary as business inputs are now duty free. National Export Strategy (NES) will be formulated and implemented over the life of this framework, based on Tonga's comparative advantages and predicated on forging a closer and realistic partnership involving Government and private sector businesses.

Progress will be measured through the improvement in the trade balance especially the performance of exports.

B. Improving Performance of Productive Sectors

- *Tourism*

The government considers tourism as a key sector for private investment contributing to future growth. Investment in tourism will generate additional employment opportunities and foreign exchange earnings. The establishment of new tourism related ventures will also provide new livelihood opportunities complementing those available in agriculture and fisheries in the rural areas. Government will continue to encourage investment in tourism by addressing issues identified by the Ministry for Tourism, Tonga Tourist Association and other stakeholders as impediments to the industry.

- *Agriculture*

The agriculture, forestry and fisheries sector has shown zero growth over the past five years, agricultural exports, mostly squash, have declined. However, the sector still contributed approximately 20% of GDP in 2009/10. Despite the poor performance, the sector is still the mainstay of the rural economy as it provides food security; employment and income for many households. For households in the rural areas of Tongatapu and the outer islands, home production accounts for approximately one third of all food consumed.

The government through the Ministry of Agricultural, Food, Forests and Fisheries (MAFFF) has formulated an agriculture sector plan that provides a coherent policy framework for promoting agricultural development. It focuses on providing public support services to agricultural development, through research and extension work, quarantine, regulation, marketing information and physical infrastructure, acknowledging that the full commercial development of agricultural products that are technically viable requires private investment.

- **Fisheries**

The government through the Fisheries Division of MAFFF tries to ensure sustainable development and management of off-shore and inshore aquatic resources with particular focus on Tuna and long-line fisheries, DWL fishing, sport fishing, aquarium fishery.

These activities are planned to enable and attract private sector investment in the industry thus contributing to economic growth.

Fisheries Division will continue to carry out a range of public services including research and extension, monitoring and regulation of vessels and fishing activities, monitoring of fish catches and sales, and surveillance of the exclusive economic zone to control illegal fishing.

1.1.3 Maintain and develop infrastructure to improve the everyday lives of the people

The physical infrastructure of our country which underpins the competitiveness of enterprises and the provision of high-quality infrastructure is a pre-requisite for a thriving and successful economy. Government will continue to strengthen and modernise infrastructure to reduce business costs and to facilitate market access.

Much infrastructure development is already underway. Beyond that there are important choices facing Tonga. Some parts of the country have a buoyant economy and that is placing significant strains on existing infrastructure. Other areas have experienced decline but a co-ordinated approach to regeneration can bring genuine economic, social and environmental benefits and create more balanced growth opportunities in the islands. Striking the balance in policy, expenditure and Government action can involve difficult choices, but decisions must be made for Tonga's long-term interest.

Market accessibility is dependent on the transport infrastructure for all of the outer island groups and is necessary for fundamental quality of life and potential investment, which includes tourism, agriculture and fisheries. Sustainability of these sectors requires affordable developed transport links from the aviation and maritime sectors.

Tonga's infrastructure is generally in reasonable order and appropriate for a country of this size and stage of development. An overview of Tonga's infrastructure reports that Tonga's infrastructure is as follows. Tonga has quite a mature infrastructure system in terms of availability and capacity of basic services. However, areas that people are having difficulties which include; high cost, quality and sustainability and not keeping pace with needs and community expectations.

To meet these demands it has become increasingly clear that the government must develop a "whole of government approach" to infrastructure planning and development. The government has recently approved the National Infrastructure Investment Plan (NIIP) which will be regularly updated. The NIIP will be the basis of government's public sector investment programme for the next decade. The NIIP includes as monitoring and evaluation framework which will be used to measure progress towards the achievement of the vision.

1.1.4 Increase performance of Technical Vocational Education & Training (TVET) to meet the challenges of maintaining and developing services and infrastructure

- **Implementation of the education sector strategy (supporting and improving universal basic education)**

Government still has a priority with universal basic education, which has been achieved, but quality has been declining over recent years, and therefore is a continuing focus of government.

The national curriculum for basic education is currently being revamped to ensure a balance between academic and skill and vocational training. Programmes which will be developed to provide alternative pathways for students with different learning needs, whether for the 4 to 18 year age group,

or post-18, must still be based on a sound basic education, which will provide the necessary tools and attributes for further learning.

Progress towards meeting the outcomes for the sector will be measured through the MDG indicators and through indicators of education quality such as exam pass rates, transition and retention rates.

- *Promoting skill development through better technical and vocational education*

During the NSPF period, particular attention is given to the development of technical vocational education and training at the post-basic education level and the reforms in basic education currently implemented will provide the foundation on which such education and training can be built. Indeed effective TVET is completely reliant on effective basic education. Efforts must also be made to introduce TVET as part of the options and subjects taught at the upper levels of secondary schools to prepare students for post-secondary TVET training and to be extended to the outer islands and remote areas through developing partnerships and collaborations with the churches and NGOs.

At the core of TVET development in Tonga is skilling people for social and economic development. Training in the appropriate skills and vocations will provide Tongans with opportunities and meeting the critical demands for skills and expertise for local industries, the informal employment sector at the community level and the international labour markets. It is also the key to developing quality products and providing quality service that meet international standards and fostering the entrepreneurship that is important to economic growth. In addressing the need to alleviate hardship in rural and remote areas, training is also the key to productively utilising skills and local and traditional knowledge and turning them into marketable products and services.

- *Education for overseas employment*

The TVET sector must also be reformed and re-aligned with international requirements and standards. At the community level, informal training must be institutionalised into training frameworks and training programs that would enable men and women in the rural and remote areas and those not wishing to pursue a formal qualification to learn skills that would enable them to improve their products, engage in micro-enterprise activities and income generation activities as well.

Furthermore, the international labour market provides alternative employment opportunities for young people TVET should facilitate access to those opportunities. Hence, work must be done to ensure international accreditation and recognition of TVET in Tonga in other countries. As a result, Tonga National Qualification and Accreditation Board (TNQAB) has been established to improve qualification and educational standards to meet international level of standards.

1.1.5 Improve the health of the people by minimising the impact of non-communicable diseases

Historically, Tonga's population has had a relatively high standard of health. However, in recent years there has been a significant increase in lifestyle related diseases including diabetes, hypertension, obesity and nutrition related illness in children. Tonga has however, made good progress towards the achievement of the health-related MDG indicators for maternal mortality, child mortality and this reflects Tonga's effective primary health care delivery, public health infrastructure and the comprehensive antenatal and postnatal care, immunization, water and sanitation and waste disposal programmes. Thus, infectious and most communicable diseases are under control. However, like most Pacific island nations, the increased prevalence of non-communicable diseases has become a major problem in recent years.

Health care services are decentralized in accordance with the long-standing Government commitment to primary health care provision. Government will improve the provision of health services across Tonga, with continued emphasis on preventative health care, with a focus on addressing non-communicable diseases. Preventative health measures are more cost-effective than curative medicine and in the Tongan context must focus on lifestyle based illnesses.

Progress towards the achievement of the sector outcomes will be measured through the health related MDGs including localized indicators for NCDs.

1.1.6 Integrate environmental sustainability and climate change into all planning and executing of programs

The Tonga Government takes seriously the responsibility of preserving for future generations the economic opportunities and environmental resources of today. A separate ministry and minister have been created to look after the portfolio signifying the importance of protecting the environment.

The livelihood of many households in Tonga depend on the land, the sea and maintaining the environmental balance and biodiversity as an attraction for tourists. The Government will therefore undertake to ensure environmental protection and sustainability through:

- *Sustainable Environment*

The Government is committed to integrating sustainable development into all of its policies and budgetary processes. Raising the environmental sustainability of economic development to safeguard the interests of future generations is vitally important. It is universally accepted that the environment is not a separate entity from the economy. Changes in one affect the other. Thus, the economy and the environment must be fully integrated in decision-making.

There is a need to explore options for enhancing the resilience of government, communities, businesses and natural resources; exploring the environmental, economic and societal consequences of changes in the availability of freshwater and other resources; and the roles of institutions and information systems in improving Tonga's risk management capabilities. There is a need to analyze the options, risks and uncertainties in mitigating and adapting to environmental change and variability.

- *Climate Change*

Year-to-year climate variability (e.g. El Niño) and extreme events (e.g. droughts and storms) have and will continue to pose significant challenges for key economic sectors including agriculture, fisheries and tourism, public health and safety, climate-sensitive resources (e.g. beaches & coral reefs), vulnerable coasts and critical water resources. People are also at risk from geological disasters such as earthquakes and tsunamis. Government will seek to develop a framework for multi-hazards risk management that will contribute to the development of sustainable communities in Tonga.

- *Implementing of Solid Waste Management*

Land-use and land-cover change are widely considered as sources of biological diversity and sinks of biogeochemical elements. Other important aspects of sustainable development are the efficient use of infrastructure and the optimum utilisation of land. Human driving forces of land-use/cover change include demographic factors such as population size, growth rate, and migration; cultural values; technology; level of affluence and economic structure; and political systems. A better understanding of how these factors affect land-use decisions and derive land-cover changes is critical for projecting future patterns of land use and future states of land cover. Moreover, an effort to improve the management of waste has been put forth as an element of environmental sustainability and to reciprocate what has been developed in the outer islands.

- *Enforcing environmental legislation*

Government will strengthen legislation, policies and enforcement with regards to environment and its natural resources. Due to the very significant need to sustain the environment the Government will strive to fully enforce regulations as approved the Environment Impact Assessment (EIA) Regulation.

- *Renewable Energy Policies*

Developing Tonga's renewable energy potential can offer important economic benefits and contribute to the sustainable development of remote and outer island communities. There is a need to use resources more efficiently, reduce energy consumption, and develop renewable sources of energy. The

Energy Road Map is the key towards achieving energy security through reducing reliance on imported petroleum. Currently 98% of Tonga's energy requirements are met by imports of fuel. Government will work toward achieving the national target of 50% renewable energy by 2012 as part of government's commitment to addressing climate change.

- ***Disaster Risk Management***

The Framework emphasizes the vital role of Disaster Management and Disaster Reduction for the environment. The Ministry of Works is responsible for compliance with the National Emergency Management Act, Implementation National Disaster Plan and mainstreaming Disaster Risk Management through National Action Plans. The Pacific Disaster Risk Reduction Management Framework for Action, 2005 - 2015 has been approved by the Pacific Leaders and it currently implemented. The Pacific Plan tries to enforce and strengthen policies and plans for mitigation and management of natural disasters through the development of National Action Plans (NAP).

1.2 Enabling themes

The achievement of the above outcomes depends upon a complex array of economic and social drivers. Establishing the underlying conditions and context for Tonga to flourish is a critical step. There are four key enabling themes:

1.2.1 Continue progress towards smaller and more efficient government and to reallocate resources to achieve improved services and maintenance of assets and infrastructure

The government will continue the progress to smaller and more efficient government through decentralization as a means to enact and deepen democratic governance, improve the effectiveness of service delivery and ensure the effective maintenance of assets and infrastructure.

This approach aims to enhance community empowerment, whereby local actors, capacities, and resources are mobilized for collective action to achieve public purposes. It also promotes transparency and downward accountability of the Government by local communities.

Since decentralization involves the transfer of resources, power and authority from the central government to local authorities, it will play a key role in improving efficient and effective delivery of services and ensure better development of communities. Communities' will therefore need to exercise greater responsibility and maintain stronger control over their own local affairs and foster meaningful development. It also aims to enhance ownership by local communities through engagement in more participatory approaches.

Government's responsiveness to the needs of the local people will create a conducive environment for local economic development as well as in enhancing the management of local resources in a sustainable manner.

- ***Ensuring a Conducive Enabling Environment Through Legal and Regulatory Reform***

Tonga has made good progress in recent years in reforming its legal and regulatory environment, achievements that have been recognized by the country's position on the World Bank's *Doing Business* rankings. To continue this success, the government will carefully examine the current business licensing regime and remove obstacles to business while at the same time better safeguarding the health and safety of employees. The legislation governing investment and licensing will also be reviewed for effectiveness, and government agencies will strive to consider the impact of new regulations on business before they are enacted. Finally, the government will continue to pursue institutional avenues for change, through the Task Force on Regulatory Reform and through the encouragement of private sector participation in legal and regulatory commercial reforms.

- ***Continuing to implement public sector management reforms***

Analyzing the effectiveness of government services is a difficult task, and in the past has been based on tracking inputs rather than outputs. The Tongan public sector is currently in the midst of a historic re-orientation away from this input-based system, shifting its focus to service delivery as the measure of public sector success. Over the coming years, the Ministries of the Government of Tonga will continue to embrace this shift, increasing their adaptation of program-based budgeting and matching resources to services in order to better serve Tongans.

One measure of progress towards the improved cost-effectiveness of service delivery will be the proportion of GDP contributed by government, a decline in government's share of GDP will give an indication that the rest of the economy is growing faster than the size of the public service. A further measure will be the share of wages & salaries in the total budget, a decline in this figure will indicate that more resources are being made available for non-staff-related support costs.

- ***Prioritizing expenditure in line with national development objectives***

In line with the emphasis on service delivery there must be a concurrent emphasis on streamlining the government to focus on core services, while shedding functions that are not the proper purview of Government. The priorities elucidated under this framework form the national development objectives of the Government, and resources must be programmed to meet these goals. This will mean review of Ministry programs to determine their applicability to national development objectives; it will also mean scaling back or the elimination of programmes that do not serve this purpose. It will also mean an overhaul in the way Ministries prepare budgets such that the budget process must be linked to concrete goals and outputs.

- ***Transferring a range of functions to the private sector by outsourcing***

As part of the re-evaluation of the public sector and its programmes, it is envisaged that a large number of services now performed by the public sector will be moved to the private sector via outsourcing, public-private partnerships (PPP), and privatization. The government will transfer as much as feasible to the private sector, while endeavouring to maintain fair, transparent, and honest procurement procedures in outsourcing and privatization.

- ***Implementing public enterprise reform***

While appropriate functions should be transferred to the private sector, the government, in cooperation with international partners, is also evaluating ways to improve the efficiency and accountability of its existing public enterprises (PEs). Over the life of this framework, the government will seek to accelerate this reform of PEs, taking appropriate measures for each enterprise based on careful analysis of benefits and costs. Progress will be measured through the number of privatisations effected, and the reduction in the number of enterprise activities being conducted by government ministries/departments.

- ***Utilizing information technology to improve accountability and transparency***

The spread of IT and the availability of information can only help to improve the Government's service delivery, and to help forge links between the Government and the citizens of Tonga. The government will be committed over the coming years to increase the amount of information available on its existing websites, creating new websites for Ministries and agencies where not currently available, and creating interfaces for the public in areas such as business licensing, procurement, and social services. The government will also solicit consultation with the public via IT, as well as seek to improve the ability of outer islands to utilize the internet to communicate with government.

1.2.2 Ensure State Owned Enterprises are accountable to government as owner and that dividends are paid for the benefit of the people in proportion to capital invested

The Ministry of Public Enterprises was set up in response to the need to develop public enterprises (PE's) so that they can become profitable and assist Government achieve its economic and social obligations. The model is one where Government sets up the business entity through providing the start up capital through share capital, a loan or both. Government usually remains the sole shareholder in almost all the PE entities.

To successfully pursue this theme, the adoption of commercial best practices and discipline must be accepted and practiced by all Public Enterprises. This practice will theoretically lead to improved service delivery, and higher dividend payments.

1.2.3 Improve the effectiveness of revenue collection to ensure a level playing field and that services to the people can be appropriately funded

Revenue and customs services are based on 3 key outcomes: (i) improved services and customer relations, (ii) improved compliance; and (iii) increased level of revenue. The tax reform and modernization programs are still in progress and they concentrate on simplifying the tax and customs bases with clearly defined and modern procedures which will enhance revenue services. Ultimately, the aim is to achieve a significantly higher level of taxpayer compliance leading to a higher level of revenue collection by Government for funding its services to the people. Compliance will be fair and transparent ensuring a level playing field for all taxpayers.

With the implementation of a simplified and transparent tax procedures, coupled with lower tax rates and easier filing of tax returns will help to reduce the burden on businesses and encourage both their growth and also international investment. As a small island nation, Tonga is very dependent on imports, and cannot afford to see lengthy customs delays or extra-judicial levies impede Tongan businesses from receiving what they've ordered (or Tongan consumers from receiving what they need). Completion of these broader reforms will help businesses to get their goods to the Tongan market more easily.

1.2.4 Ensure a more coordinated whole-of-government approach to donor funding

The government has recently established rules governing donor engagement. These rules require that all donor applications over an agreed amount go through the Aid and Project Management Division of the Ministry of Finance and National Planning and over T\$2m will have to go through the Expenditure Review Committee. The appointment of a Donor Harmonization Coordinator, Project and Aid Coordination Committee and the establishment of ADB/World Bank Group Joint Liaison Office, which opened in

March 2009, also help improving multi-laterals coordination in Tonga. This will help to ensure greater control and coordination between government and donors.

Chapter 2: Monitoring and Evaluation

This is an essential part of the plan in which it provides the target performance indicators, which will specify the progress of individual primary outcome objectives during the framework period, in order the national vision as summarized in Table 1. The implementation of the NSPF will be through government line ministries and departments and their individual Corporate Plans. Strategies and mechanisms for specific primary outcome objectives to be implemented by line ministries on each related outcome objectives are outlined in their respective Corporate Plans and Annual Management Plans, which will be reviewed on a regular basis; and with a proposal to be carried out on a six months basis throughout the framework period. The government has also approved four enabling themes to contribute to the financial resources available to support the implementation of the ministries/department's strategies/activities.

The Policy and Planning division of the Ministry of Finance and Planning is now tasked to review these corporate plans and the associated annual management plans to ensure alignment to the key outcome objectives and achieving of the set targets. An overall assessment of progress and reporting in achieving these targets will be undertaken on a regular basis.

Table 1: Summary of Key Outcome Objectives and Targets in the National Strategic Planning Framework (MATRIX)

Primary Outcome Objectives	Target (Performance Indicators)	Source of Information	Implementing Agencies
<ul style="list-style-type: none"> Facilitate Community Development by involving district/village communities in meeting their service needs 	<ul style="list-style-type: none"> Improvement in Tonga's HDI score from the current score of 0.774 	UNDP; Annual Human Development report, Household Income and Expenditure Survey(HIES)	MOFNP, MEWAC, MOH Statistics Department
	<ul style="list-style-type: none"> Establish District Councils for transparency and accountability flow of information from the Government to Grass Roots Level. 	PMO Plan, MOFNP Plan	PMO, MOFNP
	<ul style="list-style-type: none"> Establishment of community police in villages 	Police Plan PMO Plan	District/PMO, Tonga Police
<ul style="list-style-type: none"> Support private sector through better engagement with government, appropriate incentives, and streamlining of rules and regulations 	<p><u>Creating the Enabling Environment for Private Sector</u></p> <ul style="list-style-type: none"> Improve 'Ease of Doing Business' 	MLCI Plan WB Report	MLCI, Chamber of Commerce, Private Sectors

	❖ The real GDP average annual growth rate reaches 2-3%	MOFNP Plan NRBT, Statistics Plan	MOFNP, NRBT,Statistics
	❖ Maintain medium-term inflation rate	MOFNP Plan, Statistics Plan	Statistics, MOFNP
	❖ Manage the exchange rate to maintain foreign reserves at 3 months or more of import cover	NRBT	NRBT, MOFNP
	<u>Improving Performance of Productive Sectors</u>		
	❖ Agriculture & Fisheries grows at 1-2% per annum	MAFFF	MAFFF
	❖ Increase tourist receipts and number of visitors	Tourism	Tourism
• <i>Maintain and develop infrastructure to improve the everyday lives of the people</i>	❖ National Roads targets to improve 80% during the framework timeframe	MOW	MOW
	❖ Improved inter island transport services in terms of reliability, safety and accessibility	Ministry of Transport	Ministry of Transport, MOW
	❖ Increase accessibility for water and sanitation for the outer islands and improve the water quality in Tongatapu (including installation of treatment plant)	Tonga Water Board	Tonga Water Board
	❖ Improve internet accessibility, reliability and at reasonable cost	Tonga Communication Corporation	Tonga Communication Corporation
	❖ Implement the Tonga Energy Road Map (TERM)	Energy Unit, PMO	Energy Unit, PMO
• <i>Increase performance of Technical Training Vocational Education & Training to meet the challenges of maintaining and developing services and infrastructure</i>	<u>Technical & Vocational training</u> ❖ Promote skill development through better technical and vocational education	MOTEYS Plan	MOTEYS

	❖ Increase graduates from vocational and technical education (by number and by type)	MOTEYS Plan	MOTEYS
	❖ Improve qualification and educational standards to meet the international level of standards through the Tonga National Qualification and Accreditation Board (TNQAB)	MOTEYS Plan	MOTEYS
	❖ Increase numbers accessing overseas work schemes	MOTEYS Plan	MOTEYS
	❖ Maintenance of national employment registration, maintenance of industry employment standards	MOTEYS Plan	MOTEYS
• <i>Improve the health of the people by minimising the impact of Non-Communicable Diseases</i>	❖ Reduce prevalence and death rates for diabetes per 100,000	MOH Plan	MOH
	❖ Reduce incidence, prevalence and death rates associated with tuberculosis	MOH Plan	MOH
• <i>Integrate environmental sustainability, Disaster Risk Management and climate change into all planning and executing of programs</i>	❖ Maintain proportion of land area covered by forest-not less than 5%	MECC Plan	MECC
	❖ Maintain proportion of terrestrial and marine areas protected	MECC Plan	MECC
	❖ Proportion of population using an improved drinking water-maintain between 98% -100%	MECC Plan	MECC
	❖ Proportion of population using an improved sanitation facility-maintain between 98%-100%	MECC Plan	MECC
	❖ Meet the target indicators stated on NAP for climate change, adaptation, Disaster Risk Management and improve	MECC Plan	MECC

	energy security.		
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APPENDIX

Recent Economic and Social Development Performance

- *Macroeconomic performance (refer to Budget Paper 1, FY 2009/10)*

The challenging international environment in 2009/10 saw countries representing three quarters of the world’s economy suffer economic contraction. Tonga was not immune to these international events and the Tongan economy is estimated to have contracted by 1.2% over the 2009/10 financial year. It is forecast that the economy will achieve an average growth of around 1.4% in the next year & continuing at that rate in the medium term.

The small size of the Tongan economy and its consequent narrow economic base makes it highly susceptible to economic shocks. This was illustrated by the 2008 energy price spike that tripled international fuel prices significantly increased the domestic rate of inflation. This was due to the Kingdom’s total dependence on imported fuel for transportation and electricity generation. The global financial crisis also caused a significant decline in remittances. Tongan exports continue to perform weakly.

The Government is meeting these challenges by continuing to implement its reform program to raise economic performance. The Government has developed fiscal measures to mitigate the financial crisis. The recent history of the Tongan economy has been characterised by a sharp contraction in primary sector exports offset, to some extent, by increasing domestic demand generated from remittances, tourism and development assistance flows. Nonetheless, the agricultural, forestry and fisheries sectors remain the single most important sectors in the Tongan economy (accounting for 19.9% of GDP). The next two most important sectors are the Government sector (12.3% of GDP) and the Commerce, Restaurants and Hotels sector (13.3%).

Aside from weakening agricultural exports the key external drivers of the Tongan economy in the most recent years have been the decline in remittances and tourism receipts. Over the last year remittances and tourist receipts have both declined in the face of international economic events. This trend should slowly reverse as the international economy recovers particularly in those countries which are Tonga’s major source of remittances.

- *Microeconomic and Business Environment*

The microeconomic environment, including the quality of government regulations and the business environment, will ultimately determine a nation’s macroeconomic performance.

International evidence demonstrates that nations with supportive business environments and appropriate regulations and institutions for their stage of development outperform nations with inappropriate regulatory settings and hostile business environments. The increased wealth that superior economic performance generates in turns provides greater resources for investing in social development (health and education) that underpin long term growth and development.

Tonga is a small isolated island nation. Any barriers to doing business increase the difficulty of attracting quality investors to Tonga and make it more difficult for local entrepreneurs to start and run successful businesses. Any actions that reduce the barriers to establishing and running businesses will therefore help increase business activity, employment, incomes and national welfare.

But currently both the ADB and World Bank rate the quality of Tonga's policies and institutions as 'weak', averaging around 3 on a six point scale (with 6 being high). However this is slightly higher than the average ranking of some of the Pacific Island countries. These assessments rate national policies covering Economic Management, Policies for Social Inclusion and Public Sector Management and Institutions. The ADB also assesses the quality of a country's debt portfolio management.

The World Bank also has *the Ease of Doing Business Index*: This World Bank index measures the relative ease of establishing a business and performing standard business operations such as enforcing contracts.

Tonga ranks at 52nd place (2010) out of 183 countries on the Doing Business Index. This places it in the top third of nations for which data is available.

Despite this relatively good ranking, Tonga should try and improve its position. There are some areas on which Tonga has low rankings in which significant improvement may be achievable at very low cost.

- ***Social Development (refer to the Tonga MDG 2nd Status Report and UN Human Development Index Report)***

Tonga's relative Social Development is measured by reference to the development of other nations, particularly other Pacific Island nations and small states. In making these comparisons two useful measures of relative development are: i) MDGs and ii) UNHDI

- **The Millennium Development Goals (MDGs) : These United Nations goals are a set of agreed development targets for all developing nations focusing on core economic and social criteria**

The Millennium Development Goals consist of 8 Goals, 22 Targets and 59 Indicators, of which only 45 indicators are relevant and applicable to the case of Tonga, with a target year of 2015 for the achievement of the goals.

Currently Tonga is on track to achieve four of its goals, *Achieve Universal Primary Education, Improve Maternal Health, Ensure Environmental Sustainability and will potentially achieve the fifth, Reduce child mortality and Combat HIV/AIDS, Communicable Disease and Non-Communicable Diseases*. Although Tonga does not experience extreme poverty or hunger there are clear indications that the incidence of relative hardship and poverty is increasing as the impacts of the global economic situation are transmitted through to the household level in Tonga.

The land is generally fertile, except in some of the low atolls of Ha'apai, and almost all Tongans have access to plantation areas for food crops. In general, Tonga has had one of the highest rates of subsistence production for own consumption in the Pacific region. Pockets of serious poverty occur in some remote villages and in the small squatter settlements around the capital Nuku'alofa where rural migrants do not have access to traditional lands; but nationwide this affects only about 2% of households.

As a consequence of the low rate of economic growth in recent years and the impact of the higher rate of inflation resulting largely from the global food, fuel and economic crises, the real incomes of many households have declined. Remittances which are important source of household income, and foreign exchange receipts at the macro-level, have also declined significantly in the last two years as a consequence of the global economic crisis. This has added to pressures on households.

A new analysis of the 2001 and 2009 household income and expenditure surveys indicates that the incidence of basic needs poverty rose by six percentage points between 2001 and 2009. For 2001 the level of poverty incidence amongst the population has been estimated at 16.2%, by 2009 this is

estimated to have risen to 22.5%; (12.2% and 16.2% of households respectively). The sharpest increases in poverty incidence are seen in the rural parts of Tongatapu (from 18.8% of the population in 2001 to 23.5% in 2009) and in the outer islands (11.8% in 2001 to 22.9% in 2009). Poverty and hardship,

Particularly in the more rural areas of Tongatapu and in the outer islands, are also linked to inadequate infrastructure, including internet access, which restricts access to knowledge and information.

In 2009 about 25% of all households were headed by females; the proportion was 29.6% in Nuku'alofa but only 23.5% and 21.5% in the rest of Tongatapu and outer islands respectively. However female headed households were slightly less likely to be below the basic needs poverty line in Nuku'alofa (27.7%), compared to the rest of Tongatapu (27.0%) and the outer islands (22.9%). The household survey also indicates that around 28.9% of all children live in households falling below the basic needs poverty line.

Between 2001 and 2009 the cost of living, as measured by the Tonga CPI, rose by approximately 86%. However, the average level of per capita household expenditure rose by only 55.2%, from T\$67.01 per week in 2001 to T\$104.39 per week in 2009. For the poorest 20% of households per capita expenditure averaged T\$29.72 per week in 2001 and T\$45.82 per week in 2009, an increase of around 54%. Thus real incomes of many households declined by as much as one-third between 2001 and 2009, a major contributing factor to the increasing level of hardship and poverty. However, the even thought the target for the third goal: *Promote gender equality and empower women* is off track but in the case of Tonga, gender equality and empowerment women are equalling in opportunities such as professional level in the government.

- **The United Nations Human Development Index (UNHDI) :** This index provides a composite measure of a nation's development based on economic prosperity, health and life expectancy and educational achievement

The latest HDI for Tonga is 0.774, which gives the country a rank of 85th out of 179 countries with data. This 85th ranking places Tonga first among comparable Pacific Island countries and ahead of Samoa, Fiji, Solomon Islands and Vanuatu. Tonga is however considerably behind a number of small island states including the Seychelles (54th), Mauritius (74th) and a number of Caribbean island nations.

Low levels of economic growth, a tight fiscal situation and an increasing incidence in relative hardship and poverty are threatening to undermine the progress that has been made by Tonga in the achievement of the MDGs and in its HDI and HPI status.

The traditional drivers of the domestic economy, agriculture, fisheries and tourism need to be re-invigorated through pro-active and pro-poor policy targeting by government. Remittances which have underpinned the expenditure of many households cannot be expected to recover quickly as the source countries themselves continue to experience low growth and high unemployment. Thus action must be taken by government in the policy areas over which it has direct influence; this would include in restructuring and reform of economic systems and the public sector to assist in making the economy more efficient and the provision of services more cost-effective. There is a need to make Tonga a more attractive destination for increased levels of private sector investment that will lead to employment creation and provide other livelihood opportunities.

Plan Implementation

- **Resource Mobilisation** (*refer to Budget Paper 2 & Estimates for FY 2010/11, and this will be updated on every Fiscal Year*)

- **Government Revenue**

In 2010/11 the Government is projected to collect \$170 millions. About 81% revenue is from Government and 19% from donor funded grants. In view of the current development of the country, Tonga will continue to rely for some time on assistance from donors.

- **Resources Mobilisation in the Medium-term**

According to the 2010/11 Budget Estimates, the average total expenditure for the next two years is about \$162 million. Of this, Government of Tonga funds are estimated at \$149 millions with the balance being funded by grants. Government funded expenditure is expected to remain steady over the next two years in line with the projected total revenue (although it will be revised on a regular basis) by taking into account the slower growth in the economy due to the impact of the Global Economic Crisis. However, it is expected that recovery should commence in 2011/12 fiscal year.

- **Program outcomes and outputs in the medium term**

Given the limited resources available over the next two years the focus will be on the application of funds to produce outcomes and outputs that are of value to government and the community. The NSPF has specified seven national outcomes whereby line ministries must produce outputs that contribute to their achievements. The four enabling themes laid out by NSPF are targeting a smaller but more efficient and effective public service, more profitable public enterprises contributing, more dividends to government revenue and improving the effectiveness of revenue collection. Hence, government can provide more and improve services to the people and also more coordinated whole of government approach to donor assistance.

Ministries have corporate and annual plans that provide outputs and programs that are more aligned to the seven national outcomes so they can be better understood and defined, and so that government can better assess the value of public expenditures.

- **Fiscal Stimulus Package**

Despite financial pressure from the global economic crisis which had affected the government's revenue collection capacity, the government with assistance from its development partners has put together a fiscal stimulus package to help alleviate the adverse impact of the global economic crisis on the Tongan economy. This includes, for example, the reconstruction of Nuku'alofa generating more jobs in the construction sector and creating additional business activities for the people of Tonga. Other projects such as road maintenance, construction and drainage are seen as projects that require a high local labour component leading to job creation and also generating further economic activities in the Tongan economy.

Other initiatives that may be used if required to stimulate the Tongan economy include further road projects, the bringing forward of investments in renewable energy and additional tourism marketing. These projects are still under development. If required these projects will be funded through increased government expenditure, budget support from the ADB and concessional borrowing.

Further to the Stimulus Package approved by Cabinet as part of the continuing Economic Public Sector Reform Program the civil servants will be receiving a general salary increase. This is also seen as demand side injection which will assist business activities.

