



Tonga Annual Program Performance Report 2011

October 2012

This report provides an overview of Australia's development assistance to Tonga in 2011. It reviews the major results achieved through direct bilateral aid flows to Tonga with a particular focus on the progress of the Australia–Tonga Partnership for Development towards its 2015 targets. It also outlines opportunities and challenges for the coming year. The report does not attempt to detail all regionally funded and global aid activities in Tonga. The Tonga program will improve reporting of these activities in the 2012 Annual Program Performance Report. A draft of this report has been provided to the Government of Tonga for consultation.

Context

Economy

Tonga has a highly centralised economy with administrative capacity constraints across the public and private sector that affect implementation and service delivery. A significant proportion of the national budget is allocated to wages and salaries, with little left for maintenance and development. The economy is exposed to external shocks and global volatility, and macro-economic stability is fragile. Tonga's private sector is small and unlikely to grow in the short to medium term and Tonga's growth prospects as a result are limited. Tonga has been slow to recover from the negative economic impacts of several of crises in recent years, including civil unrest in 2006, the global financial crisis and a series of natural disasters in 2009.

Given its economic difficulties and limited revenue base, the Tongan Government's ability to fund the delivery of services to its people remains constrained. Debt levels are high, with total public debt at an estimated 45 per cent of GDP¹ and external debt an estimated 41 per cent of GDP.² Tonga is assessed as being at high risk of debt distress. The burden of servicing debt is likely to consume a considerable proportion of government expenditure in future years, particularly in 2013–14 when debt servicing is expected to cost 19.9 million Tongan pa'anga³ (approximately A\$11.2 million) of a total expenditure envelope of around 170 million pa'anga⁴ (approximately A\$95.7 million).

¹ Budget Statement 2012–13: Government of Kingdom of Tonga 'Creating Opportunity in Extraordinary Times', p. 23.

² Ibid.

³ Budget Statement 2012–13: Government of Kingdom of Tonga 'Creating Opportunity in Extraordinary Times', p. 25.

⁴ Ibid.



The value of remittances to the Tongan economy is one of the highest in the world. Over the past decade remittances have, on average, accounted for over 30 per cent of GDP and have benefited three quarters of Tongan households. Remittances have declined sharply in recent years due in large part to the impact of the global financial crisis (with the United States being the major source country). According to the Tongan Government, remittances are continuing to fall with a decline of 21 per cent being recorded in the year to March 2012. Monitoring the trend in remittances will be very important for understanding the economic growth outlook, the budget balance and poverty levels.

Tonga's economy is showing encouraging signs of recovery⁵ from the prolonged impacts of the global financial crisis and a number of other natural and economic shocks in recent years. In 2010–11 the economy grew by an estimated 1.5 per cent – an improvement over the zero growth experienced in 2008–09.⁶ Over the medium term the economy is expected to grow at around 1.8 per cent in line with the historical average, however there are a number of downside risks to the medium term economic growth projections, a consequence of the fact that Tonga's economy is highly vulnerable to external shocks and changes in global economic circumstances.

In this environment a focus for Australian aid is to help Tonga cope with the fiscal gap in its national budget to ensure that services are delivered.

Development situation

While Tonga has already achieved high standards against many of the Millennium Development Goals (see Table 1), the Tongan people face increasing health problems, particularly the rise in non-communicable diseases. The quality of education remains a concern as does low employment prospects, particularly for Tonga's young people.

Absolute poverty, as defined by global measures, is very low in Tonga. However around a quarter⁷ of Tongan households experience a level of poverty where they find it difficult to meet the full range of basic needs. This hardship is most keenly felt among those living in outer islands, in families with no or limited access to remittances, in families without a member in regular employment, recent migrants to urban centres, and people with disability. Stagnant economic growth over a number of years means employment options are limited. The public service is the main employer and is currently subject to a recruitment freeze as part of controlling the public sector wage bill.⁸ Limited employment options, combined with declining remittances and increasing living costs, threaten to push even more families into poverty.

⁵ International Monetary Fund (2012), 2012 Article IV Consultation Report, IMF Report 12/166.

⁶ *Ibid.*

⁷ Tonga Department of Statistics Data (2009) in Social Protection Issues Paper, report prepared for the Government of Tonga, Ministry of Finance and National Planning.

⁸ However, high priority technical posts were able to be recruited subject to approval from central agencies.



Table 1: Status of Millennium Development Goals progress in Tonga

Millennium Development Goal	Indicator and status	Indicator and status
1: Eradicated extreme poverty and hunger	Population below Food Poverty Line: 2.0% (2009)	Population below Tonga's Basic Needs Poverty Line: 22.5% (2009)
2: Achieve universal primary education	Net enrolment rate in primary education: 93% (2008)	Literacy rate of 15 to 24 year olds: 99.4% (2006)
3: Promote gender equality	Ratio girls to boys in primary (0.88) and secondary (0.97) education (2008 and 2009 respectively)	Proportion of seats held by women in parliament: 3.6% (2011)
4: Reduce child mortality	Under-five mortality per 1000 live births: 22.4 (2009)	One year olds immunised against measles: 99.4% (2009)
5: Improve maternal health	Maternal mortality per 100 000 births: 37.1 (2010)	Skilled birth attendance: 99.0% (2010)
6: Combat HIV/AIDS and other diseases	Condom use at last high-risk sex: 21.1% (2008)	Tuberculosis cure rate under DOTS: 83% (2009)
7: Ensure environmental sustainability	Percentage of population using an improved drinking water source: 98% (2006)	Percentage of population using an improved sanitation facility: 82% (2006)

- Note:** ■ The MDG is on track (likely to meet the target). ■ The MDG is of concern (limited data/ progressing too slowly but could reach target with extra effort and resources) ■ The MDG is off track (highly unlikely to meet the target).
- Note:** Tonga has a country-specific target under MDG6 around reducing the incidence of non-communicable diseases. The assessment of progress towards meeting MDG 6 in this table does not include this target and is based on the internationally identified indicators for this MDG indicator. The non-communicable diseases indicator is discussed under the health section of the report.
- Source:** Pacific Islands Forum Secretariat, 2012 *Pacific Regional MDG Tracking Report, 2012*.

Politics and public service

Tonga is a nascent democracy. It consolidated its political reforms in 2011. The first democratically elected government was formed in early 2011. Further significant political reform is unlikely in the immediate term, however a number of ministerial reshuffles and the possibility of a no-confidence vote in mid-2012 indicate a level of fragility in the new government.⁹ The foreseeable future sees Tonga establishing and building on the accountability, transparency and democratic measures undertaken to date and making its political reforms work in practice. This is a new process and will take some time for both government and constituents to become accustomed to.

Closely linked to the political reforms has been a process of reforming the public service. In addition to the ongoing efforts to improve the capacity and performance culture across the public service, in 2011 the government announced its intention to restructure the public service. The aim of the restructure is to merge a number of ministries to reduce the overall number from 26 to around 13 with some additional independent agencies. The restructure added a level of uncertainty in late 2011 to the aid program operating environment, and impacted on planning future aid activities. The restructure will continue to generate a level of uncertainty throughout 2012.

⁹ At the time this report was drafted the Tongan Parliament was considering a motion of no-confidence in the Prime Minister Lord Tu'ivakano by 10 of the 17 people's representatives.



Program objectives and strategy

Progress under the partnership continues to be mixed (see Table 2). In health, and in economic and public sector reform, the goals are likely to be, or are well on the way to being realised through existing programs. However, in the two remaining partnership areas of infrastructure and technical and vocational skills, goals are unlikely to be met without a concerted effort by both governments to improve implementation performance and to focus on achieving results.

Both governments agreed at partnership talks in August 2011 to expand the infrastructure priority area to include water, waste and energy investments. Australia and Tonga also agreed to include education as a priority area under the partnership once a program of support is developed. Education and technical and vocational education and training would be considered together under a single pillar of the partnership, also pending final confirmation of ministerial responsibility for these two sectors in the new Tongan public service structure.

It has recently been confirmed that education and training responsibilities will be combined under a new Ministry of Education and Training from July 2012. Australia is working with Tonga and New Zealand to define our areas of future support for education while supporting an interim program for Tonga’s Ministry of Education to improve minimum service standards, school-based management and the financing of school improvement plans, along with areas of curriculum reform, improved literacy and strengthened assessment systems and teacher quality.

Table 2: Ratings of the partnership priority outcomes in 2011

Priority outcome sector	Rating in 2011	Relative to previous rating
A more efficient and effective public sector		Unchanged
Improved health		Improved
Improved technical and vocational skills		Declined
Develop infrastructure to improve the everyday lives of the people		Unchanged

Note:

- The objective will be fully achieved within the timeframe of the partnership.
- The objective will be partly achieved within the timeframe of the partnership.
- The objective is unlikely to be achieved within the timeframe of the partnership.

The focus of Australia’s aid program remains highly relevant. The partnership priorities are closely aligned to Tonga’s own development priorities as articulated in the ‘Tonga Strategic Development Framework’ that focuses on Tonga’s key development challenges.

In addition to the formal partnership objectives, Australia has been supporting Tonga to improve the performance of its police service (see attachment A) and to prepare for the impacts of climate change.

In 2011, Australia released the results of the first detailed scientific projections for long-term climate change impacts in Tonga and the Pacific. The impacts of climate change—such as extreme weather events (high-intensity storms, hot periods), sea level rise, and associated increased levels of inundation and storm surges—are expected to continue increasing over time.

Australia’s climate change support to Tonga focuses on implementing its Joint National Action Plan for climate change adaptation and disaster risk reduction. With Australian funding, Tonga recruited three members of the Joint National Action Plan Secretariat, which supports the taskforce responsible for implementing the plan. The secretariat had early successes in better



assistance to Tonga in 2011–12¹¹ represents approximately 40 per cent of Tonga's total estimated international aid inflows.¹² It is difficult to get firm details on China's assistance to Tonga, but China is an increasingly important development partner. Budget support from a range of donors, including Australia, the Asian Development Bank, the World Bank and European Union over the last few years has directly financed government services and has been a valuable source of foreign cash reserves (of which Tonga has few other sources). Australia is working alongside the World Bank, the Asian Development Bank and the International Monetary Fund's Pacific Financial Technical Assistance Centre to support Tonga to strengthen its management of public finances and to help it maximise the effectiveness of all its development resources.

Australia is committed to fostering good donor coordination to maximise development benefits for Tonga. Maintaining close dialogue with like-minded donors, and influencing the practices of emerging and non-traditional donors, is an important national and development interest for Australia. Australia's promotion of donor coordination efforts is particularly important in Tonga where there is a limited donor presence and the Tongan public service's ability to coordinate donors is limited by capacity and human resource constraints.

Donor coordination and harmonisation has been particularly successful in promoting economic reform around a single matrix of economic and fiscal reform initiatives. In 2011 Australia worked closely with a group of like-minded donors including the World Bank, the Asian Development Bank, the European Union, New Zealand and the International Monetary Fund's Pacific Financial Technical Assistance Centre to negotiate and agree a single set of economic and fiscal reform initiatives with Tonga (termed the single policy matrix) as the basis for predictable donor support and to encourage ongoing reform.

In the infrastructure sector, Australia funds programs managed by the World Bank and the Asian Development Bank. This approach allows us to take advantage of the knowledge and expertise of these development partners in delivering infrastructure programs across the Pacific, and recognises their good global performance as a development partner to Australia. Donor coordination has been weaker in the infrastructure sector, where development partners have very different accountability and delivery methods and where Tonga has not pressed donors to coordinate effectively, particularly in the road sub-sector.

Australia is working closely with New Zealand to support the development of Tonga's technical vocation education and training system and on a joint program supporting its education system. Australia and New Zealand also have harmonised scholarship programs and continue to work together to strengthen the performance of the Tongan police through the Tonga Police Development Program.

Opportunities for coordination with China are limited because China has a markedly different approach to development cooperation. The Government of Tonga has not maximised opportunities to promote coordination and harmonisation between China and other development partners. China is not a party to the single policy matrix and appears open to further concessional loans to Tonga, which is at odds with other donor efforts to persuade Tonga to rein in its high levels of debt.

¹¹ Australia's International Development Assistance Program 2012–13 Budget Statement.

¹² Budget Statement 2012–13: Government of Kingdom of Tonga 'Creating Opportunity in Extraordinary Times', Table 11, p. 47.



Expenditure

In 2011–12 approximately \$16.2 million in direct bilateral aid flows were managed by AusAID in Tonga. In addition, approximately \$3.4 million in official development assistance was managed by other government departments, in particular the Australia Federal Police (\$2.9 million) and the Australian Centre for International Agricultural Research (\$0.4 million).

Table 4: Estimated expenditure in 2011–12 (direct bilateral flows)

Partnership objective	A\$ million	% of direct bilateral flow
A more efficient and effective public sector	\$6.8 million ¹³	42%
Improved health	\$1.9 million	11%
Improved technical and vocational skills	<\$0.1 million	5%
Develop infrastructure to improve the everyday lives of the people	\$3.4 million	21%
Major bilateral expenditure outside the partnership	A\$ million	% of direct bilateral flow
Scholarships programs	\$1.3 million	8%
Interim education program	\$2.1 million	13%

In 2011–12 an additional \$11.1 million in AusAID regional and global funding benefited Tonga.

Progress against objectives

A more efficient and effective public sector

Rating and assessment

■ The objective will be fully achieved within the timeframe of the partnership.

Table 5: Partnership for Development – a more efficient and effective public sector

Aim: To support the Government of Tonga to ensure that policies and programs are fiscally sustainable, strategically targeted on core development priorities, and implemented in the most cost-effective manner. This is pursued through the strengthening of the public sector in policy formulation and implementation, and public financial and economic management.

Partnership targets for 2015

Not specifically defined beyond the first year of the partnership. Partnership targets need to be updated.

¹³ Of which \$5 million in performance linked aid was provided in the form of budget support for health and education worker salaries.



Key issues

Economic and fiscal reform

In 2011 a large amount of AusAID staff and management time was devoted to working closely with the World Bank and other donors to negotiate and agree the single policy matrix of economic and fiscal reform initiatives with Tonga. This effort was driven by previous experience where budget support was not as well coordinated as it could have been, and responded to Tonga's request in early 2011 for donors to coordinate around priority areas for reform identified by the government.

AusAID asked the World Bank to negotiate a series of reform actions with Tonga in recognition of the bank's comparative advantage to address economic and fiscal reform issues and in response to Tonga's request for greater coordination among donors. This approach allowed both Australia and the bank to link the disbursement of separate budget support payments to the achievement of the government's priority reforms. AusAID also encouraged the World Bank to coordinate closely with the Asian Development Bank, the Pacific Financial Technical Assistance Centre of the International Monetary Fund, the European Union and New Zealand to ensure policy actions would form the basis of a single agreed reform matrix shared amongst all interested donors. Australia strongly supported the matrix concept as an effective donor coordination mechanism. The matrix allowed Australia and its key development partners to engage in coordinated policy dialogue with Tonga on economic and fiscal matters throughout 2011.

The realisation and delivery of joint policy matrix reforms represented tangible, high-level public financial management reforms for Tonga. In 2011 long-term Australian-funded technical assistance and funding directly supported Tonga to achieve a number of the priority reforms identified in the matrix. In particular, Australian-funded technical assistance to the Ministry of Finance and National Planning supported strengthened public financial management and fiscal policy, particularly improvements to monitoring and transparency of the budgeting process. Support to the Public Service Commission and the Ministry of Finance and National Planning improved management of the public service wage bill through centralised control of recruitment and a partial public service hiring freeze.

In early 2012, based on Tonga achieving its reform benchmarks, Australia disbursed \$5 million of performance linked aid as sector budget support for health and education worker salaries. AusAID linked the disbursement of Australia's budget support to a parallel US\$9 million World Bank economic recovery operation, drawing on the World Bank's expertise and analysis of Tonga's macro-economic circumstances and assessment of reform achievement. The combined budget support operation of the World Bank and AusAID provided impetus and an incentive for Tonga to undertake reforms as it provided much needed revenue to close its fiscal gap.

Public service reform

The public sector is the main service provider and delivery agent in Tonga. It is also the primary employer in the country. In 2011 the newly elected Tongan Government announced its decision to restructure the public sector. In the past, moves to restructure have been a factor in civil unrest. It is critical therefore that any restructure is sensitive to the broader impacts on Tongan society. Any reform must be executed and implemented smoothly, and with as little disruption to government services as possible to ensure that service delivery is not compromised. This necessarily adds to the timeframes required to implement the reforms.



Recent efforts to leverage the leadership of the World Bank in this sector will be maintained and performance linked aid will continue to act as an incentive for meaningful reforms.

Improved health

Rating and assessment

 The objective will be fully achieved within the timeframe of the partnership.

Table 6: Partnership for Development – health

Aim: The partnership will support progress towards poverty reduction and improvement in living standards for Tongans through improved health outcomes with a particular focus on reducing the impact of non-communicable diseases.

Partnership targets for 2015	Progress
Reduced prevalence of non-communicable disease risk factors including: <i>Tobacco use: 2 per cent decrease in prevalence of smokers by 2015</i> <i>Obesity: halt the increase in overall prevalence of obesity by 2015</i>	
Budget for preventive health care reaches 10 per cent of total public health operational budget by 2015	
Primary health care to all communities in Tonga to follow a common national standard	

Key issues

Tonga faces serious health challenges and is off track to meet its own Millennium Development Goal of halting and beginning to reverse the incidence of non-communicable diseases. Non-communicable diseases have occurred in epidemic proportions over the last 20 years and are responsible for four of the five most common causes of mortality (diabetes, heart disease, stroke and lung disease). Hospitalisation related to non-communicable diseases currently accounts for around 20 per cent of health expenditure.¹⁴

The prevalence of diabetes in Tonga is on the rise. Between 1973 and 2004 the incidence of diabetes increased from 7 per cent of the population to 18 per cent.¹⁵ In 2008 the first case of Type 2 diabetes under the age of 14 was admitted to hospital.¹⁶

Excessive weight and obesity is one of the main drivers of the increases in diabetes, cardiovascular disease and some cancers in Tonga. In 2004, 90.6 per cent of Tongans were overweight or obese (86.4 per cent of men and 93.6 per cent of women), and nearly 15 per cent of children aged 12 to 15 were either overweight or obese. Over a 30 year period, between 1973 and 2004, the average weight of men increased by 16.6 kilograms and women by 21.1 kilograms.¹⁷ In 2010 Tonga's Minister for Health cited Government of Tonga and University of Queensland research, which indicated a reduction in the life expectancy of men from 69 years in 2006 to 65 years in

¹⁴ Tonga Ministry of Health statistics.

¹⁵ Tonga 2004 STEPS survey.

¹⁶ Tonga Ministry of Health statistics.

¹⁷ All figures in this paragraph from Tonga 2004 STEPS survey.



At partnership talks in August 2011, Australia and Tonga agreed to define expenditure on preventative health to assess progress towards the goal of 10 per cent of the health budget being used for preventative health in 2015. Since August 2011, Ministry of Health and AusAID officials have been developing an agreed definition which will be tabled at the next partnership talks in October 2012.

Improved technical and vocational skills

Rating and assessment

■ The objective is unlikely to be achieved within the timeframe of the partnership.

Table 7: Partnership for Development – technical and vocational skills

Partnership targets for 2015	Progress
Increase the number of Tongans completing locally or internationally accredited technical and vocational education and training courses, including a focus on equal opportunities for all	■
Increase the number of accredited technical and vocational qualifications available in Tonga	■

The Australia–New Zealand–Tonga Technical Vocational Education and Training Support Program (TSP1) is the primary means by which Australia is supporting Tonga to develop its technical vocational education and training system. TSP1 is implemented by the Ministry of Training, Employment, Youth and Sports through Tongan Government systems. Australia manages the joint funding on behalf of New Zealand under a delegated cooperation arrangement. TSP1 is in its second year of implementation and aims to strengthen Tonga’s national training system. It is designed to provide training that responds to industry demands through internationally benchmarked skills standards, support the registration and accreditation of technical vocational education and training providers, and strengthen the capacity of local providers to deliver internationally recognised training.

Poor results

However TSP1 is not delivering the results expected and without major improvements, the partnership targets around technical and vocational skills development will not be reached. A recent independent progress report has shown that since its inception, the program has been hampered by a number of fundamental structural problems, which are key reasons for the poor progress to date. They include:

- a lack of a common vision for technical vocational education and training in Tonga, and the absence of any process to build such a vision grounded on a broad-based understanding of technical vocational education and training concepts and approaches
- the absence of a national technical vocational education and training policy and the missed opportunity to build understanding and ownership through a policy development process



- a poor program design which does not adequately reflect the existing technical vocational education and training context in Tonga (relying on a newly established ministry to deliver the program without a policy or common vision for technical vocational education and training) and which did not include adequate analysis to determine priority sectors for support
- a lack of data, particularly labour market information and skills plans, to inform policy development and TSP1 implementation strategies to help identify appropriate courses and units of competence
- a program management structure which falsely assumed an adequate level of administrative capacity within the implementing ministry and donors
- a poorly implemented donor funding arrangement and complex governance structures between Australia and New Zealand, which caused delays, uncertainty and confusion in delivering the program.

These fundamental problems, coupled with the transfer of the training responsibility to a new Ministry of Education and Training from July 2012, will take time to resolve. Given the lack of effective progress to date and the fundamental problems the program has been encountering, AusAID, Tonga and New Zealand will need to focus resources on rethinking the approach to building technical and vocational skills in Tonga. Tonga must take the lead in developing a technical vocational education and training policy based on sound labour market analysis as a precursor to the reconsideration of support in this area. TSP1 in its current form will be redirected to support this work as a priority before being wound up.

The Ministry of Education and Training will remain the key driver of future support to the sector but consideration of an alternative approach will be required, at least in the immediate term, to deliver partnership results. There is also a need to explore alternative ways to build vocational and technical skills in Tonga by increasing access to relevant courses provided by the Australia Pacific Technical College and other such accredited providers. This is discussed further under the management consequences section of this report.

Develop infrastructure to improve the everyday lives of the people

Rating and assessment



The objective is unlikely to be achieved within the timeframe of the partnership.

Table 8: Partnership for Development – develop infrastructure to improve the everyday lives of the people

Aim: The partnership will plan and put in place transport and other infrastructure to reduce business costs and facilitate access to market and services.

Partnership targets for 2015	Progress
An increase in the proportion of the population with reliable and affordable transport links to markets and services	
Increased domestic private sector participation in the provision and operation of infrastructure	
Regular and adequate budgetary provision for infrastructure maintenance	

In 2009 when the partnership was developed, Tonga was experiencing the worst impacts of the global financial crisis. Australia agreed to fund infrastructure development to stimulate domestic



private sector activity during the economic downturn and make up for a shortfall in public funding for maintenance. Australia met this commitment by expanding its funding support to the pre-existing World Bank Transport Sector Consolidation Project, adding specific objectives to improve land transport in rural areas and establish domestic capacity for road maintenance. This was to improve road maintenance while generating employment.

Slow progress

In 2011 this program continued to experience implementation difficulties despite the efforts of the World Bank and Australia to press the Tongan Government for greater progress and results. The project was without a project director and procurement specialist for several months during 2011.

Progress achieved on the project has been in institutional change (helping in the merger of nine entities responsible for infrastructure into one Ministry of Infrastructure), and policy and planning, particularly in the maritime and aviation sub-sectors. There has been very little progress in the road sector. In 2011, the World Bank downgraded the status of the project to moderately unsatisfactory on its rating scale – a significant step to highlight the lack of traction the project was experiencing. Australia advised the World Bank and Government of Tonga that future payments for the project would be held back until progress was made. While this has been slow, some achievements have been made. During 2011, over 25 local private sector contracting and consulting companies were trained to bid for contracts, and the first ever local supplier was awarded a contract in January 2012 to construct 4.2 kilometres of road, piloting a new road surfacing technology for Tonga.

A key reason for the lack of progress in the sector has been a weakness in the government's prioritisation of the reforms required to facilitate the project. China is a significant and growing player in the road sub sector in Tonga, and its substantial loans to the sector, has been the focus for the Government of Tonga's limited absorptive capacity. In this environment it remains difficult for the World Bank (and Australia) to progress the goals of the project. Based on progress in 2011, it is unlikely that partnership goals in relation to increased reliable and affordable transport links and access to markets are going to be achieved by 2015.

Forward priorities

In 2012 AusAID will review whether to maintain funding for the road transport sector in the absence of marked improvements in on-the-ground road maintenance activity. There are no other options for AusAID to deliver a road transport sector program and any AusAID-managed program would face the same difficulties currently being experienced by the World Bank. Any decision on future support under the Transport Sector Consolidation Project will be discussed and negotiated at the partnership talks, and after consultations with the Government of Tonga and the World Bank. This is discussed further under the management consequences section of this report.

In 2011 AusAID also worked closely with the World Bank and Asian Development Bank to define further opportunities to expand Australian investments in economic infrastructure beyond the roads sector. As a result of that work, from 2012 Australia will fund an Asian Development Bank urban development project in Nuku'alofa to improve the reliability of water supply and solid waste management services, and a World Bank program supporting Tonga to progress its energy roadmap to make power more affordable while increasing renewable energy production. These programs have been supported in recognition of Tonga's changing



infrastructure needs, and to better align with the Tonga Strategic Development Framework 2011–2014.

With the recently agreed new investments in urban development and energy, and once a decision has been made on Australia's future support to the transport sector, the program will prepare an implementation schedule which will define the immediate and long term targets for infrastructure development under the partnership. This was a commitment from the 2010 APPR which was not progressed due to the program's focus on resolving problems with the Transport Sector Consolidation Project and defining new investment options for infrastructure support.

Program quality

Quality reporting was completed for initiatives covering 97 per cent of AusAID's bilateral spending in 2011. The reporting shows that the initiatives remain highly relevant to Tonga's development priorities. Despite a slight improvement since 2010, the overall effectiveness and efficiency of initiatives in the Tonga program remains of concern. This is primarily because of implementation difficulties for programs managed through or relying in some way on Tongan Government systems for their implementation. Health was one program where efficiency increased as a result of increased AusAID resources dedicated to supporting the Ministry of Health to overcome implementation blockages, and funding of two program coordinators within the ministry with an embedded role in project implementation.

The quality of monitoring and evaluation across the program remains weak. This is in part due to complex monitoring and evaluation frameworks and reliance on Government of Tonga systems to collect data and ascertain results. Program designs did not take into account operational and capacity constraints of Tonga's implementing agencies in monitoring and evaluation and there is limited alignment of activity outputs and outcomes to expected high-level development and partnership results. A number of programs are still undertaking baseline activities some years into initiative implementation, indicating the challenges posed by relying on partner government systems for monitoring and reporting results.

Gender equality remains a significant challenge to the program despite a greater focus on improving gender considerations in 2011. The continued poor quality ratings in this area will take time to turn around in circumstances where gender was not adequately considered in initiative designs. Greater attention will be given to addressing gender and other cross cutting themes such as disability in new program designs. An indicator of improved focus on gender is the high rating given to gender equality for the one new program which was subject to Quality at Entry reporting in 2011 (Nuku'alofa Urban Development Project). A stocktake of existing programs in terms of impacts on gender and opportunities to improve gender equity outcomes, supported by AusAID's gender unit, was a key reason for improved focus on gender in 2011.

Another challenge highlighted in quality reporting in 2011 was the lack of reliable information on the impacts of AusAID's programs on Tongans living with disability. Many of the current activities were designed without a focus on improving outcomes for people with disability and there was limited data to assess if activities were having a positive or negative impact. Opportunities for policy engagement with Tonga on this issue have been limited. The Tonga program will undertake a similar exercise to the 2011 gender stocktake for disability in early 2013 to identify opportunities to improve outcomes for people with disability through existing



activities and improve consideration of people with disability in the design of future aid activities.

Table 9: 2011 AusAID Quality at Implementation and Quality at Entry Ratings (with 2010 average provided for comparison)

Program	Relevance	Effectiveness	Efficiency	Monitoring & evaluation	Sustainability	Gender equality	2011 average	2010 average
Combined economic and public sector initiatives	■	■	■	■	■	■	■	■
Health Systems Support Program	■	■	■	■	■	■	■	■
Technical Vocational Education and Training Support Program	■	■	■	■	■	■	■	■
Transport Sector Consolidation Project	■	■	■	■	■	■	■	■
Australian Regional Development Scholarships	■	■	■	■	■	■	■	■
Australian Development Scholarships	■	■	■	■	■	■	■	■
Tonga Education Support Program	■	■	■	■	■	■	■	N/A
Nuku'alofa Urban Development Project (QAE)	■	■	■	■	■	■	■	N/A

Definitions of rating scale:

Satisfactory (4, 5 and 6)

■ = 6 = Very high quality

■ = 5 = Good quality

■ = 4 = Adequate quality; needs some work

Less than satisfactory (1, 2 and 3)

■ = 3 = Less than adequate quality; needs significant work

■ = 2 = Poor quality; needs major work

■ = 1 = Very poor quality; needs major overhaul

Multilateral engagement

Australia works effectively with multilateral development partners in Tonga, particularly the multilateral development banks in the economic and public sector reform and infrastructure sectors.

As previously described, the World Bank has performed well in leading economic reform dialogue on behalf of a range of donors, and AusAID has a high level of confidence in the bank's technical expertise and level of engagement with Tonga on economic matters. The Asian Development Bank engaged effectively with AusAID and the World Bank around the single policy matrix and provided technical assistance in a harmonised way with Australia in a number of reform areas. The Asian Development Bank has flagged its intention to provide budget support from 2013 and to continue to engage in coordinated reform dialogue with Tonga and development partners through the single policy reform matrix.

In the infrastructure sector, the World Bank and Asian Development Bank actively engaged AusAID throughout the development of new programs for joint funding and were responsive to any issues raised by AusAID in the design processes. The World Bank responded to AusAID concerns on the Transport Sector Consolidation Project and effectively advocated those concerns with the Government of Tonga.



In 2011, Australia also began working with the United Nations Development Programme to develop a governance initiative aimed at strengthening the operations of Tonga's new parliament, supporting the electoral commission throughout the election cycle, and strengthening the role of civil society in advocating community concerns to parliament. Pending approvals, a program of support in this area will commence in 2012.

Coordination with multilateral partners recognises their effective global performance as AusAID partners and is likely to improve the effectiveness of all partners' aid programs to Tonga.

Risk and fraud management

The Tonga bilateral 2011–12 risk and fraud management plan identified 16 high risks and three medium risks to the program. The highest correlate closely with the challenges identified in this report. These are being managed and reviewed annually or as conditions change. Any instances of suspected fraud are managed in close consultation with AusAID's fraud control unit. There were two cases advised to the unit in 2011, but investigations found there to be no fraud against the Commonwealth of Australia. The cases involved poor financial management practices within two separate Tongan ministries, one of which no longer manages Australian aid funds. Some of the high risks identified relate to the use of Tonga's public financial management system to deliver Australian aid. To manage this risk in 2011, AusAID undertook detailed assessment of Tonga's public financial management systems, based on international good practice. The assessment recommended that AusAID continue to consider the further use of Tonga's systems in all areas other than procurement and external audit, where additional controls may be required. The assessment recommended AusAID should not rely on Tonga's external audit function without additional risk mitigation measures.

In response to these recommendations, AusAID is commissioning an assessment of procurement systems and will engage independent firms to audit major AusAID programs in Tonga. This work also aims to supplement Tonga's capacity to strengthen the performance of Tonga's Auditor General's Office, including by involving the office in independent audits wherever possible. The assessment of Tonga's systems followed work in 2010 to assess system capacity in the ministries of education and health. The assessments have been positive overall, and indicate that fiduciary risks are low and manageable in most cases. However, AusAID must carefully assess future use of Tongan systems from the perspective of the delivery of development results because of the levels of absorption capacity of Government of Tonga systems and the resultant implementation challenges.

AusAID's work to assess Tonga's financial systems has also been an important tool for donor harmonisation. Australia has shared the assessment with New Zealand as part of joint efforts to support the education sector where use of government systems is anticipated, and with multilateral partners. The sharing of assessments will reduce the administrative burden of further assessments on the government.

Forward expenditure management

By July 2012, 78 per cent of bilateral funds were committed in funding agreements for 2012–13 but only 8 per cent of funds had been committed for 2013–14. This indicates a challenge for developing a high quality pipeline of aid activities in Tonga and in part reflects the challenges regarding the absorptive capacity of the Tongan Government systems to deliver Australian aid. It will take a number of years to develop a sound pipeline using a mix of modalities and for this



reason a significant increase in aid funding to Tonga is not recommended for the immediate term.

One of the most significant risks to the operating environment in Tonga relates to Tonga's ongoing commitment to fiscal discipline and to reducing its levels of external debt. Tonga remains at high risk of debt distress according to the International Monetary Fund. Tonga's good reform efforts to date can quickly be undone if it accepts further loans or does not maintain discipline around expenditure prioritisation. Australia will continue to work with the International Monetary Fund, the World Bank, New Zealand and other like-minded donors to encourage the Tongan Government to stay the course on reforms needed to consolidate Tonga's budgetary position.

Management consequences

Following is a list of priority actions that will be undertaken by AusAID in the coming year to address issues raised in this report. A summary of last year's management consequences can be found at Attachment B. Building on the assessment of Tonga's public financial management systems, AusAID will analyse the effectiveness and efficiency of continuing to use Tongan Government systems to deliver and monitor partnership results. The analysis will identify aspects of Tongan systems which increase effectiveness and efficiency of program delivery and those areas where supplementation of technical expertise or additional risk management measures may be needed. The objective will be to identify ways to improve results under the partnership in the immediate term, while helping strengthen Tonga's own systems in the long-run.

A key priority for 2012 will be to prepare a delivery strategy for the economic and public sector reform area. This will be underpinned by analytical work to develop a framework for better prioritising areas of support. The framework will allow AusAID to manage requests for assistance based on clear prioritisation criteria, and over time will improve the coherence and effectiveness of Australian assistance in this area. AusAID will continue to pursue a joint matrix of policy reforms with like-minded donors. We will develop an implementation plan for the achievement of jointly agreed targets in the sector and also explore design of an economic and public sector facility to support Australia's investments in the sector, reduce the management workload on AusAID, and allow a greater focus on policy dialogue.

AusAID, Tonga and New Zealand will rethink the approach to vocational and technical skills development in Tonga, including the most effective way to achieve the partnership targets in this area. It is likely that given Tonga's limited capacity to develop its own technical vocational education and training sector in the timeframes remaining under the partnership, AusAID will need to consider other ways of delivering high quality vocational training to fill identified labour market needs. Design of a new technical and vocational education and training support program will explore increased linkages with the Australia–Pacific Technical College, accredited technical and vocational training institutions in Australia and New Zealand, and the use of other existing or planned regional arrangements to increase skills in Tonga. Australia and New Zealand will also need to explore the most efficient joint funding and coordination arrangements given the difficulties experienced to date in using a delegated funding arrangement.

AusAID advisers in infrastructure and education will help our Tonga Post review the partnership priorities in the infrastructure sector and the combined education and training sectors. We will



consider the recommendations of the review of Australia’s support for road maintenance and expand the focus of AusAID’s infrastructure program to include energy, water and waste treatment in line with recently agreed investment decisions. We will work with Tonga’s Ministry of Education and Training and New Zealand to develop an integrated approach to support for education and training, based on a new education program currently being developed, as well as changes to the approach for technical and vocational skills development.

Coordination between AusAID’s regional and bilateral programs remains a challenge. While efforts to gather information on upcoming missions by regional agencies have improved coordination, further improvements are required. An important first step will be for AusAID to strengthen reporting on activities in Tonga funded by regional programs, particularly for priority sectors under the partnership.

The Tonga program has progressed a suite of analytical work in the last two years to inform program design, planning and operations, but will require continuing and increased technical and advisory support, particularly for the areas of public sector and economic management, climate change and education, to further enhance program strategy, management and policy dialogue with Tonga.



Attachment A: Tonga–Australia Police Partnership

In September 2006, following an extensive police reform review, the Tongan Government and Tonga Police requested assistance from Australia and New Zealand to develop the capacity of the Tonga Police.

The Australian Federal Police (AFP) arrived in Tonga in 2008 as part of a trilateral Tonga Police Development Program being conducted in partnership with Tonga and New Zealand. Three AFP members, together with two New Zealand Police members, have supported the police commander and helped professionalise the Tonga Police.

The program has also been supported by short-term AFP and New Zealand staff on specific projects such as the monitoring and evaluation report, Tonga Police Training School review, further development of police policy, building works, human resources reform, corporate services reform, information and communications technology scoping, and radio communications assistance.

The *Tonga Police Act 2010* was drafted by the Attorney-General's Department in consultation with Tongan officials, and with help from the AFP and New Zealand Police under the Tonga Police Development Program. It separated the responsibilities of the police minister and the police commissioner, created a complaints regime, codified police powers of search, seizure and arrest, and imposed safeguards for the use of those powers. It also introduced new police powers to take advantage of modern technology in areas such as forensic investigations and surveillance.

Australia and New Zealand are working with Tonga to support the Act, and funding is shared on an equal basis between Australia and New Zealand, with Tonga providing a smaller percentage.

As part of the trilateral program, the following milestones were achieved during 2011–12.

- The University of South Pacific undertook a second police perception survey. In comparison to the 2009 baseline survey, it showed a significant increase in the reporting of crime, public respect for police and a slight increase in people's trust of the police.
- The Tongan Police Training School was registered as a national training provider with the Tonga National Qualification and Accreditation Board.
- Procedures for police recruitment were reviewed and recommendations adopted to ensure processes are fair and transparent.
- A Professional Standards Office was established.
- Human resources reforms were implemented, including the development and implementation of policies and standard operating procedures resulting from the new *Tonga Police Act 2010*.
- A standardised performance appraisal process was adopted and streamlined corporate reporting processes were implemented.
- Significant capital works projects were completed (jointly funded by New Zealand and the AFP) which included a new community police station on 'Eua and construction and redevelopment of Vaini and Ha'apai police stations.
- A basic criminal investigations course was developed and implemented for the first time as part of the new investigations training program for the Tonga Police.



Attachment B: 2010 management consequences

Key management consequence	Status	Comment
New targets around priority outcome 1 of the partnership—a more efficient and effective public sector.	Not achieved – to be pursued in 2012	Not actioned because program focused on Tongan-led policy dialogue around a joint matrix of reforms, Tongan public service restructure and limited staff capacity to negotiate targets.
Revise implementation schedules in health and technical and vocational skills to include annual and long-term targets.	Not achieved	Not actioned because the program focused on increasing policy and program dialogue to attempt to overcome implementation obstacles and difficulties in these two sectors. This will be pursued in 2012.
Support program staff with the skills to manage programs and engage in strategic policy engagement for programs working through partner government systems.	Ongoing	This is a long-term need. Workforce planning support will be pursued in 2012 following pilot efforts in Samoa and Papua New Guinea. Ongoing professional development opportunities will be offered to staff in conjunction with support from Australian based personnel.
Negotiate solutions to implementation challenges in health and technical and vocational education and training programs.	Partly achieved	Increased human resources committed to health program in 2011 allowed implementation bottlenecks to be overcome. These included recruitment of key personnel to drive the program and advisory support engaged by the bilateral program to support AusAID and the Ministry of Health to progress the program. Limited progress achieved in the technical vocational education and training program despite concerted efforts to fill vacant key program and advisory positions embedded in the ministry. Fundamental problems with the program discussed earlier in the report limited ability of AusAID and Tonga to progress the program.
Increase level of engagement with the World Bank on road maintenance program.	Achieved	AusAID engaged regularly with the World Bank on the challenges around the Transport Sector Consolidation Project including at high levels in the Sydney office of the bank, and during supervisory visits in Tonga.
Inclusion of basic education as a priority outcome under the partnership from July 2012.	Achieved	At partnership talks in August 2011, both governments agreed to include basic education as a priority under the partnership with details to follow a design of a program supporting Tonga's own policy priorities. This design is ongoing but is expected to be complete by the next partnership talks in August 2012 where specific targets will be agreed.
Offer further assistance to Tonga to embed its democratic reforms.	Achieved	AusAID has been working with the Australian Electoral Commission and the United Nations Development Programme to design ongoing support to the legislative assembly and the Tongan Electoral Commission to embed its democratic reforms and institutions. The program is expected to be in place by late 2012.
Ongoing support to program from gender unit for improved gender equality considerations.	Achieved	Gender unit has supported an officer at Post with gender equality support responsibility to improve gender consideration across the program. Staff are now considering gender in a more integrated way, however changes to programs to improve gender equality outcomes will need to be considered at key points such as at evaluation and design.
Strengthen monitoring and evaluation systems and processes across the program, including strengthening partner government monitoring and evaluation systems.	Ongoing	This area remains a concern. Attention has been given to supporting Tongan ministries to improve monitoring and evaluation capacity and focus, however it will take some time to improve capacity in this area. Program designs and evaluations will provide information on how best to improve monitoring and evaluation practices across the programs.

Attachment 3: Headline results summary: Tonga program

Country	Headline result indicator	2011 result	How Australia contributes (type of aid)	Method of calculation	Data source
Tonga	03. Number (x) of people provided with increased access to safe water	1126	Accountable cash grant to the Government of Tonga which enabled it to purchase and install household water tanks.	Household census numbers multiplied by water tanks provisions.	Government reporting to AusAID on the number of household water tanks provided using Australian funds, preliminary results of the Tonga National Population Census 2011.
Tonga	12. Number (x) of textbooks provided	55 000	Pooled funding with New Zealand to the Tonga Education Support Program.	Single units counted, pro-rata share.	Data was provided by the ministry on the number of books printed and distributed in 2011.
Tonga	16. Number (x) of people awarded tertiary scholarships*	30 (12 men, 18 women and no people with disability)	These scholarships are delivered through Australian Development Scholarships, Australian Leadership Award Scholarships and Australian Regional Development Scholarships. They are managed by AusAID under the banner of the Australia Awards.	This result includes all in-Australia long-term development scholarships plus the Australian Regional Development Scholarships. Numbers are of scholarships awarded. Numbers are calculated for 2011, which is the calendar year the scholar commenced.	OASIS. Data regarding the numbers of awardees with disability comes from country program information.
Tonga	20. Number (x) of poor women and men who increase their access to financial services*	14 142	To support mobile payments solutions, AusAID contributes to the International Finance Corporation's Pacific Microfinance Initiative as well as the United Nations Capital Development Fund's Pacific Financial Inclusion Programme.	A pro-rata approach has been used to calculate AusAID's contribution to the International Finance Corporation's Pacific Microfinance Initiative and United Nations Capital Development Fund's Pacific Financial Inclusion Programme. Not all funding	The data is provided by development partners, the International Finance Corporation's Pacific Microfinance Initiative and United Nations Capital Development Fund's Pacific Financial Inclusion Programme. Attribution is based upon a pro-rata calculation.

