



Australian Government

Department of Foreign Affairs and Trade

# Aid Investment Plan

Tonga

2015/16 — 2018/19

## Strategic priorities and rationale

This Aid Investment Plan (AIP) sets the strategic framework for the provision of Official Development Assistance (ODA) administered by the Department of Foreign Affairs and Trade (DFAT) with a primary focus on bilateral aid directly allocated to Tonga. Other Australian Government agencies will provide strategic input to policy development and oversight programs in particular sectors in consultation with DFAT.

The purpose of this AIP is to inform discussions between the Government of Tonga and the Government of Australia to develop an Aid Partnership between Australia and Tonga. This AIP will be updated to reflect the finalisation and the signing of Aid Partnerships where appropriate.

Australia has a strong and enduring relationship with Tonga. Australia implements an integrated set of foreign, trade, security and development policies to promote prosperity, reduce poverty and enhance stability across the Pacific and in Tonga. It is in Australia's interest to support Tonga's development and help strengthen its economic and environmental resilience.

Tonga has the advantages of a maturing parliamentary democracy, a relatively well-educated population and a capable public service. The Government of Tonga has successfully maintained political and social stability and progressed democratic and economic reform in recent years. Australia will help Tonga build on these strengths while tackling constraints to economic growth and poverty reduction.

Tonga will need development assistance while it continues to develop its economic prospects. In 2014, Tonga was considered to have the third highest risk globally (after Vanuatu and Philippines) of disaster due to its exposure to natural hazards and its capacity to respond<sup>1</sup>. It has a geographically isolated population of around 100,000 people, significant subsistence agriculture and a narrow resource, production and export base. It imports substantially more than it exports. It has a relatively low level of private sector activity. Tonga's per capita GNP growth over the last several decades has been favourable relative to many other Pacific island countries and this has allowed Tonga to progress to middle income status. However, this aggregate ranking masks considerable income variation and deprivation between households. Poverty-related hardship is wide-spread, with approximately one quarter of Tongan households finding it difficult to meet their basic needs, especially those on outer islands and those who are not in receipt of overseas remittances.<sup>2</sup> Tonga has taken some steps towards creating a growth enabling environment, including regulatory reform, sale and reform of state-owned infrastructure and investments in roads, energy and communications infrastructure. However, while there are some prospects for growth in tourism, Tonga will remain heavily dependent on remittances from Tongans working overseas (estimated 21 per cent of gross national disposable income in 2012)<sup>3</sup> and foreign aid for the foreseeable future.

Non-communicable diseases (NCDs), such as diabetes and cardiovascular disease, are endemic in Tonga. They will present an increasing economic drain over coming years, due to higher costs to the health sector, and lost labour productivity due to caring responsibilities and high rates of morbidity and premature mortality. With support from Australia, Tonga has successfully accelerated action on combatting NCDs but this will remain a key challenge to Tonga's development.

As in other parts of the world, gender inequality in Tonga undermines economic growth, human development and poverty reduction. Women in the Pacific continue to be under-represented in Parliament – Tonga

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<sup>1</sup> <http://i.unu.edu/media/ehs.unu.edu/news/4070/11896.pdf> The World Risk Index consists of indicators in four components: (a) exposure towards natural hazards such as earthquakes, cyclones, flooding, drought and sea level rise, (b) susceptibility depending on infrastructure, food, housing and economic framework conditions, (c) coping capacities depending on governance, risk reduction, early warning, healthcare, social and material coverage and (d) adaptive capacities related to future natural hazards and the impacts of climate change. Source: <http://i.unu.edu/media/ehs.unu.edu/news/4070/11895.pdf>

<sup>2</sup> Tonga Department of Statistics Data (2009) in the *Social Protection Issues Paper* prepared for the Government of Tonga's Ministry of Finance and National Planning, cited in AusAID (June 2013). *Tonga Annual Performance Report 2012-13*, 3.

<sup>3</sup> Government of Tonga Budget Statement 2014-15, p13

currently has no female parliamentarians compared to the global average of 21.7 per cent<sup>4</sup>. Rates of domestic violence are particularly concerning: 79 per cent of surveyed Tongan women and girls have experienced physical or sexual violence in their lifetime<sup>5</sup>. Limited formal economic opportunities exist for women in Tonga. Australia will continue to work with Tonga to address these challenges.

## Strategic priorities

Australia has three strategic priorities in Tonga.

- 1. Governance, economic and private sector development reforms.** Our key investment in this area will be the Tonga Economic Reform Program, which will support a medium term program of reforms to strengthen revenue, effectively manage government expenditure, reduce debt and promote private sector growth. Australia and other donors will link aid payments to agreed reform benchmarks, and will provide technical assistance to support implementation. Australia will also fund pilot projects to support Tonga's vanilla industry and contribute to regional initiatives that promote Tonga's private sector, such as the Pacific Horticultural Agricultural Market Access Program. We will increase the proportion of the program allocated to aid for trade activities. We will look for opportunities for Tonga to fully benefit from the Pacific Agreement on Closer Economic Relations (PACER) Plus, when finalised. Our infrastructure investments will be re-oriented to better enable achievement of our strategic priorities.
- 2. A more effective, efficient and equitable health system,** with a focus on reducing the health and economic burden of NCDs and on strengthening the health system in Tonga. Our new Tonga Health Systems Support Program will focus on management of NCDs in primary care, NCD health promotion, and support for mental health and disability services. This work will be complemented by infrastructure investments to improve environmental health, such as the Nuku'alofa Urban Development Project, which is increasing access to clean water supply, sanitation and solid waste services, particularly in low income residential areas.
- 3. Skills development in support of economic opportunities for Tongan workers.** Australia will support a range of training opportunities in Tonga, regionally and internationally, to ensure Tongans are skilled to meet priority areas of labour demand. We will consolidate the work of the Interim Skills Development Facility in technical and vocational skills development, with a particular focus on opportunities for women and those with disability. We will work to further enhance the development impacts of the Seasonal Workers Programme and will continue to provide Australian and Pacific scholarships to Tongans to support local skills development.

We will continue to address the cross-cutting issues of disaster resilience and preparedness, gender equality and supporting the needs of people with a disability (including better data on disability) in our investments. We will strengthen our focus on our *Pacific Women Shaping Pacific Development* and prevention of violence against women initiatives.

Through programs delivered regionally and by other Australian government departments, Australia will also seek to enhance local policing, improve resilience to the impacts of disasters and climate change, and enhance legal system strengthening.

## Implementation approaches

Our partnership approach with Tonga has a long-term focus but we will be bold in supporting new ideas. We will align our investments with Tonga's own development plans, cooperate with other donors and work with multilateral development banks, civil society and the private sector where it makes sense to do so. We will

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<sup>4</sup> Inter-parliamentary Union, *Women in National Parliaments – World Average*.

<sup>5</sup> National Study on Domestic Violence against Women in Tonga, 2009 (published 2012)

continue to link funding to the achievement of results. We will improve synergies between Australian-supported bilateral and regional initiatives. We will consolidate our aid investments and increase our focus on investments that support economic growth. We will continue to channel much of our assistance through the Tongan Government, which has demonstrated the ability to manage and account for Australian aid funds effectively. We will undertake risk management measures including fraud control and due diligence assessments, and apply safeguards on environmental issues and child protection.

## Performance benchmarks

Australia proposes the following performance benchmarks be used to assess progress towards the strategic objectives of the Aid Investment Plan. Australia will report on progress against these benchmarks through annual Aid Program Performance Reports (APPRs). Future year performance benchmarks will be determined following the review and analysis of the APPRs.

Strategic objective	2015/16 benchmark
Economic, governance and private sector development reforms	The Government of Tonga satisfactorily completes the agreed 2015/16 economic, public financial management and private sector reform actions (through the Joint Policy Reform Matrix <sup>6</sup> ).
Improved health systems	Complete national NCD strategy and media campaign.
Skills development	60 students achieve vocational qualifications in line with labour market demand.

## Mutual obligations

Australia and Tonga will agree on a set of mutual obligations for the aid program, to be confirmed through discussions on an Aid Partnership. These mutual obligations will be updated in this Aid Investment Plan once agreed.

In accordance with its commitments to donors, Tonga will continue to implement economic, public financial management and private sector development reforms agreed under the multi-year Joint Policy Reform Matrix. We will also seek agreement through the *Tonga Health Systems Support Program II* that Tonga will ensure:

- the combined Ministry of Health plus Tonga Health budgets (excluding donor funds) as a percentage of the total government budget do not decrease against the 2015 baseline; and
- the proportion of the 2015-16 Ministry of Health budget (excluding donor funds) allocated to the Public Health Division, is maintained at the 2014-15 level.

Australia will deliver effective and predictable development assistance in line with the strategic objectives of this Aid Investment Plan. Australia commits to delivering a substantial proportion of its assistance through the Tongan Government, as this helps to strengthen planning and financial systems. Australian support will align with Tonga's own development plans. This will include ongoing reform efforts, led by the Tongan Government.

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<sup>6</sup> The Joint Policy Reform Matrix is the name given to the mechanism which successfully coordinates the work of Tonga, Australia, World Bank, Asian Development Bank and the European Union in support of economic and public financial management reform. Through this work Tonga has improved its budget and debt situation and introduced reforms to encourage foreign investment such as privatisation of the Dateline Hotel.

Australia and Tonga jointly commit to maintaining a zero-tolerance approach to fraudulent and corrupt actions against Australia's aid program to Tonga. Australia and Tonga will apply safeguards on environmental issues and child protection. Australia and Tonga jointly commit to improving Tonga's procurement and financial systems to ensure that aid funds are disbursed effectively, efficiently, economically and ethically providing the greatest possible value for money and improving the lives of people in Tonga, including those in greatest need. This includes meeting obligations set out in funding arrangements and in the joint statement on fraud and improving financial management. Australia and Tonga will discuss the Aid Partnership on an annual basis to review progress against performance benchmarks and determine performance benchmarks for the following year.

## Monitoring, review and evaluation

DFAT will develop an overall performance assessment framework for its bilateral assistance over the next four years. Results from investments will be monitored against agreed performance benchmarks through regular reviews and partner dialogue. DFAT will continue to provide support to the Government of Tonga and other partners (such as non-government organisations) to improve the monitoring and evaluation of programs they deliver on our behalf.