



## PACIFIC COVID-19 RESPONSE PACKAGE – TONGA ANNEX

As announced in the October 2020 budget, Australia will provide new funding of [\\$304.7 million for a COVID-19 Response Package](#) (the Package) in the Pacific and Timor-Leste. The two-year package (FY2020-21 and 2021-22) will be a temporary and time-bound addition to Australia's existing and ongoing \$4 billion Official Development Assistance budget.

In addition to support to maintain Pacific aviation, the Package has two funding windows: a Vulnerability and Economic Recovery Window; and a Fiscal Crisis Window for countries facing severe fiscal impacts. The Australian Government will provide \$10 million in funding to Tonga, split between the two funding windows.

This annex outlines Australia's implementation of the Package in Tonga. It also serves as an annex to the [Tonga COVID-19 Development Response Plan](#) that forms part of Australia's [Partnerships for Recovery](#) development policy.

### **ECONOMIC, FISCAL AND SOCIAL SITUATION**

The COVID-19 pandemic has badly impacted Tonga's ability to increase or maintain its revenue base, presenting considerable risks to vulnerable families, women and small or informal businesses. Tourism has been brought to a standstill and, with few opportunities to diversify its economy and a large trade deficit, Tonga continues to be highly vulnerable to debt distress.

Many Tongan households are reliant on remittances from the Tongan diaspora and labour mobility participants working abroad. Pre-COVID-19, remittances equated to 38 per cent of GDP. Since COVID-19, remittances have been higher across all currencies and sending countries, but it is not yet clear whether these levels will be sustained over time.

The Asian Development Bank estimates a GDP contraction of 0.8 per cent per cent in 2020, and a further contraction of 5.3 per cent in 2021. In 2019-20 and 2020-21, Tonga received sufficient donor support to manage its budget and this donor support helped meet shortfalls in domestic revenue occurring due to COVID-19. The Government of Tonga also made expenditure cuts to manage the budget within its reduced revenue envelope, however, the changes were

modest, proportionate and designed to ensure Tonga avoided a situation where excessive austerity led to worsening community vulnerability.

Despite strong cultural social safety nets as well as a national social protection scheme, women have reportedly been more adversely affected by the pandemic than men. Domestic service providers have reported increases in family violence and economic opportunities for women have decreased due to job losses in sectors where women represent a significant proportion of the labour force - tourism, retail and services.

### **ACTIVITIES**

Activities to be funded through the Package include:

**Vulnerability and Economic Recovery Window:** \$5 million in 2020-21 to be provided as earmarked budget support for Tonga's COVID-19 Business Recovery Assistance Program. The Program provides: cash support to registered businesses with a demonstrated revenue loss as evidenced in tax statements and returns; wage subsidies to reduce unemployment risks among small businesses; and grants targeted at vulnerable individuals reliant on informal business sector income.

**Fiscal Crisis Window:** \$5 million in budget support in 2020-21 provided through Australia's existing Accountable Cash Grant mechanism with the Government of Tonga. These funds will assist the Government of Tonga to manage its balance of payments and avoid unsustainable debt. Policy reform in the areas of debt management, labour mobility and public service sexual harassment will also be linked to the funding, along with reforms required to access additional World Bank emergency financing in 2021-22 through its Catastrophe Disaster Draw Down Options instrument. Tonga's National Emergency Management Act will also be progressed.

### **POLICY AND PROGRAM ALIGNMENT**

Funding under the Pacific COVID-19 Response Package will contribute to the three pillars of DFAT's Tonga COVID-19 Response Plan. It will enable increased support to the health sector and its systems, strengthen our

security partnerships to ensure stability and support economic recovery.

The funding builds on budget support provided in 2020-21 which included \$2 million for social protection through the COVID-19 Development Response Plan and \$3.5 million through a Joint Policy Reform Matrix. The Fiscal Crisis Window will contribute to improved gender equality outcomes in support of Tonga's National Women's Empowerment and Gender Equality Policy and Strategic Plan of Action 2019-2025.

### **GENDER EQUALITY AND WOMEN'S EMPOWERMENT**

Budget support that underpins Tonga's economic stability and provides fiscal stimulus during COVID-19 helps protect vulnerable women by ensuring their continued access to informal economic activity, such as through local markets, trades and street stalls – an important form of social protection for many poorer women. At the more formal level, women are well represented within Tonga's public sector, and budget support that solidifies Tonga's wage bill helps ensure stable employment for these women and their families.

Fiscal crisis support can also help ensure the ongoing provision of essential or basic government services on which vulnerable women rely, such as: government-provided services to mitigate domestic violence; maternal health services; education services for young girls; and economic empowerment grants through the Women Affairs and Gender Equality Division of the Ministry of Internal Affairs.

Australia's investments under the Response Package will target women, girls and other vulnerable groups by:

- Continuing support to integrate gender responsive budgeting in public finance management reform, in line with Tonga's National Women's Empowerment and Gender Equality Strategy.
- Supporting businesses hardest hit by COVID-19 to invest in female employees.
- Prioritising support to the sectors in which women are employed.
- Enabling the Government of Tonga to maintain funding to essential health services.

### **PROGRAM AND PERFORMANCE MANAGEMENT**

The progress of each investment under the Package will be tracked through country-specific monitoring and evaluation frameworks. Monitoring will be undertaken by DFAT with delivery partners and reported through DFAT's regular reporting processes.

Results under the package will contribute to reporting against indicators including the following:

From the Tonga COVID-19 Development Response Plan Performance Framework:

- Number of micro, small and medium enterprises and members of cooperatives accessing financial assistance
- Number of people receiving psychosocial support
- Numbers reached with new or improved social protection programs, including remote communities
- Number of people receiving access to improved WASH facilities
- Number of beneficiaries from COVID-19 and NCD health promotion efforts

From the Pacific COVID-19 Response Package Design Framework:

- Australian budget support as a percentage of supplementary budget expenditure (in response to COVID-19)
- Number of entrepreneurs (M/F) provided with financial and/or business development support services
- Public expenditure allocation to institutions with functions relevant to economic recovery and support for vulnerable groups.