

GOVERNMENT OF TONGA: MEDIUM-TERM REFORM MATRIX

Government of Tonga: Medium-Term Reform Matrix			
First Year Actions (Sep-11)	Interim Steps (Mar-12)	Second Year Actions (Sep-12)	Progress to Date (Sep-11)
Strengthening Public Financial Management			
<i>Strengthening PFM building blocks</i>			
- Identify and close redundant government bank accounts to improve cash management. - Revise the chart of accounts to increase clarity and reduce redundant and duplicate codes.	- Continue to consolidate government bank accounts to improve cash management. - Consider what further revisions to the chart of accounts may be required to fully incorporate donor expenditure.	- Make further progress with the steps leading to the establishment of a TSA. - Make progress with revising the chart of accounts to fully incorporate donor expenditure.	- In moving towards a TSA, the GoT has closed a significant number of bank accounts, with only a few accounts remaining. This has been a great aid to cash flow management, accounting and reconciliations. The exception is the large number of accounts still required to fulfil conditions set by donors, which the GoT looks forward to cooperation to resolve. - The GoT revised the chart of accounts prior to the beginning of FY2011/12. This has improved the accountability of expenditure, through accurate and consistent classifications, and improved the credibility of the budget through a more appropriate level of disaggregation. Further rounds of revisions are envisaged.
<i>Strengthening budget execution</i>			
Institute an in-year budget reporting system to strengthen budget execution.	Remain on track with the in-year budget reporting system (monthly and quarterly budget reports for July 2011 – February 2012 have been completed).	Make the quarterly budget reports available to the public, to improve the transparency of budget execution.	Reports are being completed within the month following the month under review. They are enabling Cabinet and CEOs to be aware of the financial status of individual ministries and the government as a whole. Quality and timeliness are the focuses.

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First Year Actions (Sep-11)	Interim Steps (Mar-12)	Second Year Actions (Sep-12)	Progress to Date (Sep-11)
Strengthening Public Financial Management			
<i>Increasing the credibility of the budget</i>			
- Strengthen the links between line ministries' AMPs and annual budget allocations. - Strictly reserve the use of the Contingency Fund for the purpose set out in the PFM Act.	- Continue to strengthen the links between line ministries' AMPs and annual budget allocations. - Continue to strictly reserve the use of the Contingency Fund for the purpose set out in the PFM Act.	- Continue to strengthen the links between line ministries' AMPs and annual budget allocations. - Continue to strictly reserve the use of the Contingency Fund for the purpose set out in the PFM Act.	- For the FY2011/12 budget, the Ministry of Finance tried to ensure that budget allocations were linked to the AMPs and CPs of line ministries (in turn linked to sector plans and the TSDF). Improvements to the costing of programs in line ministries' AMPs do need to be made, and Ministry of Finance staff are working with line ministries to achieve this, but it remains a challenge. - Thus far in FY2011/12, those requesting use of the CF have been instructed to reprioritise their activities or make savings in their budgets, in order to avoid using the CF for non-urgent, non-vital and foreseeable expenditure.
<i>Increasing the transparency of key budget processes</i>			
Reform the budget calendar to make budget proposals available to the public when tabled in Parliament, to improve the transparency of the budget process.	Submit the annual financial statements to the Auditor-General's Office on time (end of December 2012 for the annual financial statements for FY2010/11).	- Gazette the audited public accounts on time (end of June 2012 for the public accounts for FY2010/11). Table the outstanding annual reports from the Auditor-General in Parliament, to improve the transparency of the audit process.	From FY2012/13 onwards, the public will have access to the budget while it is being debated in Parliament, and will be able to compare Cabinet's budget proposal with the budget approved by Parliament.

Government of Tonga: Medium-Term Reform Agenda			
First Year Actions (Sep-11)	Interim Steps (Mar-12)	Second Year Actions (Sep-12)	Progress to Date (Sep-11)
Strengthening Fiscal Policy			
<i>Improving revenue effort</i>			
Review tax policy and administration, to identify opportunities to increase revenue.	At Cabinet level, consider the recommendations of the tax policy and administration review and decide on the implementation of the reforms.	Implement reforms recommended by the tax policy and administration review, in order to improve revenue collections over the medium term.	The GoT has worked with PFTAC on the revenue review, the report of which is now in draft form. The GoT is committed to implementing measures to improve compliance and reduce revenue loss through exemptions and concessions.
<i>Improving expenditure quality</i>			
Engage in a medium-term expenditure mapping exercise to better align expenditure with priorities.	Feed the findings of the expenditure mapping exercise into the FY2012/13 budget process.	Improve the alignment of government expenditure with the GoT's medium-term policy objectives.	The GoT is working with the Bank on the expenditure mapping exercise. The GoT is focused on improving the quality of expenditure made from public money, both in terms of increasing allocations to priority sectors and improving the quality of spending within ministries. The GoT is looking forward to building the findings of the analytical work into future budgets.
<i>Strengthening management of the public service wage bill</i>			
Bring recruitment in all parts of the civil service under centralised control and impose a partial hiring freeze, to improve the management of the civil service wage bill in FY2011/12.	- Improve the frequency of payroll reconciliations between PSC, Treasury and the Budget Division. - Monitor and report on the operation and fiscal impact of the performance increment system in FY2011/12.	Make further progress with improving the management of the wage bill, including through continuing to strengthen payroll and establishment control, and appropriate implementation of the proposed government restructure.	The GoT's measures ensure that the partial hiring freeze applies to all parts of GoT (whether under PSC control or not), with the exception of the social sectors, and put the onus on requesting ministries to properly justify any exceptions sought to the freeze.

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Promoting Structural Reform			
<i>Promoting energy sector reform</i>			
- Establish a clear locus of management for the energy sector within a single government agency, using existing powers. Approve guiding principles for reforming the electricity tariff structure, aimed at a financially sustainable and efficient electricity sector, taking into account the planned shift to renewable energy, with adequate protection for the poorest consumers. Amend the petroleum pricing templates in general accordance with the recommendations of the independent reviews of said templates, in order to ensure that consumer prices are an accurate reflection of existing costs.	- Monitor and report on the effectiveness of the newly established government agency that serves as a single point of responsibility for the energy sector. - At Cabinet level, consider the recommendations of the tariff review and decide on the implementation of the new electricity tariff. - Implement the next steps in the action plan to reform the petroleum sector – including undertaking a comprehensive review of the regulatory framework for petroleum.	- Monitor and report on the effectiveness of the government agency that serves as a single point of responsibility for the energy sector. Implement a new electricity tariff that, inter alia, provides for full cost recovery, establishes financial incentives to generate and distribute electricity efficiently, and institutes a lifeline tariff. Amend the regulatory framework for the petroleum sector to, inter alia, define the regulated assets of petroleum suppliers, institute systems to independently value and inspect the regulated assets of petroleum suppliers, and establish a system of shared supplier shipping among petroleum suppliers.	- The GoT has established the TERM-IU with an interim Director and with staff from relevant areas of GoT dealing with energy sector policy. The TERM-IU comes under the Ministry of Environment. The TERM-IU is successfully working to coordinate donor activities in the energy sector, in line with the TERM. The TERM-IU is developing an operational business plan, to properly plan, prioritise and sequence its work. - The revision of the electricity tariff is moving ahead, with consumers expected to benefit from the new tariff early in the new year. - The GoT is fully committed to implementing the findings of the petroleum studies conducted in 2010 by the Bank. Reducing Tonga's vulnerability to oil price volatility and oil price rise is critical. The TERM-IU is working very closely with the relevant authorities, including the Ministry of Commerce, to implement reforms to the petroleum sector to improve the management of the petroleum supply chain.

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Promoting Structural Reform			
<i>Advancing public enterprise reforms</i>			
Publish the audited accounts of the designated major public enterprises in order to improve the transparency of the financial management of said designated major public enterprises.	Appoint an internationally-reputable transaction adviser for a major public enterprise.	Bring the International Dateline Hotel to the point of transaction, as recommended by an internationally-reputable transaction adviser.	This transparency measure is part of a long trajectory of reforms, designed to move public enterprises onto a more commercial footing. The GoT worked hard to persuade public enterprises to publish their audited accounts. The impact of the measure will come over time, as civil society becomes more interested in public enterprise performance.
<i>Promoting private sector development</i>			
Prepare a medium term reform plan for the whole business licensing system (general and ancillary business licences) and the wider business environment.	Implement the first steps in the medium term reform plan for the business licensing system and wider business environment.	Implement the next steps in the medium term reform plan for the business licensing system and wider business environment.	The Ministry of Commerce has outlined a reform program for the whole of the business licensing system, addressing general and ancillary licences, and licensing and compliance issues. Donors will now work with the Ministry to help it prioritise, sequence and implement this reform plan.
Improving Social Protection			
Adopt a community public works program targeted to poor and vulnerable communities.	Prepare to pilot the community public works program.	Complete the pilot of the community public works program, and take into account lessons learned for scaling up the program.	With funding from the JSDF, the GoT is now working to implement this program, in conjunction with NGOs.

Note: This is the GoT's Medium-Term Reform Matrix, from which actions for the first operation and triggers for the second operation have been selected. Budget support from development partners is linked to the successful completion of the actions in **bold typeface**.