

SCHEDULE TO THE

PARTNERSHIP FOR DEVELOPMENT

BETWEEN

THE GOVERNMENT OF TONGA

AND

THE GOVERNMENT OF AUSTRALIA

Implementation Strategy

Priority Outcome 1: A More Efficient and Effective Public Sector

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(i) Aim of the Partnership

An efficient and effective public sector is the mechanism for the implementation of policies and programs that are necessary to promote sustainable improvements in living standards. Moreover, it is the responsibility of government to ensure that policies and programs are fiscally sustainable, strategically targeted on the core development priorities, and implemented in the most cost-effective manner. The Partnership will assist the authorities in meeting this objective.

The Partnership will build on existing Australian assistance for the strengthening of the public sector in policy formulation and implementation, and public financial and economic management. This could include drawing on planned regional support for public sector capacity building and the existing *Tonga Australia Performance Partnership Agreement* (TAPPA) arrangements to make progress towards the targets of:

- Adoption and implementation of Tonga's forthcoming *National Strategic Planning Framework* (NSPF), which encompasses the objectives and principles of the Partnership, and effective monitoring of implementation of the NSPF;
- Improved budgetary management, including through the introduction of a Medium Term Budgetary Framework (MTBF) in the 2009-2010 Budget, which incorporates forward projections of aggregate expenditure and revenue, and sectoral expenditure allocations in the 2010-2011 Budget that demonstrate the Government's commitment to increasing the share of expenditure to NSPF priorities;
- Improved public sector procurement practices;
- Improved internal expenditure controls to reflect the Government's *Public Financial Management Act (2002)*;
- Improved efficiency of the Government financial management system; and
- Improved policy development and program delivery at the sectoral level, including by undertaking public expenditure reviews as identified.

The Priority Outcome will operate in support of the Government of Tonga's NSPF and related programs targeted at public sector reform and financial management good practice. It will also build on the achievements of the TAPPA that have been jointly determined and implemented by the two Governments. The Priority Outcome will support the operations of the Government's principal public sector oversight authority, the Expenditure Review Committee (ERC). The ERC, which was established with the support of the TAPPA, is responsible for ensuring a better prioritisation of public resources and greater control over public spending.

The Priority Outcome will include a mechanism for administering the performance grant that was previously incorporated in the TAPPA. In this regard payment of the

performance grant will be dependent on progress against the mutually determined performance indicators of this Priority Outcome.

While Tonga has already achieved high standards against key Millennium Development Goals (MDGs), particularly in the areas of health, education and gender equality, the challenge confronting the Government is to ensure that those achievements are not only sustained, but that they are harnessed as a platform to further improve living standards. In this regard the wider Partnership for Development is to target, among other things, improved technical and vocational skills, non-communicable diseases (particularly 'lifestyle' diseases such as diabetes) and affordable transport infrastructure.

However, as with all states, the Government of Tonga will need to achieve its objectives within the confines of a 'hard' budget constraint. Moreover, because of the impact of the Global Economic Crisis (GEC), particularly on Tongan remittances, the immediate fiscal outlook is very constrained and the Government of Tonga may need to implement its new NSPF with less financial resources. This underlines the fundamental importance of ensuring the Government's expenditure program carefully targets development priorities and that wastage and inefficiencies are eliminated. It also requires a responsive and appropriately skilled and focused public sector. Moreover, the successful implementation of development strategies requires strong political consensus and political will to ensure implementation. This Priority Outcome will assist the Government in meeting these challenges.

The Priority Outcome will need to be carefully designed, sequenced and targeted, taking into account Tonga's particular political, social and economic circumstances. Specific reforms must demonstrate clear and significant benefits in terms of development outcomes. They must also be achievable and manageable.

The Partnership for Development respects the principles and objectives of the *Paris Declaration on Aid Effectiveness*. The Partnership for Development in general and this Priority Outcome in particular, will be based on the Government of Tonga's NSPF. The Priority Outcome will also directly support the Government of Tonga's key public expenditure management reforms, such as the introduction and institutionalisation of an MTBF. Progress against specific objectives such as improved public sector procurement practices will also facilitate Australia's commitment to increasingly adopt the Government's financial systems and processes for the disbursement of Australian development assistance.

(ii) Measurement

Measurement of the Priority Outcome will primarily focus on the Government's annual budget, policy initiatives and expenditure commitments. Specific performance indicators will be reviewed on an annual basis, consistent with the Governance and Review Section (4) of the *Tonga-Australia Partnership for Development*. Specific performance indicators for 2009-2010 are presented in the table below.

Performance Indicators: 2009-2010
<ul style="list-style-type: none"> • Adoption by the Government of Tonga of the National Strategic Planning Framework (NSPF) by December 2009: <ul style="list-style-type: none"> ⇒ NSPF to reflect the objectives and principles of the Tonga-Australia Partnership for Development; ⇒ Framework in place to monitor the implementation and results of the NSPF; ⇒ The MTBF for the 2010-2011 annual budget to reflect the Government's commitment to increasing the share of expenditure allocated to the NSPF; and ⇒ The Annual Budget Statement for 2010-2011 to announce the Government's commitment to monitoring actual expenditure shares to the NSPF and to report on outcomes in the budget statement of the following year. • The Government's 2009-2010 Annual Budget to incorporate a rolling Medium Term Budgetary Framework (MTBF), with forward projections of aggregate revenue and expenditure and indicative sectoral allocations. • Substantial progress towards key Public Expenditure and Financial Accountability (PEFA) reforms in relation to: <ul style="list-style-type: none"> ⇒ public sector procurement practices, including the development and promulgation of procurement regulations effective end August 2009, with a procurement manual and standard documentation to be in place by December 2009; ⇒ effectiveness of internal controls for non-salary expenditure, by developing and promulgating financial management regulations based on the Government's <i>Public Financial Management Act (2002)</i>, with implementation of the regulations by April 2010; ⇒ efficiency and timeliness of Treasury function, through completion of a process and systems review of Treasury operations, and preparation of updated financial management manual for Treasury and line ministries by June 2010; and ⇒ internal audit, by commencing the development of an internal audit policy framework and professional practice framework by the end of June 2010. • Complete one Public Expenditure Review of the cost of delivering education by end-2009, as jointly agreed in the Tonga Education Support Program (TESP) Annual Joint Review in April 2009. • Commission an independent PEFA before November 2009, in order to assess overall progress in improving financial management.¹

¹ An earlier PEFA Review was undertaken in 2007, and this will provide the baseline for a progressive assessment.

As noted, performance indicators under the Priority Outcome will be reviewed on an annual basis, and new indicators included as appropriate. For example, as the need for further (and appropriately sequenced) PEFA reforms are identified by the Government of Tonga, these reforms could constitute new performance indicators in the annual revisions to the Priority Outcome.

In addition to the above, on an ongoing basis, overall performance against the Priority Outcome will be assessed at the Annual Partnership Talks. In particular, progress against the NSPF objectives will be a key focus of the Annual Partnership Talks, and measurement will be based both on quantitative budgetary data (i.e, on expenditure shares) and on assessments of Tonga's overall development status that are undertaken periodically.

(iii) Implementation Strategy

The Priority Outcome will be implemented through the Government of Tonga's existing implementation systems and vehicles, such as the Annual Budget. Implementation will be strengthened by earlier public sector reforms, including the reforms that were supported by the TAPPA program. Such vehicles for reform include the establishment of the ERC, the strengthened Revenue Services Department and the strengthened policy development and implementation capacity of the Office of the Prime Minister.

To the extent feasible, implementation of the Priority Outcome will support the existing reform program of the Government of Tonga. Recognising that successful achievement of the targets under this Priority Outcome will require both policy reform and increased public sector capacity to implement reform, our strategy will be to utilise a range of mechanisms including:

1. **Technical Assistance inputs that are supported by Australia and other development partners.** At the request of the Government of Tonga, Australia will provide additional Technical Assistance in order to support clearly defined and measurable reforms linked to the stated targets of the Priority Outcome, such as, for example, support for the design and drafting of financial regulations. Technical Assistance to support this Priority Outcome could be sourced directly by the two Governments or from relevant regional programs and agencies;
2. **Capacity development inputs** through planned regional support including the proposed region-wide Pacific Public Sector Capacity Building Initiative (subject to further design and consultation); and
3. The **performance grant** that was previously incorporated in the TAPPA. In this regard payment of the annual performance grant will be dependent on a joint assessment of progress against the agreed performance indicators of this Priority Outcome. Reviews of progress against indicators will be undertaken jointly on a quarterly basis.

The Government of Tonga will provide the strategic direction, appropriate resource allocation and performance management to ensure that assistance provided maximises the impact on Tonga's reform efforts.

As noted above, the Partnership for Development respects the principles and objectives of the *Paris Declaration on Aid Effectiveness*. This Priority Outcome will directly support the implementation of the Government of Tonga's principal planning document, the NSPF. By strengthening the Government's financial management systems, particularly in relation to procurement, the Priority Outcome will also facilitate Australia's commitment to increasingly adopt Tonga's public sector financial systems and processes for the disbursement of Australian development assistance. In future revisions of the Priority Outcome, it is expected that additional PEFA reforms will also directly address *Paris Declaration on Aid Effectiveness* commitments, including by enhancing the transparency of donor-funded programs in the Government's Annual Budget.

The Government of Tonga and AusAID posted officers have briefed fully representatives of Tonga's principal development partners on the Partnership for Development. As well, the Governments of Tonga and Australia are coordinating closely with New Zealand, the Asian Development Bank and other development partners on the design of this Priority Outcome.