



**Australian Government**

**Department of Foreign Affairs and Trade**



# **TONGA ECONOMIC GOVERNANCE SUPPORT (TEGS) PROGRAM DESIGN DOCUMENT – VOLUME 1 - NARRATIVE**

September, 2019

<b>Investment Design Title:</b> Tonga Economic Governance Support Program		
<b>Start date:</b>	1 January, 2020	<b>End Date:</b> 31 December, 2023
<b>Total proposed funding allocation:</b> \$AUD 15 million		
<b>Quality Assurance (QA) Completed:</b> Yes		<b>Date:</b> 4 October 2019
<b>Delegate approving design at post:</b> Adrian Morrison, Head of Mission, Nuku'alofa Post		
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<b>Investment Design approved by Aid Governance Board:</b>	N/A	<b>Date:</b>

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# ACRONYMS

AAP	Annual Action Plan
ACD	Contracting and Aid Management Division
ADB	Asian Development Bank
AG	Auditor General
AHC	Australian High Commission
AIP	Aid Investment Plan
ANS	Assessment of National Systems
BSMC	Budget Support Management Committee
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CEO	Chief Executive Officer
CSOs	Civil Society Organisations
CSU	Central Services Unit
DFAT	Australian Department of Foreign Affairs and Trade
DH-FFD	Divisional Head of FFD
DHOM	Deputy Head of Mission
DPO	Development Policy Operation
DPs	Development Partners
EPSG	Economic and Public Sector Governance
EPSG III	Economic and Public Sector Reform Program
EU	European Union
FFD	Financial Framework Division
GBS	General Budget Support
GDP	Gross Domestic Product
GoA	Government of Australia
GoT	Government of Tonga
HOM	Head of Mission
ICN	Investment Concept Note
ICR	Implementation Completion Report
IEG	Independent Evaluation Group (WB)
IMF	International Monetary Fund



IO	Intermediate Outcomes
JPRM	Joint Policy Reform Matrix
KPIs	Key Performance Indicators
LES	Locally Engaged Staff
LTAs	Long Term Advisors
M&E	Monitoring and Evaluation
MDAs	Ministries, Departments and Agencies
MDD	Multilateral Development and Finance Division (DFAT)
MFAT	Ministry of Foreign Affairs and Trade (NZ)
MoET	Ministry of Education and Training
MoF	Ministry of Finance
MoH	Ministry of Health
NPD/PMO	National Planning Division, Prime Minister's Office
PAC	Parliamentary Standing Committee on Public Accounts
PASAI	Pacific Association of Supreme Audit Institutions
PEFA	Public Expenditure and Financial Accountability
PEs	Public Enterprises
PFM	Public Financial Management
PFMRR	PFM Reform Roadmap
PFMR-RSC	PFM Reform Roadmap Steering Committee
PFMR-RTC	PFM Reform Roadmap Technical Committee
PFTAC	Pacific Financial Technical Assistance Centre
PGS	Partner Government Systems
PICs	Pacific Island Countries
PMS	Performance Management System
PSC	Public Sector Commission
PWSPD	Pacific Women Shaping Pacific Development
STAs	Short Term Advisors
TA	Technical Assistance
TAG	Technical Advisory Group
TCC	Tonga Communications Corporation
TEGS	Tonga Economic Governance Support Program
THSSP II	Tonga Health Sector Support Program II
TOAG	Tonga Audit Office
ToR	Terms of Reference

TSC	Technical Support Coordinator
TSDf II	Tonga Strategic Development Framework (2015-2025)
TSU	Technical Support Unit
TSU-SA	TSU Support Agreement
UN	United Nations
UNDP	United Nations Development Program
WB	World Bank
WEGET	National Women's Empowerment and Gender Equality Tonga

## A. EXECUTIVE SUMMARY

### ***What are the development challenges?***

1. The Kingdom of Tonga is a small Pacific island nation, ruled by a constitutional monarch, that has undergone major democratic changes in recent years to increase the role of elected representatives in the Legislative Assembly.
2. Like many Pacific island nations, Tonga's economic growth potential is constrained by structurally high costs of production and public service delivery, as well as vulnerability to economic and environmental shocks. Tonga's vulnerability to natural disasters was highlighted in February 2018, when Tropical Cycle (TC) Gita is estimated to have caused physical damages and economic losses equivalent to 38 percent of Tonga's FY2017 GDP.
3. Social and human development indicators for Tonga are amongst the strongest in the Pacific, but there are significant levels of material deprivation, especially in rural areas, and gender disparities adversely affect development outcomes for women.
4. Since 2001, the Government of Tonga (GoT) has been committed to improving fiscal resilience, via strengthened revenue mobilization and strategic fiscal and debt policies. GoT's comprehensive reform program is integrated into the Tonga Strategic Development Framework 2015-2025 (TSDF II)—and the Budget priorities of the government. The reform program is supported by rolling three-year Corporate Plans and a Public Financial Management (PFM) Roadmap focused on improving the performance of government and public service delivery, and strengthening PFM systems to promote the efficient use of resources.

### ***What are Australia's objectives?***

5. Australia has supported Tonga's reform program since 2009 through three successive economic and public sector governance (EPSG) investments. These investments supported Tonga to undertake macroeconomic, fiscal and private sector reforms to reduce debt, repair its budget, improve revenue collection and promote private sector development. These outcomes were supported via two modalities. First, budget support is provided to GoT in response to achievement of an agreed set of policy reforms articulated in the Joint Policy Reform Matrix (JPRM). Five donors contribute budget support (DFAT, MFAT, EU, ADB, WB); the process is led by the World Bank. Second, technical assistance is provided to assist GoT to meet performance 'triggers'.
6. Australia will continue to invest in economic policy reform and governance in Tonga because it aligns with the general policy commitment to 'step up' work in the Pacific, as well as specific commitments embodied in the Australia-Tonga Partnership Arrangement 2016 – 2019 and the Aid Investment Plan for Tonga. The TEGs investment also underpins effective governance across other sectors of Australia's aid program in Tonga.

### ***What lessons have we learned?***

7. Successive independent evaluations (commissioned by DFAT and the WB) have found that budget support and associated technical assistance are effective modalities for achieving development objectives. However, these evaluations have also identified weaknesses in the JPRM mechanism; specifically, JPRM is designed to support and incentivise the initial high-level policy action from government, but is not designed to support the follow-up activities by government that are needed to implement and embed those policies or reforms. Independent evaluations have also highlighted weak government implementation capacity, instability in governance and management arrangements for reform in Tonga and poor monitoring and evaluation (M&E) as major constraints to the achievement of investment outcomes.
8. Consequent upon the findings and recommendations of these independent evaluations, and in response to DFAT's requirements (expressed in the design Terms of Reference [ToR]) the design for the next phase of Australia's support aims to improve: (i) the outcomes of the investment; (ii) strengthen engagement between DFAT and GoT; and (iii) DFAT's capacity to report upon Australia's specific contribution to the achievement of Tonga's reform program.

### ***How have these lessons influenced the TEGS design?***

9. The TEGS design proposes use of the same two aid modalities as previously, but with a number of operational adjustments to take account of lessons learned. The design proposes a transitional adjustment in the budget split between performance linked aid (Outcome 1) and technical assistance (Outcome 2) from 80/20 to 70/30 over the three-year duration of the investment. The design envisages a stronger engagement by DFAT in encouraging the GoT and the JPRM donor group to consider the 'capacity-to-implement' of central and service ministries when selecting performance triggers and to track the implementation of reforms within the context of strategic and corporate plans.

10. The design also proposes a more cohesive approach to the provision of technical assistance. Technical support will be specifically focused on implementation of the PFM Reform Roadmap (PFMRR) (Outcome 2) via support to the Financial Framework Division (FFD) of the Ministry of Finance (MoF) which has responsibility for oversight of PFM reform implementation. Australia will finance a Technical Support Coordinator (TSC) and Technical Support Unit (TSU) to be located within the FFD. The TSU will be tasked to assist the FFD to develop an Annual Action Plan (AAP) for PFM Reforms, via the PFM Reform Roadmap Technical Committee (PFMR-RTC), for approval by the PFM Reform Roadmap Steering Committee (PFMR-RSC). The workplan and budget of the TSU will then be prioritised according to the priorities and sequencing identified in the AAP. Areas which cannot be addressed by the TSU (due to budgetary and other constraints) may be supported by other development partners.

### ***What results are expected to be achieved?***

11. The expected end-of-investment outcomes for the TEGS are:

Outcome One: Improve macro-economic, fiscal management and private sector reforms.

Outcome Two: Effective contribution to the implementation of PFM reforms.

### ***What will be the governance and management arrangements?***

12. The oversight and management arrangements for the JPRM will continue as in previous investments. Funding will be disbursed when DFAT receives written confirmation from the WB Board that the agreed annual reform milestones have been achieved. The Australian High Commission, Nuku'alofa (AHC) and the Multilateral Development and Financial Division (MDD) Canberra will continue to participate in joint donor review missions.

13. Australia's program of support under Outcome 2 will, as much as possible, use existing GoT structures (e.g. the PFMR-RSC and the PFMR-RTC). Australia and other donors contributing to implementation of the PFMR AAP will be invited to meetings approving the AAP and six-monthly progress reviews. The TSC placed in FFD/MoF will report on implementation of the TSU workplan and budget to the TEGS Program Management Team at Post.

### ***What resources will be invested by Australia?***

14. The total budget envelope for TEGS is \$15 million from FY 2019/20 to FY2021/22, as per the following table.

<b>Table 1: TEGS Indicative Budget AUD 2019/20 to 2020/21</b>						
No.	Budget Components		2019/20	2020/21	2021/22	Total
1	Management Fees		112,394	239,468	273,235	625,097
2a	Personnel fees and allowances (incl. M&E adviser)		326,490	643,392	751,740	1,721,622
2b	Adviser support costs (incl. M&E adviser)		180,822	315,444	363,192	859,458
3a	Operational M&E		62,500	250,000	250,000	562,500
3b	Operational Non-M&E		50,731	95,884	111,493	258,108
4	Budget Support		4,000,000	3,500,000	3,500,000	11,000,000
	Total		4,732,938	5,044,188	5,249,660	15,026,785

### ***Do design decisions reflect the result of stakeholder consultations?***

The draft outcome statements, program logic and governance and management arrangements presented in this design document have been approved by MoF (following presentation in an Aide Memoire and follow-up discussions with AHC Nuku'Alofa).



## B. DEVELOPMENT CONTEXT, CHALLENGES AND LESSONS

### B.1 DEVELOPMENT CONTEXT

**Geography and demographics:** Tonga is an archipelago made up of 170 islands, 36 of which are inhabited, located just south of Samoa, in the southwestern Pacific Ocean.<sup>1</sup> The most recent World Bank data places the total population at 106,398<sup>2</sup> of which over 40% are estimated to be under 18; 12% are under 5.<sup>3</sup> Life expectancy at birth is 70 years for males, 76 for females (2016)<sup>4</sup> with an ethnic make-up that is largely homogenous; the country is majority Protestant (approx. 65%) with a significant minority of Mormons (approx. 17%) and Roman Catholics (approx. 16%).

**Disaster and climate risks:** Tonga is highly vulnerable to natural disasters, including cyclones. The most recent (TC Gita in February 2018) affected approximately 74,611 or 74 percent of the total population of Tonga, and the livelihoods of about 18,198 households, located across the country. In addition to cyclones, natural hazards in Tonga include earthquakes, volcanic activity and vulnerability to tsunamis. Tonga is ranked 2<sup>nd</sup> behind Vanuatu as having the largest disaster risk worldwide by the United Nations University.

**Political context:** Tonga is a constitutional monarchy. It is a parliamentary democracy with a unicameral Legislative Assembly consisting of 26 elected members (with a possible maximum of 30 members in the event that the Prime Minister exercises his or her right to choose up to 4 Ministers from outside of the elected Legislative Assembly), 9 of whom are elected by, and among, 33 hereditary nobles and 17 according to public vote, on the basis of universal suffrage.<sup>5</sup> The Prime Minister is nominated by the Legislative Assembly and appointed by the monarch. The 12 Ministers of Cabinet are then appointed by the chosen Prime Minister from within the elected Legislative Assembly (with the proviso that he or she may choose to appoint up to 4 Ministers from outside of the Assembly, who will become members of the Assembly upon appointment).<sup>6</sup>

In 2010 a new Constitution was adopted in an effort to create a more inclusive and representative Parliament and Government. The Constitutional amendments removed the King's Royal Privilege to appoint the Prime Minister and Ministers of Cabinet, instead transferring these rights to the Legislative Assembly.<sup>7</sup> There are 2 women Members of Parliament in Tonga.<sup>8</sup> The main effort to include young people in governance and decision-making processes is the Tonga National Youth Council, established in 1991, which developed the Tongan National Youth Policy in 2011 and runs an annual Youth Parliament event.<sup>9</sup>

<sup>1</sup> Encyclopaedia Britannica, Tonga <https://www.britannica.com/place/Tonga>

<sup>2</sup> (Estimate July, 2018) <https://www.cia.gov/library/publications/the-world-factbook/geos/tn.html>

<sup>3</sup> Situation Analysis of Children in Tonga UNICEF December 2017

<sup>4</sup> World Health Organisation, Tonga, <https://www.who.int/countries/ton/en/>

<sup>5</sup> Parliament of Tonga, [https://parliament.gov.to/members-of-parliament?switch\\_to\\_desktop\\_ui=324](https://parliament.gov.to/members-of-parliament?switch_to_desktop_ui=324)

<sup>6</sup> CIA: The World Factbook, <https://www.cia.gov/library/publications/the-world-factbook/geos/tn.html>

<sup>7</sup> Parliament of Tonga, [https://parliament.gov.to/about-our-parliament?switch\\_to\\_desktop\\_ui=324](https://parliament.gov.to/about-our-parliament?switch_to_desktop_ui=324)

<sup>8</sup> (As at mid-2018) Ministry of Information and Communications, <http://www.mic.gov.to/appointments/324-members-of-parliament-mps>

<sup>9</sup> Youth Policy, Tonga 2014 <http://www.youthpolicy.org/factsheets/country/tonga>

**Socio-economic context:** Tonga is classified as a lower middle-income country by the World Bank, with a Gross National Income per capita of US\$ 4,010 in 2017<sup>10</sup>. Tonga has a human development index of 0.726 and a ranking of 98 out of 189 countries, which places it in the ‘high human development’ category.<sup>11</sup>

Tonga’s economic resources and sources of revenue are extremely limited, partly owing to its size. Tonga has a narrow export base in agricultural goods; agricultural exports make up two-thirds of total exports. Tourism is the second-largest source of hard currency earnings following remittances. Tonga had 59,100 visitors in 2016.<sup>12</sup> The country must import a high proportion of its food, mainly from New Zealand. The country remains dependent on external aid and remittances from overseas Tongans to offset its trade deficit.

The Asian Development Bank estimates that 22% of the Tongan population are living below the basic needs poverty line (2015 figures)<sup>13</sup>. However, cultural commitments to caring for extended family members may offset these challenges to some extent.

In the FY2019 Budget Statement, released in July 2018, the GoT estimated that GDP growth for FY18 was 1.1 percent, slightly higher than was projected.<sup>14</sup> Economic activity is expected to pick up in FY19 and FY20 as reconstruction and repair activities for housing, public buildings, and schools ramp up, before scaling back from FY21 onwards. The inflation rate was above the National Reserve Bank of Tonga’s 5% target in 2018 due to the impacts of TC Gita on food prices, but is expected to decline from the second half of FY19 onwards.

Recent WB assessments indicate that GoT is pursuing a prudent fiscal stance in the wake of TC Gita and is projecting annual budget surpluses over the period FY18 to FY21. However, these GoT projections are subject to risks, as the source of the additional donor grants projected for FY19 to FY21 remains unclear, and cyclone-related recovery and reconstruction spending over this period may end up being higher than the current projections suggest.<sup>15</sup>

The 2018 IMF Article IV Report, whilst noting the recent, robust economic growth and macro-economic stability in Tonga, focused on the need for GoT to prioritize own-financed capital expenditures and contain the large public sector wage bill. Strengthening the monitoring of financial institutions and continue financial sector reforms was also emphasized, as was the need for an increasing focus on expanding market access and the increased value add of domestic production.<sup>16</sup>

**National strategy, plans and government systems:** The Tonga Strategic Development Framework 2015-2025 (TSDF II) provides the strategic direction to guide the work of the GoT. The TSDF II aims to (i) Support fiscal resilience by means of strengthened revenue mobilization and strategic fiscal and debt policies; (ii) Support improved government accountability and private sector regulation by improving compliance with public procurement regulations, improving budgetary classifications, improving the adequacy of responses to external audit, and introducing new regulatory frameworks into selected sectors; and (iii) Support a more dynamic and inclusive economy by adopting investor-friendly foreign investment legislation, improving oversight and private participation in public enterprises, and introducing regulation to private sector labour markets.

<sup>10</sup> The World Bank, <https://data.worldbank.org/country/tonga>

<sup>11</sup> UN Development Programme – Human Development Reports, 2018 Statistical Updates, <http://hdr.undp.org/en/2018-update>

<sup>12</sup> <https://www.ceicdata.com/en/tonga/tourism-statistics>

<sup>13</sup> Basic 2019 Statistics – Statistics and Data Innovation Unit, Economic Research and Regional Cooperation Department, Asian Development Bank

<sup>14</sup> WB Status Memo – Tonga Third Inclusive Growth Development Policy Operation P159263

<sup>15</sup> Ibid

<sup>16</sup> IMF Country Report No. 18/12 Tonga – 2017 Article IV Consultation and Staff Report for Tonga January 2018

TSDF II national outcomes are progressively being translated into organisational outcomes for government entities via Corporate Plans. The National Planning Division, Prime Minister's Office (NPD/PMO) is also developing a national monitoring and evaluation system

In 2014 GoT released a PFMRR focused on improving the performance of government and public service delivery, and strengthening public financial management (PFM) systems to promote the efficient use of resources. The Roadmap draws on key weaknesses identified in the 2010 Public Expenditure and Financial Accountability (PEFA)<sup>17</sup> assessment and proposes actions to address gaps and ensure that a comprehensive and integrated process of reform is underway.

In September 2018, GoT reviewed progress in implementation of the PFMRR. A change in government and Minister, resulting in a relative reduction in emphasis on PFM Reform, resulted in less than 50% of proposed actions being implemented at that time. Since then, GoT has reprioritised PFM Reform and is commencing a PEFA self-assessment in late 2019.

GoT has administrative capacity constraints across the public sector which affect implementation of policies and programs. DFAT's recent Assessment of National Systems (draft ANS)<sup>18</sup> assessed the pre-mitigation fiduciary risks of using upstream systems in delivering the aid program as medium, up from low-medium in the 2015 ANS update. This reflects the emergence of a new risk regarding non-compliance with annual budget ceilings and recognises DFAT's continued participation in a program of general budget support (GBS) through MoF and health sector budget support through the Ministry of Health (MoH). Participation in GBS and sector budget support increases the risks across all PFM components, including the upstream strategic planning and budget preparation components<sup>19</sup>. After proposed mitigation measures the fiduciary risk level for using upstream systems was assessed as low to medium, which is consistent with the rating in the 2015 ANS update.

The 2019 draft ANS update assessed the pre-mitigation fiduciary risks in using downstream<sup>20</sup> systems in delivering the aid program as medium (taking into account an increased risk rating for 'On Accounting' and a decreased risk for 'On Audit' performance. However, after proposed mitigation measures the fiduciary risk level for downstream systems is assessed as being low to medium, which is unchanged from 2015.

Finally, the 2019 draft ANS update assessed the overall level of corruption risk as medium, the same as the 2015 assessment. Since 2015 there has been no further increase in the availability of information on the level of corruption and no further progress on the implementation of reform initiatives envisaged under the Anti-Corruption Commissioner Act of 2008 (see discussion below).

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<sup>17</sup> PEFA began in 2001 as a means to harmonize country level assessment of public financial management across the organisations that established the program, namely, the European Commission, International Monetary Fund, World Bank and the governments of France, Norway, Switzerland and the United Kingdom. They remain the custodians of the program and have supported PEFA through four phases of implementation. In April 2019 the Ministry of Finance of the Slovak Republic joined as the eighth member of the PEFA partnership initiative.

<sup>18</sup> Draft Assessment of National Systems – Tonga March 2019 Update

<sup>19</sup> Upstream systems include strategic planning, budget preparation and parliamentary scrutiny of the budget. Weaknesses in upstream planning, budgeting and parliamentary scrutiny create a risk that the right national and sector priority programs may not be identified, or that limited govt budget funds may not be allocated to the highest priority programs. Any donor funds that rely on these upstream systems for allocative effectiveness and efficiency will be subject to the same risks. General budget support from DFAT would be subject to these upstream risks. Where a donor agrees with government to use the government's downstream budget execution systems to target an agreed and targeted program in a specific sector, e.g. through a project or a cash grant for an agreed program and sector, that risk from upstream systems is greatly reduced

<sup>20</sup> Downstream systems include treasury, accounting, procurement, reporting, external audit and parliamentary scrutiny of external audit reports

## B.2 REFORM CHALLENGES AND LESSONS IDENTIFIED

GoT has been pursuing a program of economic and public sector reform since 2001, although the process did not gain momentum until 2009. Australia has supported this process of reform since that time via a series of investments.<sup>21</sup> Given this history of engagement, the development changes faced by Tonga cannot be viewed as separate and distinct from the efforts made by Australia, and other donors, to assist GoT to address those challenges. The paragraphs below identify both the challenges, as well as the lessons identified in attempting to address these challenges and then indicates how the TEGS design has taken these into account.

- **Strengths of multi-donor budget support**

Multi-donor budget support is increasingly recognised as an effective means of progressing economic reforms and supporting service delivery in Pacific island countries. Budget support programs work within, and in support of, government systems including having policy consistency with government objectives. By working with government systems on a regular basis, the modality also helps the donor identify reforms and build networks for assistance within the partner government to support their enactment. Budget support has four main advantages:

- *Providing funds to a recipient government to deliver development outcomes:* Budget support supplements revenues, allowing governments flexibility to achieve greater progress towards their own policy goals.
- *Linking the disbursement of funds to reforms or policy outcomes* (generally macroeconomic, business environment, public financial management or other reforms): The reforms typically have economy-wide or public sector wide impacts. Budget support can be one of the more effective modalities in promoting reforms as it focuses policy attention and reform effort on a prioritised shared set of goals of governments and development partners, accelerating the reform progress.
- *Open space for policy dialogue and increased coordination between development partners and government:* Improved dialogue is one of the most significant benefits of budget support programs. Dialogue around budget support contributes to: shared understanding of priorities, constraints, and opportunities; more open information-flows around economic and fiscal management issues.
- *Better provision and coordination of technical assistance:* These programs are generally coupled with technical assistance provided by Australia and other donor partners (for example, the World Bank) to assist in implementing the reforms associated with budget support and improve overall capability.

In Tonga, compared to other modalities, budget support is generally a low-cost mechanism for achieving policy-based improvements; this includes the agreement and monitoring of the reform items and coordinating technical assistance. Australia cooperates with four other donor partners to agree the one joint policy reform matrix, simplifying for the Government of Tonga one agreed reform agenda. For the budget support disbursement, DFAT's preference is to use World Bank board approval. This reduces Australia and the Government of Tonga's transactions and monitoring costs. For technical assistance, Australia itself cannot cover every action area; instead, we are dependent on partnering with other donors (particularly the World Bank, ADB and PFTAC of the IMF) to assist reforms. Overall, in the absence of this complimentary technical assistance by other donors, it would not be feasible to run Budget Support operations.

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<sup>21</sup> Economic and Public Sector Governance / Reform Programs EPSG I 2009–2010 to 2011–2012; EPSG II 2011–2012 to 2013–2014; EPSG III 2015–2016 to 2017–2018.



DFAT's independent evaluation of the Tonga program in 2018 pointed to the effectiveness of the program. It is a preferred modality of the Government of Tonga. The Budget Support Program has supported the introduction of fiscal anchors to restrain spending and a sugar tax. The associated technical assistance and policy dialogue in the missions also enabled a broader discussion on macro-fiscal risks such as debt. It is hard to see how these achievements would be possible at a similar cost using other modalities. The independent evaluation noted that when participating donors aligned their priorities through an agreed upon Matrix they were more successful in leveraging reforms. The evaluation found DFAT should continue to use the modality of budget support delivered through the existing multi-donor arrangements.

- **Limitations in partner government implementation capacity:**

A WB Independent Evaluation Group review of the Implementation Completion Report (ICR) on the first Development Policy Operation (DPO) in Tonga found that implementation was significantly hampered by capacity limitations in government.<sup>22</sup>

Similarly, an independent evaluation of World Bank's engagement in DPOs in Pacific Island Countries (PICs) over the period 2011 to 2017 found that a key constraint on effective policy implementation was the limited number of qualified and skilled public servants available to support implementation of policy actions. This was especially the case for procurement and contract management.<sup>23</sup>

The WB Implementation Completion & Results (ICR) report<sup>24</sup> for the two most recent DPOs highlighted similar challenges with limited government capacity across the large number of implementation agencies, and the demands this placed both on budget support donors as well as on government. Weak government capacity in procurement and contracts management was a factor in donor support for centralising procurement, and strengthening procurement regulatory frameworks and capacity across government.

This is a common challenge in small island states, and the WB response in Tonga – outside of the JPRM - has been to support the establishment of a central services unit (CSU) to provide technical advice, support and training to partner government staff across a range of WB funded projects. The CSU is still being established, and will have technical specialists for procurement, engineering/contracts management, PFM, safeguards, and monitoring & evaluation.

Finally, DFAT's most recent 2019 Assessment of National Systems (draft ANS) update<sup>25</sup> has also identified capacity constraints on an ambitious PFM Reform Program, the need for better coordination of technical support for the reforms, and the need for better governance arrangements to support Roadmap implementation. Earlier policy decisions of government have not been followed through to implementation or have not been sustained. These include the lapsed functioning of the Audit Oversight Committee of Cabinet which was intended to follow up on audit recommendations, as well as the Audit Committee established under the MoF Internal Audit charter.

<sup>22</sup> Independent Evaluation Group Review of the Implementation Completion Report for the First Economic Reform Support Operation ICRR0020850 2015 pg. 12

<sup>23</sup> Completion and Learning Reviews for the Pacific Island Countries, CLR Review, Independent Evaluation Group, 2017

<sup>24</sup> Implementation Completion and Results Report for the Economic Reform Support Development Policy Operations I & II, (ICR00004159), World Bank, June 2017

<sup>25</sup> 2019 Assessment of National Systems Update, Draft Report, June 2019, DFAT

The program document for the recently approved WB Third Inclusive Growth DPO rates the risks around limited institutional capacity as High.<sup>26</sup> The proposed risk management actions are policy dialogue with GoT, selection of a limited number of reform actions and the coordination of technical assistance. These are the same risk management actions which have been proposed in respect of previous DPOs; these management actions do not appear to have been able to address the inherent limitations of the JPRM mechanism.

- **Limitations of the JPRM mechanism:**

The JPRM modality is designed to support and incentivise the initial high-level policy action from government (e.g. Cabinet decision, legislation, regulation) but is not designed to support the follow-up activities by government that are needed to implement and embed those policies or reforms. The JPRM accelerates reforms, including PFM reform, by involving an annual cycle to encourage reforms and by providing technical assistance to enact reforms. As described in the DFAT commissioned, EPSG Independent Evaluation: *“JPRM leveraged the work of reformists within MoFNP to drive the adoption of a medium-term fiscal framework and fiscal anchor system.”*<sup>27</sup>

The JPRM also provides opportunities for development partners to provide analytical support and provide input into the policymaking process; the mechanism supports coordination of policy dialogue between Government and the donor community.

While budget support has been a vital support for macro-economic stability in Tonga, it should nevertheless be recognised that the limitations of the JPRM mechanism have also created downstream disbenefits.

The WB Independent Evaluation Group (IEG) Review of the first DPO in Tonga found that *“Due diligence around capacity limitations and the sequencing of reforms could have helped to improve the customization and scope of reforms.”*<sup>28</sup> This same report recommended improved analytical work and diagnostics around government ‘capacity-to-implement’ and political economy issues to better inform the selection of policy actions or reforms.

Similarly, the IEG Review of the WB’s engagement in DPOs in PICs found that, in Tonga, the WB was over-ambitious in a number of areas, particularly regarding reforms linked to simplification of the small to medium sized enterprises taxation system, foreign investment, management concession for the Dateline hotel and the privatisation of Tonga Communications Corporation (TCC).

Notwithstanding the limited capacity of government, the design of the program was limited to a two-year series rather than a medium-term perspective of say three to four years that might have better suited government capacity. As a result, adjustments to policy actions were necessary to accommodate the slow implementation.

Finally, the EPSG Independent Evaluation found that while the JPRM process is an effective vehicle to support economic and public-sector policy reform in Tonga, *“insufficient attention is paid to implementation and ministries may not have the funding or technical skills to implement reforms.”*<sup>29</sup> The independent evaluation reported that both DPs and GoT officials raised concerns that reforms are assessed as ‘completed’ to meet JPRM trigger requirements and then not operationalised.

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<sup>26</sup> IDA Program Document for a proposed Development Policy Grant in the amount of SDR 4.0 million to the Kingdom of Tonga for the Third Inclusive Growth Development Policy Operation April 19, 2019 pg. 35

<sup>27</sup> Independent Evaluation of DFAT’s Economic and Public-Sector Reform Program (EPSG III) to the Kingdom of Tonga 2015/16 – 2017/18 April 2018 pg. 9

<sup>28</sup> Op.Cit WB IEG Review 2015 pg. 9

<sup>29</sup> Independent Evaluation of DFAT’s Economic and Public-Sector Reform Program (EPSG III) to the Kingdom of Tonga 2015/16 – 2017/18 pg. 9

Stakeholders raised examples where reforms are ‘rushed’ and legislation/policies are not fit-for-purpose and therefore difficult to implement.

Similar concerns were expressed by GoT officials during the TEGS design mission.

The EPSG Independent Evaluation recommended that DFAT should continue to use the budget support modality, delivered through the JPRM, but noted that increased funding for TA (i.e. shifting the split between budget support and TA) could improve the level of support for implementation of JPRM reforms.

With a Post in Nuku’Alofa and the upcoming placement of a TSU in the MoF as part of the new TEGS investment, Australia is uniquely well placed to engage in regular, focused dialogue with GoT and the JPRM donors to ensure that the policy matrix and triggers are better informed by analysis / diagnostics and can better reflect and track the medium-term strategies and plans of government, either for PFM reform or for other sector strategies (where the strategies are relevant and credible). These matters are taken up in the Partnership Engagement and Policy Dialogue Matrix. (Appendix B).

- **GoT governance and management challenges:**

Whilst there has been strong political support for JPRM reforms, there have also been challenges from vested interests and from those who stood to lose from the reforms, particularly those reforms linked to procurement, receivership legislation and privatisation of TCC.<sup>30</sup> Failure to identify, monitor and manage these risks slowed implementation of the reforms. Similarly, frequent reshuffles of cabinet ministers, with related changes to key civil service structures and posts, also changed the political dynamics surrounding reforms and delayed implementation.

While these changes in the political economy in Tonga are outside the control of donors, including Australia, donors can support the development and maintenance of stable GoT governance and management arrangements surrounding the reforms. Two areas require attention:

First, the separation of GoT’s finance and planning functions between MoF, on the one hand, and the NPD/PMO, increases the medium-term reform challenge of encouraging central and line agencies to link plans with budgets.

Second, the inability of MoF to ‘stand up’ the PFMR – RSC and the PFMR - RTC has undermined systematic progress in implementing the Roadmap. Based upon interviews with officials during the course of this Design, it became clear that a change of Government and Minister of Finance led to a reduction in emphasis on the implementation of the Roadmap. More frequent, and better structured, policy dialogue from the JPRM support donors may have assisted MoF in establishing and maintaining the PFM reform governance mechanisms.

- **Inadequate monitoring and evaluation**

A range of evaluations/reviews have commented upon the weak monitoring and evaluation associated with Australia’s investment in economic governance and reform in Tonga. The lack of quality assured data undermines the ability of the investment to make evidence-based decisions, to promote continuous improvement and to account for the expenditure of tax payer dollars. The weaknesses occur across three dimensions.

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<sup>30</sup> In the case of procurement, the WB ICR noted that there continues to be political pressure to raise the shopping thresholds beyond current levels, and in some cases to devolve procurement decisions back to line ministries which do not have the capacity to properly manage procurement or contracts. The small number of suppliers in the private sector and their potential collusion with government officials has resulted in concerted pressure to reverse earlier reforms and increase thresholds. There is a mistaken impression that it is the threshold levels that lead to delays in procurement, whereas in almost all cases it is a failure by line ministry officials to comply with regulations that causes the delays when procurements or payment vouchers are submitted to MoF.

➤ *Monitoring the results of budget support*

To date, DFAT has effectively ceded this area to the WB who ensure that there is a single and agreed list of agreed policy actions and a single and agreed set of monitoring indicators. The WB monitors overall macro-economic management and stability in Tonga and tracks the achievement of particular, agreed, actions within a time period. However, neither World Bank reports, nor baseline data collated by the WB, generate sufficient evidence to demonstrate that the reforms achieved via budget support are strengthening GoT systems.<sup>31</sup> A WB independent evaluation also found that reform actions supported under the Tonga DPOs were not always strongly linked in terms of sequencing and related actions to the outcome indicators. In these circumstances, AHC is not able to meet DFAT's monitoring, management and reporting standards in respect of this investment.

Fortunately, substantial international research and meta-evaluations have been carried out on the effectiveness of budget support. Tools for attributing change to donor budget support have also been developed.<sup>32</sup> It would not be difficult for an M&E Adviser attached to the TEGS investment to develop an M&E approach which builds upon WB data and uses the abovementioned tools to produce information to meet DFAT's performance and quality assessment and reporting requirements.

➤ *Monitoring implementation of GoT strategic and national plans*

The design team was not tasked to examine GoT approaches to M&E overall. However, it is reasonable to assume that M&E of strategic and national plans is subject to the same capacity constraints in terms of availability of skilled personnel as any other area of work.

Monitoring of implementation of the TSDF II is essentially concerned with compiling and reporting on key performance indicators (KPIs) which are, in turn, rolled down into the corporate plans of various government departments.

The NPD / PMO is working towards developing a consolidated national M&E framework which links the corporate plans, and budgets, of all government agencies to the achievement of TSDF II outcomes and, beyond this, to the Sustainable Development Goals. Operationally, the intention is to move government agencies to report quarterly on performance against intermediate outcomes (using agreed templates and indicators) and linked to budget allocations intended to achieve those outcomes. This will be a major institutional change and NPD will undoubtedly require support to implement its plans.

The MoF Corporate Plan and Budget 2019/20 – 2021/22 makes provision for reporting against KPIs, including implementation of the PFMRR. However, MoF/FFD has not developed an M&E system for monitoring implementation of the Roadmap; meetings of the PFM-RSC and the PFM-RTC were considered to be *the* M&E system. Again, this confuses governance with M&E. A critical role for the TEGS M&E Adviser would be to assist them to develop a PFM Reform M&E Plan, appended to the PFM Reform AAP, which would permit detailed reporting to GoT – and DFAT – on performance.

<sup>31</sup> DFAT Aid Quality Check for INL881 – Tonga Economic and Public Sector Reform Program 27/04/2018

<sup>32</sup> See, for example, "What we know about the effectiveness of budget support" Evaluation Synthesis 2017 Deval – German Institute for Development Evaluation; 'Sector Budget Support in Practice' Overseas Development Institute, London; *Evaluating Budget Support – Methodological Approach* OECD DAC Network on Development Evaluation



➤ *Monitoring Australia's contribution to economic and governance reform*

A key limitation faced by the independent evaluation of EPSG III was limited availability of program, government and external data. Specifically, *"EPSG III is not collecting program M&E data and no baseline indicators exist."* A range of organisations were funded by DFAT to provide technical assistance to support GoT to achieve JPRM reform triggers (e.g. PASAI; PFTAC). While each of these organisations had some form of M&E system, these systems were not necessarily compatible or transparent; nor did they produce the information that DFAT requires. There was no overarching M&E framework for EPSG III; technical assistance (TA) inputs were, by definition, assessed at the output level without benefit of links to a higher order outcome level.

With the development of a coherent program logic for the TEGS investment, it will be possible to develop a full M&E system which links all of DFAT's inputs to the achievement of outputs/activities, intermediate and end-of-investment outcomes and identifies both quantitative and qualitative indicators of progress at each level. This approach will apply whether assessing the effectiveness of policy dialogue in improving the focus of the JPRM mechanism or assessing the performance and quality of TA supporting MoF/FFD to implement the PFM Reform AAPs.

## INFLUENCE OF LESSONS ON TEGS DESIGN:

- **Limitations of the JPRM framework:** Australia will partially address the identified weaknesses in the JPRM modality by:
  - strengthening DFAT's policy dialogue focus on considering GoT implementation capacity when selecting the JPRM triggers
  - providing support to MoF/NPD, via a Technical Support Unit located in MoF, to facilitate discussions across ministries to ensure that the policy and legislative reforms prioritised as JPRM triggers reflect the GoT national strategies and corporate plans
  - developing a comprehensive M&E framework for assessing the contribution made by the budget support modality to development in Tonga.
- **Weak government capacity:** Australia will provide a coherent package of technical support in in one area – public financial management reform – to strengthen the capacity of MoF/ FFD to implement GoT's PFM Reform Roadmap, as well as strengthening FFD's monitoring and evaluation capacity.
- **Instability in governance and management arrangements for reform:** Australia will:
  - Support the joint work of MoF and NPD/PMO with central and line agencies to increase the alignment between corporate plans and budgets.
  - Support MoF / FFD to establish and maintain appropriate governance and management arrangements to oversight implementation of the PFM Reform Roadmap.
- **Inadequate monitoring and evaluation:** Australia will improve overall monitoring and evaluation by providing a long-term M&E adviser, as part of the Technical Support Unit in MoF/FDD, who will develop a comprehensive and coherent M&E system for the TEGS investment, based upon a coherent program logic, which:
  - builds upon WB data and international tools for measuring the results of budget support to identify progress resulting from budget support generally and Australia's specific contribution
  - supports MOF/FFD to monitor implementation of the PFM Reform Roadmap AAPs to feed into reporting against MoF's Corporate Plan
  - measures the relevance, effectiveness and efficiency of the Australia's contribution (via the Technical Support Unit in assisting MoF/FFD) to implementation of the PFM Reform Roadmap
  - measures the effectiveness of DFAT's policy dialogue with other donors and GoT to improve the budget support mechanism and the progress and quality of PFM reform.

## C. STRATEGIC INTENT AND RATIONALE

- **Alignment with Australia's foreign policy priorities:**

Australia's policy objectives in the Pacific were outlined in the 2017 Foreign Policy White Paper<sup>33</sup> which committed Australia to a more ambitious and intensified engagement in the Pacific to support a more resilient region.

Reflecting the White Paper's ambition, Australia further committed, at the 2017 and 2018 Pacific Island Forum Leaders' Meetings, to a range of measures which will strengthen Australia's engagement with the Pacific, including stronger partnerships for economic growth; stronger partnerships for security and stronger relationships between our people.

Effective governance is one of the six priority areas in Australia's overarching aid policy framework in recognition of the fact that the quality of governance affects virtually every aspect of a country's growth and development.<sup>34</sup>

- **Alignment with the Australia-Tonga Aid Partnership Arrangement 2016-2019:**

The TEGS investment supports Tonga's long-term goal - *"A more progressive Tonga supporting higher quality of life for all"* - as expressed in the Tonga Strategic and National Plan 2015 – 2025 and reinforced in the Australia-Tonga Partnership Arrangement 2016 – 2019. The Partnership Arrangement identifies three strategic priorities to guide development cooperation, the first of which is *'governance, economic and private sector development reforms, including support for aid for trade and infrastructure.'* Objective A, under this priority, aims to progress Tonga's medium-term program of reforms to strengthen revenue, effectively manage government expenditure, reduce debt and promote economic growth.

- **Alignment with the Aid Investment Plan for Tonga:**

DFAT's Aid Investment Plan (AIP) for Tonga (2015/16 - 2018/19) contains three strategic priorities: governance, economic and private sector development reform; a more effective, efficient and equitable health system; and skills development in support of economic opportunities for Tongan workers. The next AIP is expected to contain similar objectives. The proposed TEGs investment directly supports the first objective of the AIP but also underpins effective government across other sectors. The investment will also support effective, transparent and efficient government service delivery across all sectors.

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<sup>33</sup> 2017 Foreign Policy White Paper – Opportunity, Security Strength 23<sup>rd</sup> November, 2017 pg. 101

<sup>34</sup> Australian aid: promoting prosperity, reducing poverty, enhancing stability. June 2014 pg. 16

- **Building on Australia's previous support for economic and public sector governance in Tonga:**

Tonga's geographical remoteness, dispersion over several islands, small population and environmental fragility means it faces a high cost base for both private production and the delivery of public services explaining its level of development and relatively low rates of economic growth to date. The Budget Support Program assists the Government of Tonga in managing these constraints through maintaining Tonga's macro-fiscal environment; improving government service delivery and supporting reforms to unlock economic opportunities.

As with many Pacific Islands, Government spending makes up a significant proportion of GDP and economic activity relative to countries at a similar level of development. This raises issues around the sustainability of government revenue and broader management of the macro-economy. Roughly 40 per cent of Tonga's government revenue comes from donor grants indicating that Tonga faces a structural budget deficit (i.e. development spending is greater than the amount of revenue it can source domestically). This deficit illustrates value Budget Support can play in supplementing Tonga's revenue for development spending.

Budget Support can be particularly critical in times of economic crisis, including natural disasters. Tonga is highly susceptible to natural disasters – the impact of these on average each year is 4.3 per cent of GDP. In February 2018 Cyclone Gita hit Tonga. The economic impact of the cyclone is estimated to be almost 40 per cent of GDP. Recovery from the cyclone will be a priority for the Government of Tonga in the next several years. Budget Support can play a role in assisting government financing during times of crisis and ongoing reconstruction but also by supporting reforms for preparation and mitigation of disasters. Looking forward the Government of Tonga is exploring whether a World Bank Catastrophic Disaster Drawdown Option may be a helpful addition to their development finance options. Part of this exploration includes several reforms being undertaken in the current budget support matrix.

Turning to Tonga's external economy, Tonga consistently has a trade deficit – there is a large import bill and a relatively small set of undiversified exports to a small number of trading partners. Tonga is also highly dependent on remittances as a source of foreign exchange – making up around 30 per cent of GDP. This can place Tonga's economy at risk to external economic shocks (including foreign exchange movement, fuel and food price rises, slowdown in the growth in trading partners and/or a reduction in remittances) which can destabilise the economy and adversely affect households. Budget Support helps reduce these risks by providing an additional source of foreign exchange for the Government.

The high cost of private production and delivery of public services means that Government both has to be an efficient provider of public services and where possible reduce barriers to private sector activity. Budget support assists the Government of Tonga in this through providing core budget funding which expands the fiscal space creating greater room for development spending. The reform agenda of budget support can also assist to unlock opportunities for private sector activity. Tonga has improved in the World Bank's Doing Business Index by streamlining processes and digitising systems. In the past budget support reforms have sought to strengthen regulations, improve transparency and planning around labour laws, foreign investment and the corporatisation or privatisation of several state-owned enterprises.



## D. PROPOSED OUTCOMES AND INVESTMENT OPTIONS

### D.1 OUTCOMES AND PROGRAM LOGIC

#### Long Term Goal

**A MORE PROGRESSIVE TONGA SUPPORTING HIGHER QUALITY OF LIFE FOR ALL**

The TEGS investment aligns with the intent of the Tonga Strategic and National Plan 2015 – 2025, Australia's 2017 Foreign Policy White Paper, the Australia-Tonga Partnership Arrangement 2016 – 2019 and the Aid Investment Plan for Tonga. All of these policies and plans recognise the importance of strengthening economic and fiscal management in Tonga, as well as public sector reform.

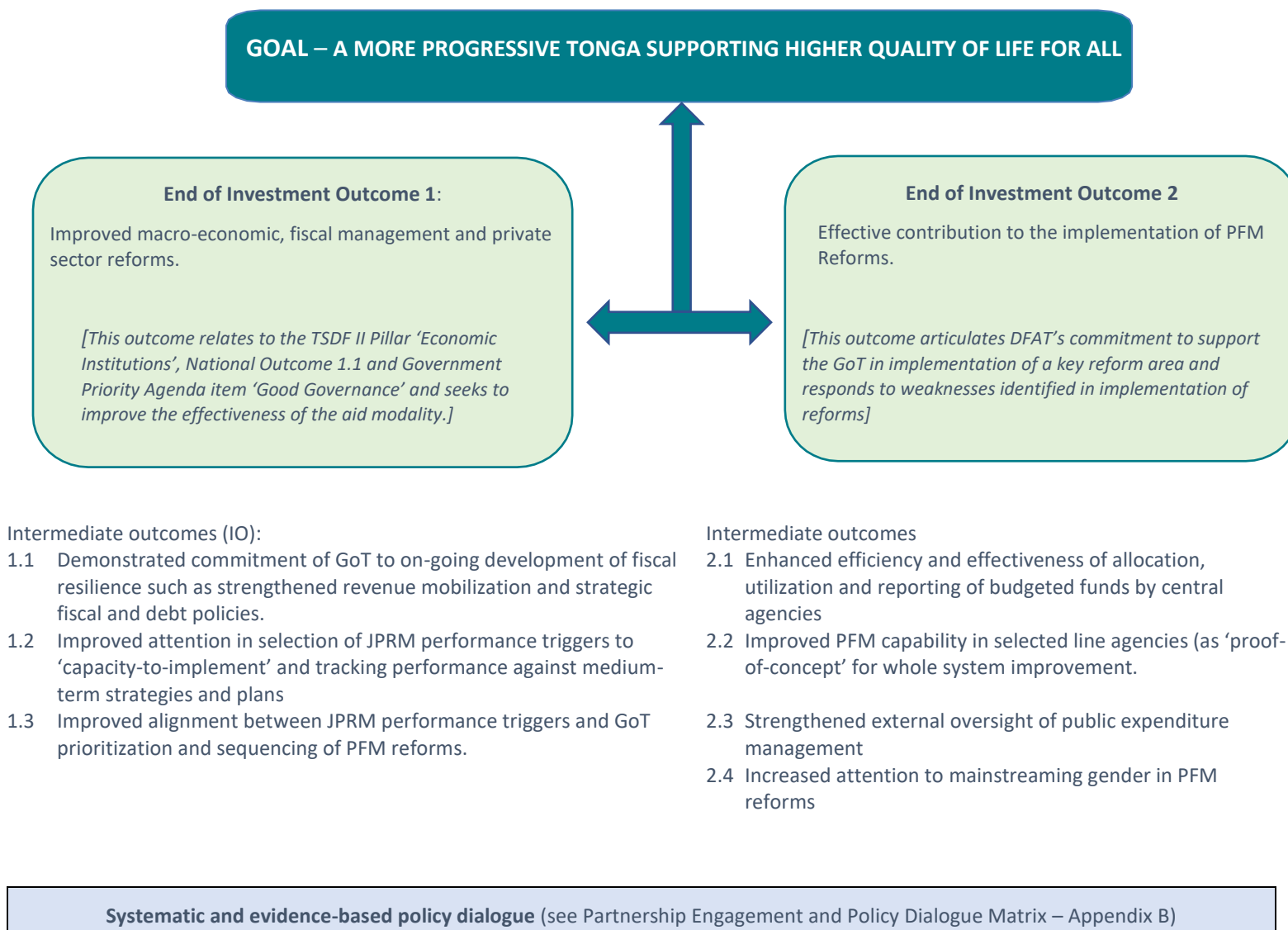
#### End of Investment Outcomes

The TEGS design aims to capitalise upon experience to date and to increase the strategic focus and coherence of Australia's support, as well as clarifying Australia's 'value add', in three critical ways.

1. By maintaining the commitment to the joint donor budget support mechanism (JPRM) while *increasing Australia's analysis and policy dialogue to optimise the effectiveness of the JPRM mechanism*. Specifically, Australia will aim to increase the focus on GoT 'capacity-to-implement' and the importance of the JPRM reflecting and tracking the medium-term strategies and plans of government.
2. By *increasing the focus and coherence of Australia's technical assistance* to support the implementation of key public financial management reforms achieved via the budget support mechanism.
3. By *improving the quality of monitoring and evaluation* of the progress of both the budget-support linked reforms and PFM reforms in general, and Australia's contribution in particular. This will improve the effectiveness of Australia's contribution to GoT economic and governance reform efforts, as well as increasing Australia's 'value add' and leverage with GoT and other donors.

A high-level program logic is presented in graphic form in Figure 1 below, followed by a narrative description of the logic chain leading to the achievement of the end-of-investment outcomes. A detailed program logic is attached as Appendix A.

**Figure 1: High Level Program Logic**



## **Outcome One: Improved macro-economic, fiscal management and private sector reforms.**

This outcome statement directly supports the TSDF II Pillar ‘Economic Institutions’, National Outcome 1.1 and Government Priority Agenda item ‘Good Governance’. The outcome statement reinforces Australia’s commitment to the use of the budget support modality, but also seeks to improve the effectiveness of the aid modality.

The JPRM already provides an opportunity for donor partners, including DFAT, to engage in high-level dialogue on policy reform priorities with GoT. Post would like to take additional measures to improve the quality and focus of this engagement in order to:

- increase DFAT’s understanding of the effects of budget support
- ensure that greater attention is given to analytical work and diagnostics around GoT’s ‘capacity-to-implement’ and to tracking performance against medium-term strategies and plans
- specifically ensure improved alignment between JPRM performance triggers and GoT prioritization and sequencing of related PFM reforms.

Three intermediate outcomes (IOs) contribute to the achievement of Outcome One, as follows:

### **1.1 DEMONSTRATED COMMITMENT OF GOT TO ONGOING DEVELOPMENT OF FISCAL RESILIENCE, SUCH AS STRENGTHENED REVENUE MOBILIZATION AND STRATEGIC FISCAL AND DEBT POLICIES.**

DFAT relies upon WB research and analysis, as well as the results of joint donor missions, to gather evidence of on-going commitment by GoT to developing fiscal resilience such as strengthened revenue mobilization and strategic fiscal and debt policies. Post is supported by MDD, Canberra in engaging with the WB to review available evidence demonstrating progress towards the achievement of this Intermediate Outcome.

In addition, DFAT will strengthen its understanding of the sequence of effects of budget support as a basis for improving engagement with other donors and with GoT. This will be done via the work of a long-term M&E Adviser, placed in a TSU located in MoF/FFD, who will work with MoF, DFAT’s MDD and other development partners (DPs) to develop a comprehensive approach for long-term monitoring of the effects of budget support. A range of tools have been developed to track budget support inputs, through direct outputs, to induced outputs, outcomes and impact.<sup>35</sup> These need to be discussed with key stakeholders, adapted for the Tongan context and used to augment current WB reporting in order to meet DFAT monitoring and reporting standards.

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<sup>35</sup> For example, the OECD DAC Comprehensive Evaluation Framework for budget support.

## 1.2 Improved attention in selection of JPRM performance triggers to GoT ‘capacity-to-implement’ and to tracking performance against medium-term strategies and plans

Both DFAT and World Bank evaluations, as well as the most recent draft 2019 ANS, have noted that while the JPRM process is an effective vehicle to support policy reform in Tonga, many policy decisions have not been followed through to implementation or have not been sustained. As discussed earlier, this is partly attributable to capacity constraints within government, but it also reflects the limitations of the JPRM modality which is designed to support and incentivise the initial high-level policy action from government, but is not designed to support the follow-up activities by government that are needed to implement and embed those policies or reforms.

The WB and DFAT evaluations have also noted that there have been deficiencies in the logical flow, sequencing and links between the JPRM performance triggers and GoT’s strategic and planning priorities.

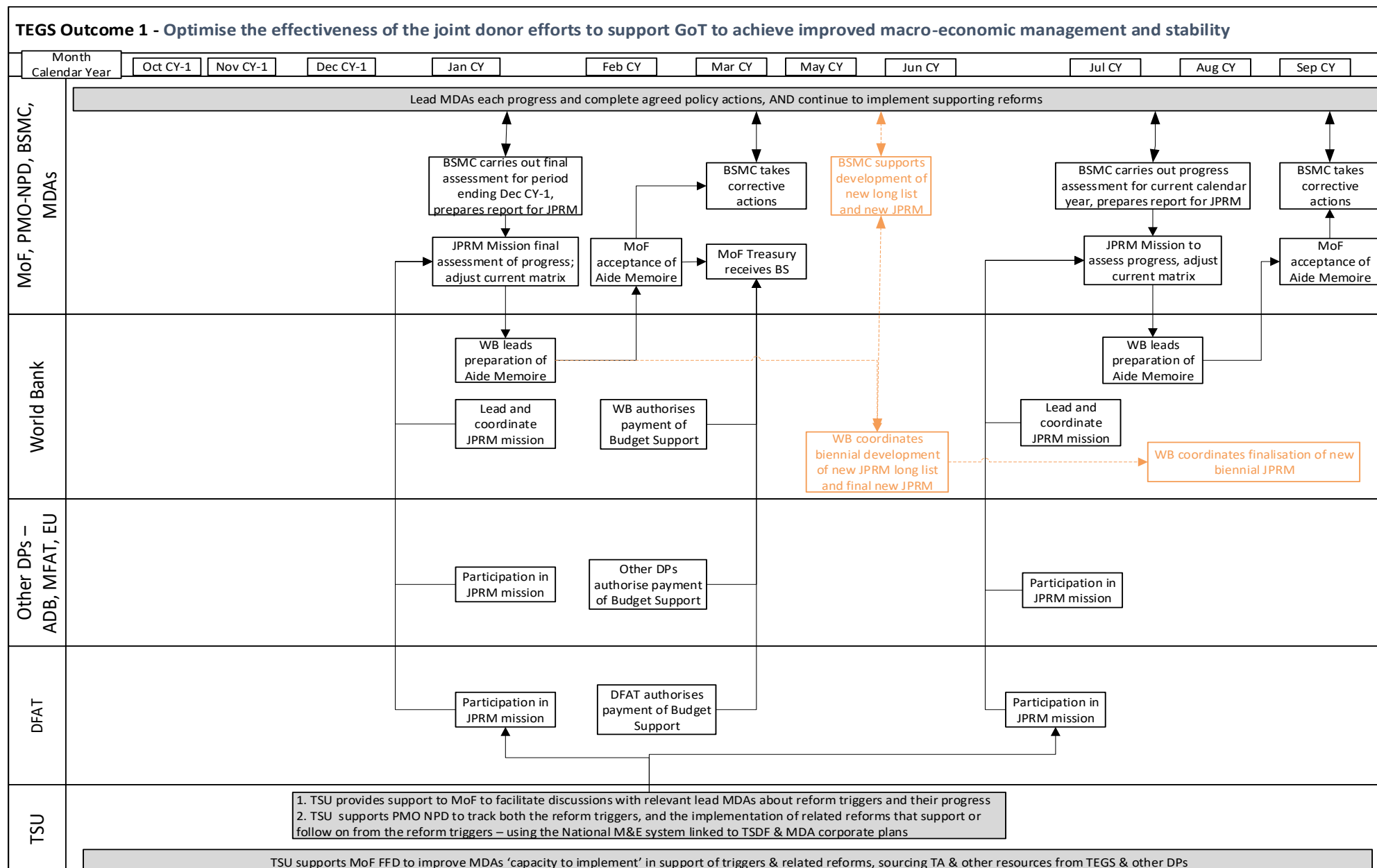
Detailed, practical, consideration will need to be given to ways of improving both the analytics underpinning, and the process for arriving at, JPRM performance triggers. While this process is led by the WB, Australia has a key role to play in working with the joint donor group, and in supporting GoT, to ensure a longer, slower and more evidence-based process of identification of JPRM performance triggers. Appendix B, Partnership Engagement and Policy Dialogue Matrix, discusses the entry points for dialogue and the outcomes sought. Figure 2, below, presents the current JPRM process; AHC would have to identify specific points within this process where evidence-based dialogue could improve the selection of GoT performance triggers.

Australia also has a key role to play in supporting the work of the NPD/PMO which is developing a consolidated national M&E framework to monitor the performance of central and line agencies against their Corporate Plans. Insofar as the JPRM policy ‘triggers’ are part of these Corporate Plans, it is in the interests of Australia, the WB and the DPs to support the process of tracking the implementation and embedding of policy reforms via this national M&E framework.

Australia’s support for a TSU, to be placed in MoF (see Outcome 2) will provide a mechanism for providing support to MoF and NPD/PMO in promoting improved planning, budgeting and performance management across government agencies. This mechanism may also be used to assist these central agencies to ensure that discussions with centre/line Ministries on JPRM performance triggers are placed within the context of existing ministry priorities and plans. Key issues related to this Intermediate Outcome are included in the Partnership Engagement and Policy Dialogue Matrix (Appendix B).



Figure 2: Current JPRM process



### 1.3 Improved alignment between JPRM performance triggers and GoT prioritization and sequencing of PFM reforms.

This intermediate outcome articulates DFAT's specific intent to work with the joint donor group to ensure that the priorities and sequencing established in the PFMRR AAPs are reflected in the JPRM performance triggers. As indicated previously, A WB independent evaluation found that reform actions supported under the Tonga DPOs were not always strongly linked in terms of sequencing and related actions to the outcome indicators.

DFAT's funding of a TSU to assist MoF in implementation of the PFMRR (refer Outcome 2) provides the opportunity to improve Australia's knowledge of GoT's preferred priorities and sequencing of PFM reforms (via AAPs). This will improve DFAT's capacity to engage in evidence-based policy dialogue with donors to improve the alignment of JPRM performance triggers with GoT PFM Reform priorities and sequencing. This will ensure that policy dialogue efforts under Outcome 1 are directly linked with, and intended to support, progress towards the achievement of Outcome 2. (Refer Partnership Engagement and Policy Dialogue Matrix (Appendix B).

#### **Outcome Two: Effective contribution to the implementation of PFM reforms**

This outcome articulates DFAT's commitment to support the GoT in implementation of a key reform area and responds to weaknesses identified in implementation of PFM reforms.

Five IOs contribute to the achievement of Outcome Two, as follows:

#### 2.1 Enhanced efficiency and effectiveness of allocation, utilization and reporting of budgeted funds by central agencies

GoT's PFMRR was approved by the Cabinet on 24<sup>th</sup> October, 2014. The Roadmap incorporated some 79 actions to address gaps in institutional capacity; policy formulation, planning and budget formulation; budget execution; accounting and financial reporting; external oversight and other critical cross-cutting issues. The sequencing proposed for the Roadmap included:

- Phase 1 (2014/16): strengthening work with development partners, addressing policy and legislative constraints and bridging capacity gaps
- Phase 2 (2016/17): continuing the work from Phase I and focusing on budget credibility, the quality of financial reporting and the oversight roles of the Audit Office and Parliament.
- Phase 3 (2017-19): Introducing accrual accounting, consolidation of Ministries, departments and agencies (MDAs) and Public Enterprises (Pes) financial reporting and ensuring full compliance with the International Public Sector Accounting Standards.

In September 2018, MoF hosted a Symposium to track progress in implementation of the PFM Roadmap. The results of the exercise indicated that less than 50% of proposed actions had been completed; work carried out did not necessarily align with the proposed sequencing.

Delays were attributable, at least in part, to a change of government and Minister, resulting in a reduced emphasis on implementation of the Roadmap, as well as lack of staff in MoF to coordinate and support on-going work.

While MoF has reiterated its commitment to implementation of the Roadmap, capacity constraints still exist. FFD has two budgeted / approved positions for PFM Roadmap Reform and is not yet in a position to fully support the workings of the PRMR-RTC and the PFMR-RSC, both of which were established as the key governance mechanism in the 2014 Roadmap.

Based upon consultations with key GoT and GoA stakeholders, it is proposed that Australia funds a TSU, to be located in the FFD of MoF to assist FFD to fulfil its mandate in implementing the PRMR under the guidance of the PFM Reform Steering Committee and Technical Committee. The TSU would involve a long-term Technical Support Coordinator, a small team of long-term advisers and provision for a larger pool of unallocated short-term adviser support.

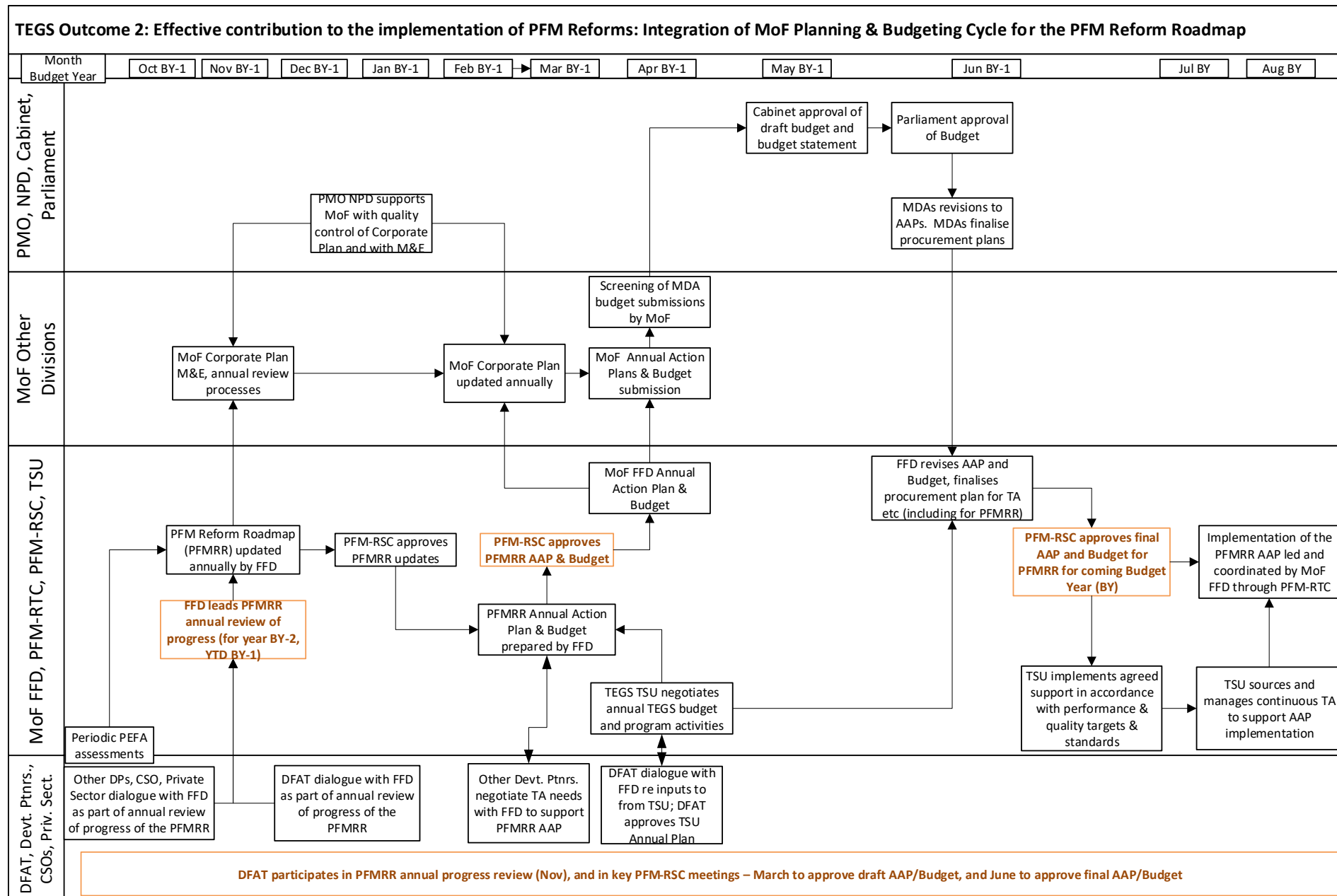
The work of the TSU would be guided by a PFMRR AAP<sup>36</sup>, developed by the PFM-TRC and approved by the PFM-RSC. The Plan will be developed and approved during March for inclusion in the MoF budget, approved by 31 May, for the new financial year starting 1 July. Engagement with other Ministries and with the Cabinet in development of the AAP will be the responsibility of the PFM-TRC, under the guidance of the Chief Executive Officer (CEO), MoF.

Detailed explanation of the governance, planning and management processes is included in Section E of this design document and in Appendix C. Figure 3, below, presents a graphic representation of the way in which the PFM AAP would be developed as part of the MoF Planning & Budgeting cycle.

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<sup>36</sup> AAPs or work plans are already a feature of the GoT annual planning and budgeting cycle.

Figure 3:





## 2.2 Improved PFM capability in selected sector ministries (as ‘proof-of-concept’ for whole system improvement).

GoT’s 2018 PFM Reform Tracking Symposium<sup>37</sup>, as well the recent reports from a DFAT commissioned ANS in Tonga<sup>38</sup> and Health Sector PFM Assessment<sup>39</sup> all emphasise that despite reforms in central agency PFM policies and systems, devolution to sector ministries is incomplete. In other words, centrally led reforms have not been leading to improved sector ministry effectiveness and service delivery.

Examples of ‘stalled’ implementation of reforms include the following:

- Line ministries still maintain parallel Excel and QuickBooks systems, with inadequate access to MoF recording and reporting systems, leading to time-consuming re-keying of transaction data.
- The current MoF Chart of Accounts has not been used to its potential by line ministries to generate financial reports. The implementation of an improved Chart of Accounts based on a 2017 Chart of Accounts Reform Roadmap has stalled. The improved Chart of Accounts would allow budgeting and reporting to accommodate other dimensions such as gender or climate impacts.
- There are limitations on both the availability of Vision<sup>40</sup> user licences and training on Vision report writing, etc. Additional Vision licences are required to allow line ministries to exploit the full potential of the SunSystem and Vision tool.
- IFMIS SunSystem has been upgraded and additional concurrent user licences purchased. However, although IFMIS now has a commitment control function, it is duplicated by manual commitment and control registers in line ministries.
- Line ministries still maintain parallel payroll databases to provide ongoing access to employees’ payroll history and to prepare PAYE returns for Ministry of Inland Revenue, in the absence of electronic access to the MoF payroll system data.

It is both unrealistic and inappropriate for Australia to provide technical resources to multiple sector ministries such as MoH or the Ministry of Education and Training (MoET) to improve the roll-out and uptake of central agency led PFM reforms. However, Australia can support the central agencies (MoF, FFD, PMO, PSC) to improve their engagement with, and support for, the sector ministries to implement and embed these reforms.

It is proposed that the TEGs TSU supports central ministries to work with a single sector ministry, in the first instance, as ‘proof-of-concept’ about what can be achieved at sector ministry level if central agencies effectively engage. Approaches which prove to be effective in engaging at the sector ministry level may then be used by the central agencies to engage with other ministries.

<sup>37</sup> Ministry of Finance, Financial Framework Division, PFM Tracker Exercise, September 2018

<sup>38</sup> Draft 2019 Assessment of National Systems Update, Tonga, July 2019, DFAT

<sup>39</sup> Draft 2019 Update of the Tonga Health Sector’s Public Financial Management Systems, May 2019, DFAT

<sup>40</sup> Vision is a powerful data analysis and reporting tool, linked to the SunSystem database, which is currently only accessible by trained MoF officials. Its utility to MoF, PMO, planners and to line agencies will be further enhanced with the introductions of new analysis fields in the chart of accounts

The design team believes that the MoH is a suitable candidate for the 'proof-of-concept' approach because the Ministry already has WB and DFAT support via the Tonga Health Sector Support Program (THSSPII) and other resources available within MoH to support better engagement with central agencies. The WB, in particular, has already indicated they will be working to implement a range of recommendations from the WB Functional Analysis report (2018). Further, DFAT's draft health sector PFM assessment update report made recommendations for additional TA to be placed in MoH to ensure, among other things, that the Ministry increasingly engages with the centrally led PFM reforms.

Ultimately, the selection of the line ministry to be the focus of the 'proof-of-concept' will be made by the PFM-RSC and will be included in the first PFMRR AAP. However, it is important for central ministries to be realistic about the resources that they have available to support the selected ministry to maximise their uptake of centrally led PFM reforms.

### 2.3 Strengthened external oversight of public expenditure management

There are three key mechanisms for external oversight of public expenditure management, namely, Parliamentary oversight, external audit and civil society engagement / scrutiny. The draft 2019 ANS Update Report, as well as consultations carried out during the TEGS design mission, highlight continuing weaknesses in each of these areas in Tonga. Specifically:

- Review of the annual budget estimates by the Parliamentary Standing Committee on Public Accounts (PAC) is not mandatory. It appears, therefore, that this oversight function is not always being performed.
- Review of the Tonga Audit Office (TOAG) reports by the PAC is not mandatory. The Cabinet Audit Oversight Committee no longer appears to be meeting. As a result, at present, there is a gap in Parliamentary oversight and there is also no formal requirement for central or sector ministries to address deficiencies identified in external audit reports.
- While the design team received advice that CSO umbrella bodies have made overtures to the PMO and Parliament to receive copies of the budget and audit reports for review, these requests have not met with any success.<sup>41</sup>

On the positive side, the capacity of the PAC has improved since the last ANS assessment and good quality secretariat support is available. The capacity of TOAG has also improved. The Government is currently considering a proposal to amend the Public Service Act provisions on Annual Reports, and/or to develop Annual Report guidelines, which would require CEOs to list audit recommendations, management responses and action the CEOs have taken. The PSC could also use this information as part of their assessment of CEO performance.

Under EPSG III, Australia supported PASAI to work with the PAC, including training on Standard Operating Procedures. However, PASAI's outputs are concentrated on assessments and strategies, rather than implementation. If this area is identified as a focus in the PFM Reform AAPs, TSU support may be provided to support implementation.

Finally, it is feasible for CSOs to be provided with support to improve their level of engagement with government as a whole, including MoF, PMO and sector agencies. This is another area where policy dialogue between AHC and GoT may be required. (See Partnership Engagement and Policy Dialogue Matrix: Appendix B)

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<sup>41</sup> Personal communication; 31<sup>st</sup> May, 2019

## 2.4 Increased attention to mainstreaming gender in PFM Reforms

As discussed in Section G, below, Tonga has recently taken important steps to mainstream gender via the release of the National Women's Empowerment and Gender Equality Tonga (WEGET) Policy and Strategic Plan of Action 2019-2025. Outcome 1 of the WEGET is to build an *"Enabling environment for mainstreaming gender across government policies, programmes, services, corporate budgeting and monitoring and evaluation."*<sup>42</sup>

Under this Intermediate Outcome, it is proposed that the AHC engage in active policy dialogue with GoT on the importance of mainstreaming gender in PFM reforms in order to achieve Outcome 1 of the WEGET. (See Partnership Engagement and Policy Dialogue Matrix: Appendix B).

Subject to this being established as a priority by the PFM Reform Roadmap Steering Committee and included in an Annual Action Plan, the DFAT-supported TSU would also be able to provide support for mainstreaming of gender in PFM reforms. This could be achieved via links with DFAT's Pacific Women Shaping Pacific Development (PWSPD) and UN Women. If required, support for additional work could be provided by the allocation of short-term advisor assistance to carry out a baseline gender-based assessment of budgets, incorporating a gender perspective at all levels of the budgetary process and suggesting areas where revenues and expenditures might be restructured in order to promote gender equality.

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<sup>42</sup> DFAT's Pacific Women Shaping Pacific Development (PWSPD) program has actively supported the Ministry of Internal Affairs, Women's Affairs Division, GoT in the development of the WEGET, has assisted Tonga to produce a Gender Mainstreaming Handbook and the first set of national gender statistics to inform government policy making and programmatic decisions.

The TEGS design proposes that once the PFMRR AAP has been endorsed by the PFMR-RSC, the TSU Coordinator will then work with the Divisional Head of FFD (DH-FFD) to develop a TSU Support Agreement (TSU-SA) which identifies the specific areas and clusters of activities which will be supported by the TSU, as well as the expected outputs and contribution to the PFM Roadmap AAP outcomes of advisory and non-advisory inputs. The TSU Coordinator will then develop a detailed workplan and budget for implementation of the agreed activities.

Support will include, but may go beyond, the provision of long and short-term advisors. Support may also include long and short-term training opportunities for selected individuals; short exchange programs; peer learning events; financial resources to enable deployment of existing capacity in other DFAT funded programs; as well as promoting the use of existing GoT capacity development resources such as advisory support and training programs that are housed across different central agencies and sector ministries.

Where an advisor is proposed, there must be agreement between the TSU and FFD/MOF on the type of advisor required, the intended function of the input (i.e. supplementation, substitution or capacity development) and the position duration. Advisor ToR must be agreed by both parties and clearly define the outputs and contribution to outcomes required from the role; the full set of technical expertise and capacities required, as well as preferred personal attributes. Both the criteria and mechanisms for adviser performance assessment and management must also be agreed between both parties. Consideration should be given to establishing a joint quarterly adviser performance review between the TSU Coordinator and DH-FFD.

Finally, the TSU-SA will also articulate the mutual understanding and commitments between MoF and the TSU regarding the actions required by both parties to:

- Create and sustain an enabling environment for the delivery of capacity building support
- Contribute to monitoring, progress reporting and acquittals.

## D.2 DELIVERY APPROACH

The TEGs investment proposes the use of two aid modalities: performance linked budget support and technical assistance, with associated operational support, via a TSU located within the MoF, FFD. GoT has approved this approach and is ready to facilitate the set-up of the TSU within the offices of FFD.

**Performance linked budget support** has been provided by Australia to GoT since 2011 via a World Bank led, joint donor effort involving the Asian Development Bank, European Union and New Zealand. The approach links general budget support to GoT's achievement of an agreed set of policy reforms articulated in the JPRM. A DFAT commissioned independent evaluation carried out in April 2018 found that the JPRM is an effective vehicle to support economic and public sector reform in Tonga.

While the results of a recent DFAT ANS in Tonga are still in draft form, the use of the budget support modality has been justified to date by the results of previous ANS conducted in 2011 and 2015. The 2015 ANS update found that the overall fiduciary risk levels had improved since the 2011 ANS, but that risk levels for some components of the PFM systems had remained stable. This overall improvement was consistent with the improvements in ratings from Public Expenditure & Financial Accountability (PEFA) assessments in 2004, 2010 and 2014. The 2015 ANS update concluded that there were limited fiduciary risks for DFAT in using upstream PGS, but that DFAT should consider using downstream partner government systems only in conjunction with additional control measures. These were subsequently put in place.

The budget support modality offers value-for-money because it reduces transaction costs for both DFAT and GoT; it provides opportunities for DPs to provide analytical support and provide input; and it leverages the technical expertise of the World Bank and the ADB.

This modality also provides DFAT with a 'seat at the table', with other DPs, in discussing the process and progress of economic and governance reform in Tonga.

**Experts and technical assistance** will also be provided via the TEGS investment, but in a manner which addresses weaknesses identified in previous approaches to the use of this aid modality in Tonga. Previously identified weaknesses include:

- Lack of ownership and sustainability within government of processes / products produced by TA, often without adequate consultation with government
- Insufficient prioritisation and focus of TA in accordance with government strategies and plans
- Insufficient quality control and performance management of TA.

The TEGs design proposes that expert and technical assistance will be provided via a TSU which will be located within the FFD of MoF. In response to specific comments by both GoT and DPs, the head of the unit, the TSU Coordinator will be directly contracted to DFAT.

The remaining members of the TSU (both long and short-term advisors) will be contracted via a commercial service provider. The workplan of the TSU will be guided by the PFM Reform priorities identified in AAPs approved by the PFMR-RSC and subject to the available budget. M&E approaches (as described in Section F and Appendix E) will build upon the Consolidated National M&E System currently being developed by NPD/PMO. However, the system will operate on a twin-track approach, assisting MoF to track progress in the implementation of PFM Roadmap reforms, whilst also capturing Australia's contribution to this progress.

The ToR for TSU advisors will be jointly agreed between the TSU Coordinator and MoF/FFD and will specify deliverables and quality standards. Advisor performance will be jointly monitored by both parties.

The proposed approach has been approved by MoF (following presentation in an Aide Memoire and follow-up discussions with DFAT Program Management Nuku'Alofa).



## E. IMPLEMENTATION ARRANGEMENTS

### E.1 GOVERNANCE

The governance arrangements outlined below briefly explain the processes and interactions between GoA and GoT proposed for implementation of the TEGS investment and the way in which they will facilitate mutual decision making and accountability.

The management arrangements explain the procedures and systems put in place to implement decisions and to strengthen the relationships between stakeholders, both within GoT and between GoT and GoA.

A detailed Governance, Management and Implementation Framework is attached to this design document as Appendix C.

The approach to governance and management of the TEGS is based upon two key assumptions:

- GoT has competent and suitably empowered senior officials and technical bodies to guide the government reform program in general, and PFM reform in particular; and
- The GoA has a comparative advantage in terms of its long-term engagement with GoT and the WB in the provision of budget support, its on-ground presence in Tonga and its demonstrated capacity in supporting PFM reform (including via the mobilisation of a range of PFM expertise through diverse government, academic and industry contacts).

Given that different governance and management arrangements apply to the achievement of each of the TEGS outcome areas, each of these will be dealt with separately.

#### **Outcome 1: Improve macro-economic, fiscal management and private sector reforms.**

Budget support funding is delivered through the JPRM which is a joint mechanism between five DPs<sup>43</sup> and GoT. Decisions regarding reform actions to be included in the matrix are agreed following presentation of a potential 'long list' by WB, MoF facilitated GoT workshops and discussion with donors during the JPRM missions. Final lists of reform actions and results indicators are agreed at the end of the JPRM mission and confirmed by follow-up WB documentation.

Funding is disbursed if DPs are satisfied that results indicators have been met. Each development partner has their own separate internal approval procedures for disbursement. DFAT's approvals are contingent upon written confirmation from the World Bank Board that the agreed annual reform milestones listed in the JPRM have been achieved.<sup>44</sup>

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<sup>43</sup> DFAT, MFAT, EU, World Bank and ADB

<sup>44</sup> Arrangement between the Government of Australia and the Government of Tonga relating to an accountable cash grant for assistance regarding the Provision of Performance Linked Aid for 2018-19 Tonga Economic and Public Sector Governance Program Arrangement Number 75120 Sub-section 4.2 pg. 3

## Outcome 2: Effective contribution to implementation of PFM Reforms

Australia's program of support under this outcome area will, as much as possible, use existing GoT structures but recognises that many aspects of GoT policy and interdepartmental coordination around PFM are yet to be finalised. A key challenge for the GoT and Australia's program of support will be to forge a common or whole-of-government approach to PFM strengthening.

Figure 2, below, outlines the proposed governance and management arrangements. These arrangements have been approved by MoF (following presentation in an Aide Memoire and follow-up discussions with DFAT Program Management Nuku'Alofa).

Appendix C outlines the functions of the key governance and management structures. In brief, these will involve the following:

- **PFM Reform Roadmap Steering Committee (PFMR-RSC):** Chaired by Minister of Finance, mandated in PFMRR with oversight of planning and implementation of PFM reforms. DFAT and other donors contributing to implementation of the AAPs will be invited to both of these steering committee meetings.

The PFM-RSC will meet at least three times per year and approve AAPs and six-monthly reports on progress. These meetings will be integrated with the MoF Planning and Budgeting cycle.

- **AHC, Nuku'Alofa Head of Mission (HOM), Deputy Head of Mission (DHOM):** Senior personnel at Post will have a key policy dialogue role to play both via attendance at PFMR-RSC meetings and via out-of-session discussions of PFM reform processes. The nature and focus of this role is outlined in the Partnership Engagement and Policy Dialogue Matrix: Appendix B).
- **PFM Reform Technical Committee (PFMR – RTC):** Chaired by CEO MoF, also mandated in the PFMRR, will be responsible for preparing PFM Reform AAPs. The advisory and advocacy role of this Committee with the PFMR-RSC has a higher likelihood of success than any stand-alone efforts by DFAT. The TSU will support and strengthen FFD staff to more effectively drive the PFM Reform agenda.

## E2 PROGRAM MANAGEMENT AND ADMINISTRATION

Key implementation structures are:

- **Financial Framework Division, MoF** which oversees implementation of PFM Reform AAP in accordance with MoF Corporate Plan FFD Output 3. FFD has two approved and funded positions for PFMRR implementation.
- **Technical Support Coordinator:** Responsible for supporting the PFMR – RTC to develop PFM Reform AAPs and for developing the TSU workplan and budget to support implementation of these AAPs.

The Coordinator will also be responsible for managing the Technical Advisory Team inputs (long and short term) and for supporting responsible MoF/FFD staff in coordinating PFM Reform activities across government. The Coordinator is directly contracted to DFAT and liaises with the DFAT Program Management Team.

The TSC position will be required to carry out consistent, high level, liaison with DFAT Program Management, MoF, other GoT ministries and external agencies. The position should, therefore, be filled by a senior, experienced professional with program management experience as well as training in, and exposure to, a broad range of PFM reform processes and economic development issues.

- **Technical Support Unit:** An External Service Provider will be contracted to supply both long-term and short-term advisors to make up the TSU and to manage and administer these advisors' inputs. The advisory team would be responsible to the TSC for the satisfaction of their ToR and the delivery of outputs to approved standards.

The External Service Provider will provide GoT with timely and value-for-money access to diverse and appropriate technical assistance. In doing so, the Service Provider will aim to maximise the use of/collaboration with existing providers where GoT is satisfied with performance. (i.e. PASAI, PFTAC).

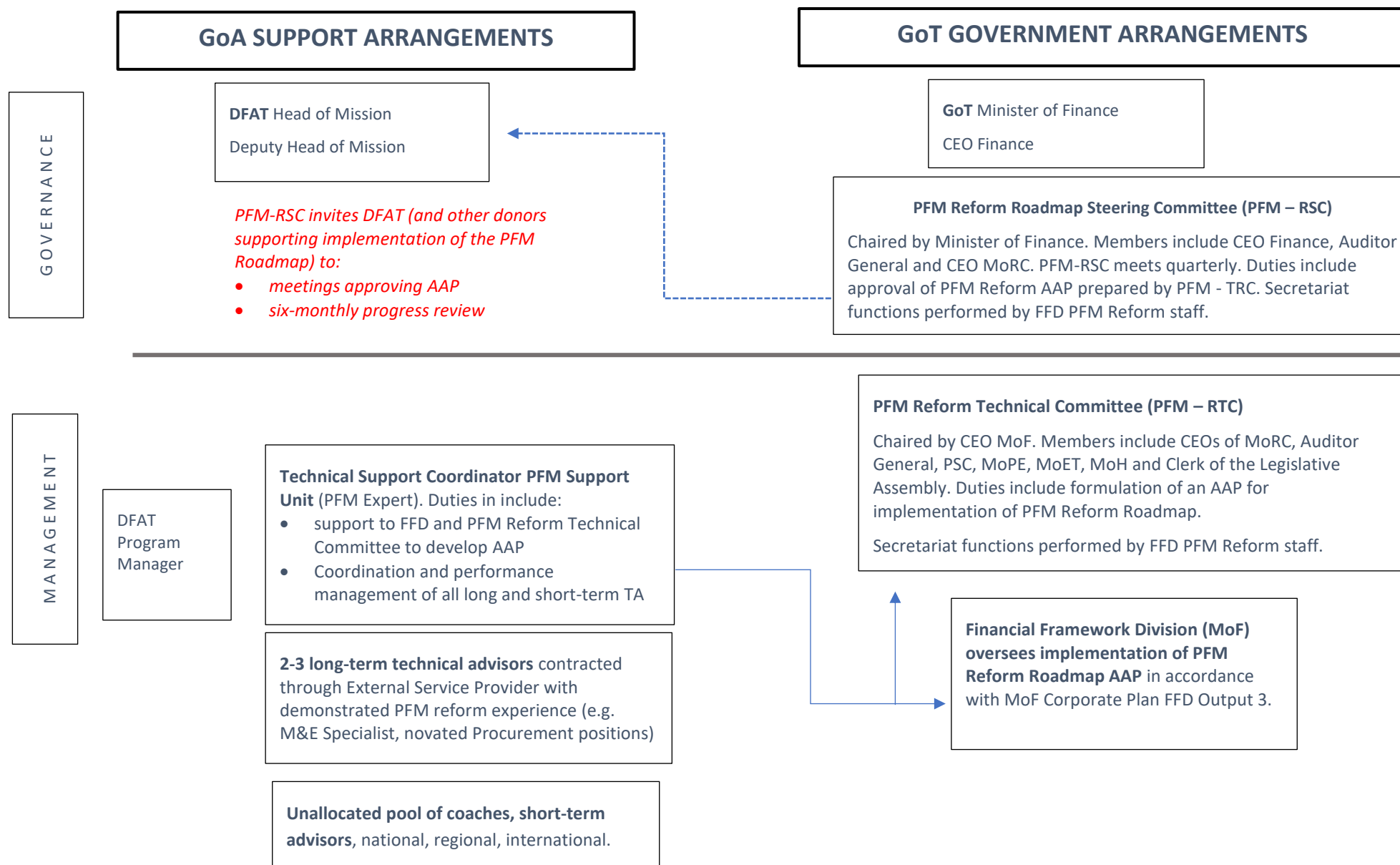
**A small team of long-term advisors (LTA)** (1-3) will be engaged to support the TSC by providing technical inputs to the program, working closely with key stakeholders and identifying where and when short term technical assistance may be required to support PFM Reform Map implementation. A long-term M&E Advisor will be appointed to develop an M&E system and arrangements which address the lack of performance information highlighted by DFAT's 2018 Independent Evaluation of EPSG III. A long-term procurement advisor currently funded by the governance program is also likely to be included as part of this team.

**Short-term advisors (STA)**, as required, to support implementation of the PFMRR AAPs. The deployment of STAs would be agreed between the Division Head, FFD and the TSC. Day-to-day management would be the responsibility of the TSC. Performance assessment would be carried out on a quarterly basis and jointly conducted by the Division Head FFD and the TSC on the basis of a pre-determined performance rubric and clear ToRs.

- **DFAT TEGS Program Management Team:** Previous economic governance programs in Tonga have been managed by a Locally Engaged Staff (LES) team with oversight by the DHOM. This arrangement will continue. However, it is expected that HOM will also be involved, and the management load will decrease; the current requirement to manage nine separate contracts will be reduced to management of two contracts (i.e. for the TSC and the External Service Provider).

In addition to its main role of servicing the TEGS, the Service Provider may be contracted to provide administrative support directly to DFAT's TEGS Program Management team in functions where the Service Provider has a comparative advantage and where there are cost advantages to DFAT. It is anticipated that any functions outsourced by DFAT to the Service Provider would be minimal initially. Details will be supplied during the tender process.

Figure 4: TEGS Outcome 2 - Governance and Management Arrangements



## E.2 EARLY STAGE ACTIVITIES

The TEGs Design aims to have procurement and contracting of the TSC completed in time for January 1, 2020 start-up, with procurement and contracting of the External Service Provider by end March.

A priority for the TSC at start-up will be to work with the Division Head FFD/MoF to reconvene the PFMR-RSC or, at least, the PFMR-RTC as soon as possible in 2020. The intent will be to commence work on the development of the PFMRR AAP which will guide both GoT work in the ensuing year. The AAP will also provide the framework for the TSC to develop a workplan and budget for TSU assistance to implement the AAP.

Specific attention will need to be given to the priorities and sequencing for short-term technical assistance required during the 3-4 months remaining in FY2019/20 after start-up of the TSU in March, 2020.

## E.3 PARTNERSHIP ENGAGEMENT AND POLICY DIALOGUE

The ToR for this design emphasized that DFAT was keen to improve the quality of engagement with GoT and the outcomes of its investment in economic governance in Tonga. Specifically, DFAT wants to see enhanced communications and political engagement between Post and GoT, within the context of a more cohesive approach to PFM support and comprehensive monitoring of performance.

A detailed Partnership Engagement and Policy Dialogue Matrix is attached as Appendix B.

This Matrix envisages an increased, and increasingly focused, role for the HOM/DHOM in policy dialogue with GoT. The intent will be for this dialogue to:

- (a) reinforce and strengthen progress towards the achievement of the end-of-investment outcomes
- (b) draw upon diagnostics and analysis being produced by the TSU located in FFD/MoF to improve the capacity of Post to engage in evidence-based dialogue.

For example, under Outcome 1 the TSU will work with FFD/MoF to consider GoT ministries' 'capacity-to-implement' potential JPRM reform triggers, including potential STA diagnostics / analysis. The HOM/DHOM may then build upon TSU reports on GoT Ministries' performance and 'capacity-to-implement' policy reforms to engage in dialogue with MoF and JPRM donor partners on the selection of JPRM performance triggers.

Under Outcome 2, a crucial area for early engagement by the HOM will be to emphasise to the Minister of Finance and CEO Finance that regular meetings of the Steering Committee and Technical Committee are central to the achievement of shared GoT and GoA PFM reform outcomes.

In addition, the TSU M&E Advisor will work to align the TEGs M&E system with NPD/PMO's Consolidated National M&E Framework and to develop methods for capturing Australia's specific contribution to the achievement of reform outcomes. This approach will have significant public diplomacy benefits which may be capitalised upon by DFAT. First, this work will demonstrate Australia's commitment to supporting and strengthening government M&E systems. Second, it will be possible to produce and disseminate information products which DFAT can use when discussing Australia's specific 'value add' to economic governance reform in Tonga.



## F. MONITORING AND EVALUATION

### F.1 TWIN-TRACK M&E APPROACH

It is important to recall *what* changes the TEGS investment is aiming to achieve and *how* DFAT expects these changes to be occur as this determines the appropriate M&E approach.

First, Australia's performance-linked budget support via the JPRM mechanism is aiming to accelerate high-level policy, legislative and regulatory reforms. In addition, Australia has particular concerns to ensure that the selection of JPRM performance triggers takes account of GoT 'capacity to implement'. Australia also wants to see increased attention to tracking performance progress against medium term strategies and plans. Via budget support and active engagement and policy dialogue with GoT and other donors, therefore, Australia is aiming to:

1. *Improve macro-economic, fiscal management and private sector reforms.*

Second, Australia is responding to the recommendations of a range of reviews<sup>45</sup> which emphasized the importance of focusing on downstream implementation of policy reforms. Australia therefore aims to give greater attention to supporting GoT to implement its PFMRR by funding a TSU to support MoF. The approach aims to ensure that technical assistance and other forms of support are coordinated and guided by MoF's AAPs for implementation of the PFMRR. Using this approach, Australia expects to make an:

2. *Effective contribution to implementation of PFM Reforms*

It is clear from the above that the M&E approach for TEGs, whether in respect of outcome 1 or outcome 2, must aim to capture information on *both* the overall progress of reform in Tonga *and* the specific contribution which Australia is making to this progress. In order to achieve this, the TEGs M&E system needs to be aligned with GoT's planning and monitoring systems and World Bank's system for monitoring macro-economic management and stability in Tonga.

Consultations carried out during the design process with a representative of the National Planning Division of the Prime Minister's Office (PMO/NPD) revealed the importance of linking both JPRM performance triggers and the work of the TSU to GoT's emerging strategic and corporate plans and targets. Both the formulation of the JPRM and the focus of the DFAT-funded TSU provides the opportunity to reinforce and strengthen GoT plans and targets, as well as to fine-tune performance indicators, monitoring systems and reporting. Further, the preparation/endorsement of the AAP for PFMRR implementation and the six-monthly reviews of progress, provide the opportunity for GoT and DFAT (as well as other contributing donors) to receive reports on progress against AAP milestones and to assess Australia's contribution to the achievement of those milestones.

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<sup>45</sup> Independent Evaluation; ANS

## F.2 M&E PLAN

A draft M&E Plan, including an embryonic Performance Assessment Framework, is attached as Appendix D. This Plan does *not* set out a complete M&E system. The full system (i.e., comprising performance indicators, detailed methodology, implementation responsibilities, timelines and budget) will be finalised following further consultation and analysis between the TSU Coordinator, TSU M&E Adviser, FDD/MoF, the NPD/PMO, DFAT Post and World Bank.

However, the M&E Plan does provide the basis for the development of the full M&E system. In this regard, the following should be noted:

The **purpose** of M&E for the TEGS investment is to:

- *support evidence-based decision making*: To provide accurate and reliable evidence that enables decision makers to continually adapt to maximise the extent to which the investment achieves the outcomes.
- *enable learning*: To enable the MoF/FFD and TSU to learn which activities, approaches and techniques prove to be most effective in implementation of the PFMRR
- *provide accountability* for funds spent.

The **principles** underpinning the M&E system for the TEGS are:

- *shared responsibility* between stakeholders in reporting against work schedules and budgets (specifically MoF; TSU and World Bank)
- *building upon existing M&E arrangements*; in respect of Outcome 1, the TEGS M&E approach needs to link into existing World Bank M&E arrangements in order to report to DFAT on the progress achieved by the JPRM in improving GoT's macro-economic management and stability; in respect of Outcome 2, the TEGs M&E approach similarly needs to link into existing GoT M&E systems, specifically the Consolidated National M&E Framework
- *provision of M&E technical support* to FFD to both strengthen their approach to monitoring and to ensure that the nature, as well as the performance and quality, of Australia's contribution is monitored
- *M&E reflects DFAT's monitoring and evaluation standards*.<sup>46</sup>

The **focus of the M&E system** will be to monitor performance and quality at each of the cause/effect levels in the change pathways in the program logic (i.e. leading to Outcome 1 and Outcome 2). In addition, the system will monitor the continuing validity of the theories of change underpinning these change pathways and the assumptions which underly these theories of change. These are discussed in Appendix D. The focus of monitoring at each level of the program logic, for each change pathway, is described below. Each level of monitoring feeds into the next level:

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<sup>46</sup> <http://dfat.gov.au/about-us/publications/Pages/dfat-monitoring-and-evaluation-standards.aspx>

↓ **Input Level:** Focused on tracking input indicators in all areas (e.g. funds allocated, use of resources in accordance with TSU work plans and budgets, in-country logistical support, DFAT policy dialogue efforts, strategic and management oversight).

↓ **Output Level:** This will track attainment of the specified outputs under each of the change pathways, measure the efficiency of implementation and analyse risks.

*For the Outcome 1 pathway:* GoT implementation of agreed JPRM reform actions is the key output. Australia's value add at this level will be TSU analysis / reporting on GoT capacity to implement' proposed reform actions, tracking implementation of reform actions carried out and the downstream results of budget support. The TSU will also contribute advice to ensure that performance triggers related to PFM reform are aligned with GoT priorities as expressed in the PFMRR AAPs.

In addition, TEGS outputs under this change pathway may include, for example, workshops initiated and facilitated by DFAT between NPD/PMO, MoF and WB to discuss improved alignment between JPRM performance triggers and GoT strategic and planning priorities.

*For the Outcome 2 pathway:* MoF's M&E systems will, ideally, be able to identify the specific outputs produced by all ministries in furthering the implementation of the PRMRR. The TEGS M&E Advisor will support MoF to improve monitoring of reform outputs / actions; the TSU monitoring system will also track the specific contribution that the TSU has made to the achievement of these outputs, as well as the efficiency and effectiveness of Australia's contribution.

For example, a key set of output targets for Internal Audit Division, MoF relate to updating of manuals, guides and the Internal Audit Charter. The achievement of these outputs will be monitored by the MoF's M&E system. In addition, Australia's contribution to the achievement of these outputs, via the TSU, can be specifically identified. This includes quantitative information (support provided/when/what) and qualitative information regarding the performance and quality of LTA/STA. This will contribute to assessments of the efficiency/effectiveness of the TSU.

↓ **Intermediate Outcomes Level:** At this level, the M&E system aims to capture and present evidence on the extent to which the achievement of specific outputs has resulted in the achievement of the anticipated intermediate outcomes:

*For the Outcome 1 pathway:* this will not only relate to evidence of implementation of agreed JPRM reform actions, but also increasing attention to GoT's 'capacity-to-implement' in the selection of JPRM reform actions, as well as tracking of implementation against medium-term strategies and plans

*For the Outcome 2 pathway:* MoF's M&E system should be able to capture information on the extent to which the achievement of the outputs in the AAP for PFM Reform has resulted in the anticipated intermediate outcomes, namely improved PFM in central agencies, improved PFM capability in selected line agencies, strengthened external oversight and increased attention to mainstreaming gender in PFM reforms.

Depending upon the inputs provided by the TSU, the TEGs M&E system would also need to capture data on the performance and quality of capacity development efforts carried out in the MoF to achieve these intermediate outcomes.

↓ **End of Investment Outcomes Level:** At this level, the TEGS M&E system needs to produce information on:

1. improved macro-economic management and stability in Tonga and
2. an effective contribution to implementation of GoT's PFM Reform Roadmap.

*For Outcome 1:* The World Bank draws upon a range of resources and a range of indicators to assess the quality of macro-economic management and stability. This includes reference to IMF Article 4 reports, the results of UNDP Human Development Index assessments, as well as the World Bank's own research and analysis. The TEGS M&E system will draw upon the same secondary sources but, in addition, aim to place this information within a comprehensive structure for M&E of budget support. Tools developed and assessed by a range of development institutions will provide a starting point for the development of the TEGS system for gathering evidence on the results of budget support.

*For Outcome 2:* the MoF M&E system will produce information on the extent of PFM Reform; the TSU M&E Adviser will provide support to MoF to develop both its M&E system and the capability of staff in monitoring progress. In addition, the TEGs M&E system will aim to capture information on the extent to which DFAT has been able to play an effective role in supporting PFM reform.

In addition, the expectation at the outcome level would be that the M&E system is able to provide an answer to the question *"Did we get it right? Was our thinking about the way in which change would occur – and the most appropriate way to support that change - accurate? Were our assumptions sound?"* Here, the emphasis is upon determining the extent to which progress in achieving the intermediate outcomes has, in fact, led to progress in achievement of the end of investment outcomes.

The six-monthly TAG visits will be critical in assessing progress against outcomes. However, for the TAG reviews to be effective, they require quality assured information products to be produced by the M&E system.

**The role of the M&E system in fostering communication and dialogue amongst GoT ministries (central and line agencies)** is also critical. While monitoring produces information to satisfy reporting requirements for both GoT and GoA, information products may also be used as the basis for 'learning events' potentially involving central and line agencies, as well external oversight agencies.

The M&E system also has a key role to play in **addressing gender equality concerns**. The TSU M&E Specialist will be responsible for ensuring that the TEGS M&E system meets DFAT standards (e.g. baseline gender-based assessment of PFM in Tonga; collection of sex disaggregated data; key evaluation questions regarding gender-responsive budgeting). In addition, the M&E Specialist will support MoF, through the TSU, to ensure that the MoF M&E system meets the requirements set out in *'The Women's Empowerment and Gender Equality Tonga'* (WEGET) Policy<sup>47</sup> specifically, Outcome 1.

In addition, the TAG reviews may be tasked with answering the question *"To what extent does Australia's support via the TEGS respond to gender equality concerns and is it being done well?"* In order to do this, it may be necessary to further develop tools or build capacity within the TSU to understand the gender equality policy priorities of both governments.

## F.3 INDEPENDENT REVIEWS OF PROGRESS

The Nuku'Alofa Post wishes to attach an independent technical adviser (TAG) to the TEGs investment to provide direct advice to Post on the progress and process of the investment during implementation. The design provides for this position to commence after six months and, thereafter, involve six-monthly visits.

The focus for each TAG mission will be determined by Nuku'Alofa Post. However, key review questions are outlined in the Skeletal Performance Assessment Framework included in Appendix D. **Early consideration of the key review questions by both DFAT Program Management and the TEGs M&E Advisor is advisable** because it is important for the TEGs monitoring system to be collecting the information required by the TAG reviewer to address the questions posed by the DFAT Program Management.

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<sup>47</sup> National Women's Empowerment and Gender Equality Tonga Policy and Strategic Plan of Action 2019-2025 pg. 8



## G. GENDER EQUALITY AND WOMEN'S EMPOWERMENT

### G.1 GENDER EQUALITY IN TONGA

The *Constitution* of the Kingdom of Tonga and its subsequent revisions do not specifically guarantee women equal rights to those of men, unlike the constitutions of other countries in the region. However, political and constitutional reform has resulted in amendments to the *Constitution* by the Legislative Assembly, with the introduction of 17 open electoral seats in 2014. There are currently two female representatives out of the 26-member Parliament.

Although the legal framework is progressive and relatively liberal with regard to the promotion of gender equality, some laws discriminate against women, notably those related to land ownership and the distribution of property and wealth during divorce.

There is no equal employment legislation to ensure just and fair treatment of women and men in the workplace. However, the *Employment Relations Bill* provides for a minimum level of protection for workers, sets a minimum working age, and provides for maternity leave entitlements, currently only available to public servants and the Tonga police.

Traditional gender stereotypes in Tonga are consistent with those of other Pacific Island countries (PICs), where women's roles are based around the home, family and extended family, predominantly in caring and nurturing, while men's roles include providing food, income and security for the home and family as well as in leadership and politics. There are relatively high rates of gender-based violence within families.

Despite the patriarchal nature of society, women have traditionally held high social status; sisters outrank their brothers in certain contexts. Women are highly represented in senior ranks of the bureaucracy, whilst not engaged in decision making at the political level.

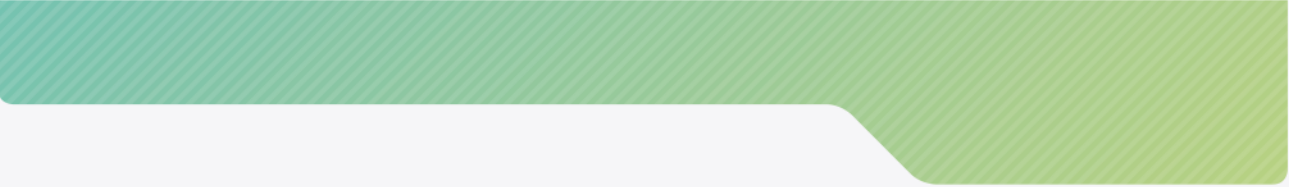
While Tonga has not ratified the *Convention on the Elimination of All Forms of Discrimination against Women* (CEDAW) several programs, policies and projects are being implemented to address key articles within the convention.

Most significantly, in early 2019 Tonga released a National Women's Empowerment and Gender Equality Tonga (WEGET) Policy and Strategic Plan of Action 2019-2025, a gender statistics publication<sup>48</sup> and a gender mainstreaming handbook<sup>49</sup>. All of these initiatives were supported by DFAT's Pacific Women Shaping Pacific Development (PWSPD) program.

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<sup>48</sup> 'Gender Equality: Where do we stand?' Ministry of Internal Affairs, Women's Affairs Division, Government of the Kingdom of Tonga, Suva Fiji 2019

<sup>49</sup> Gender Mainstreaming Handbook, Government of the Kingdom of Tonga April 2019



A key outcome of the WEGE is *“Outcome 1: Enabling environment for mainstreaming gender across government policies, programmes, services, corporate budgeting and monitoring and evaluation.”*

DFAT Program Management now has the opportunity, via the implementation of the TEGs investment, to support the key stakeholders to contribute to the achievement of this outcome. This can be specifically achieved via policy dialogue (see Partnership Engagement and Policy Dialogue Matrix Appendix B) and through support to MoF via the TSU (in collaboration with PWSPD) to ensure that gender perspectives are mainstreamed across PFM policies, programs and services. (Refer Intermediate Outcome 2.4; Section D above)

## H. BUDGET & RESOURCES

### H.1 BUDGET

The TEGs Indicative Budget, presented in Table 2 below, has been drawn up in accordance with DFAT's Contracting Services Branch guidance on developing Statements of Requirements, specifically Schedule 2 – Pricing Schedule.

The total budget envelope for TEGs is AUD15 million over three years. The indicative budget provides for a gradual shift in the split between budget support (Outcome 1) and technical assistance (Outcome 2) from approximately 90% / 10% in FY2019/20 (which takes account of current commitments for budget support) to 70%/30% in FY2020/21 and 2021/22. This shift has been approved by MoF.<sup>50</sup>

The non-budget support elements of the indicative budget include provision for the personnel fees of TSU long and short-term advisers, as well as associated adviser support costs. Provision is made for three long term advisers (Technical Support Coordinator, M&E Specialist and Procurement Specialist) as well as an unallocated provision for short term advisers to support implementation of the approved AAPs of the PFMRR. Short-term TSU inputs will negotiated with FFD/MoF and approved by DFAT. Finally, the budget includes operational costs associated with the effective running of the TSU, including operational costs for M&E.

Table 2: TEGS Budget January 2020 to December 2023

Indicative Budget						
No.	Budget Components		2019/20	2020/21	2021/22	Total
1	Management Fees		112,394	239,468	273,235	625,097
2a	Personnel fees and allowances (incl. M&E adviser)		326,490	643,392	751,740	1,721,622
2b	Adviser support costs (incl. M&E adviser)		180,822	315,444	363,192	859,458
3a	Operational M&E		62,500	250,000	250,000	562,500
3b	Operational Non-M&E		50,731	95,884	111,493	258,108
4	Budget Support		4,000,000	3,500,000	3,500,000	11,000,000
	Sub Total		4,732,938	5,044,188	5,249,660	15,026,785

The detailed budget and budget assumptions are attached as Appendix E.

<sup>50</sup> This indicative budget assumes a TEGS commencement date of January 2020, which leaves limited time available to contract and field long and short-term technical advisers before the end of FY2019/10. However, the design team is aware that the AHC in Nuku'Alofa has received and will, no doubt, continue to receive and respond to ad hoc requests from central agencies for TA from July 2019 (i.e. before the TEGS program commences). These requests will most likely be financed from the Tonga governance program. It is difficult to quantify the scale of commitments that DFAT Post may make in response to ad hoc requests, but caution should be exercised in overcommitting and leaving the first year TEGS non-budget support elements under-resourced as this represents a risk to the program.

## H.2 HUMAN RESOURCES

The approved Investment Concept Note (ICN) for the design of the next phase of economic governance support in Tonga indicated that the design would consider DFAT management and policy oversight of the up-coming investment and make recommendations for additional resourcing, if required. The ICN further noted that Post's HOM and DHOM will lead Australian representation in policy discussions with partner government and other DPs, with support from other staff at Post.

Table 3, below, outlines the estimated time commitment of DFAT staff to management and policy oversight of EPSG III. There were nine agreements administered under EPSG III<sup>51</sup>, whereas the TEGS design anticipates reducing this to two (i.e. one contract with the TSU Coordinator and one with service provider organisation supplying the non-Coordinator LTA and STA personnel).<sup>52</sup> The TEGS design provides for the management of the other (non-Coordinator) LTA and STA contracts by the independent service provider. The management load on the LES Program Managers should, therefore, be reduced.

However, Outcome 1 of the TEGS design anticipates an increase in Australia's policy engagement with both GoT, WB and DPs to influence both improved analytics/diagnostics around GoT's 'capacity-to-implement' reforms and to improve monitoring of reform implementation. The intent is both to optimise the effectiveness of the JPRM mechanism and to increase Australia's visibility as a key development partner.

This suggests that there will be an increase in the time demands made upon the HOM, DHOM and MDD representatives. In fact, the intent is not to increase the time commitment, but to increase both the effectiveness and efficiency of Post's policy dialogue. This will be done by:

- (i) improving the focus of this dialogue (refer Partnership Engagement and Policy Dialogue Matrix – Appendix B)
- (ii) increasing clarity about the process for carrying out this dialogue
- (iii) capitalising upon the results of support from the TEGS TSU M&E Adviser (as well as relevant STAs) to FFD/MoF and NPD/PMO. Support by ensuring that performance information on the implementation of reforms is fed back into the JPRM process to increase evidence-based decision making.

### DFAT inputs

Table 3: DFAT staff inputs

Staff	Estimated time commitment under EPSG III
HOM/DHOM, DFAT Program Management, Tonga	20%
LES, Senior Program Manager	50%
LES, Program Manager	50%
Development Economist, Multilateral Development & Finance Division, Canberra	10%
Director, PFM and Safeguards, ACD	5%

<sup>51</sup> Final Aid Quality Check INL881 30/04/2019

<sup>52</sup> It is anticipated that the TAG, though directly answerable to DFAT, would also be contracted through the TSU Service Provider.

## GoT inputs

In anticipation of DFAT's approval of the TEGS design and the establishment of a TSU within MoF, the type and nature of GoT inputs were discussed with MoF during the design mission and included in the Aide Memoire. MoF has subsequently advised that they are satisfied with the approach adopted in the Aide Memoire.<sup>53</sup>

As outlined in Appendix C - Governance and Management Arrangements, the TEGS design envisages provision of a TSU to support a GoT process, namely implementation of the PFMRR. The substantive work involved in implementation of the Roadmap is, therefore, the responsibility of GoT, specifically MoF, PSC, MRC, AG, and PMO.

In addition, MoF will ensure the following to facilitate the effective operation of the TSU.

- Filling the two vacant PFM Reform positions in FFD (budget approved)
- Office space within MoF (ideally close to FFD) for a Technical Unit Coordinator, commencing January 1, 2020 and 2-3 LTAs (M&E, Procurement + 1 unallocated) commencing in March, 2020.
- Prioritising reconvening the PFMR-RSC or, at least, the Technical Committee as soon as possible after the Technical Unit Coordinator commences
- Considering both the priorities and sequencing for short-term technical assistance required during the 3-4 months remaining in FY2019/20 after start-up of the TSU (anticipated March, 2020). (Note: Since the completion of the in-country portion of the design mission, MoF and the budget support team have advised DFAT Program Management that they would like to scope some early work mapping out what needs to be done to take forward the Chart of Accounts / IFMIS work.)

## TAG inputs

DFAT will contract an external and independent adviser (TAG) to review progress and provide assurance about the quality and performance of the TEGs in Tonga. The TAG will be tasked to review progress against end-of-investment outcomes. The detailed role is discussed in sub-section F.3 above.

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<sup>53</sup> Email from AHC, Nuku'Alofa to Design Team dated 5<sup>th</sup> July, 2019



## I. PROCUREMENT AND PARTNERING

The performance linked budget support component of the TEGS investment will be the subject of a signed arrangement between the GoA and the GoT. As in previous years, Australia's financial contribution will form part of a joint donor contribution to the GoT, managed by the World Bank via a JPRM mechanism. Australia's financial contribution will be based upon written confirmation from the WB Board that the agreed annual JPRM reform milestones have been Met.

The technical support component of the TEGs investment will be governed by two contracts, one for a TSC, directly contracted to DFAT Program Management and one for a Service Provider to deliver long and short-term technical advisors to form a TSU which will be housed in the FFD/MoF. The Service Provider will also provide logistical and administrative support to the TSU and to the DFAT TEGS Program Manager team, if required.

A separate sub-contract (through the Service Provider) will be required for an independent TAG member (managed by DFAT) responsible for six monthly views and reporting on progress towards the achievement of outcomes.

Procurement of both the TSC and the Service Provider will be via an open tender process. The TSU TSC position will be required to carry out consistent, high level, liaison with DFAT Program Management, MoF, other GoT ministries and external agencies. The position should, therefore, be filled by a senior, experienced professional with program management experience as well as training in, and experience in implementing, a broad range of PFM reform processes.

The Service Provider needs to have organisational experience in supporting PFM Reform processes in developing countries and with access to professional, academic and institutional networks to source the best available personnel for both long and short-term assignments. Recruitment of the team of long-term advisers will be through a Service Provider joint recruitment process with participation by the TSC, FFD/MOF and AHC (as appropriate).

The proposed approach to procurement provides the most feasible mechanism to attain the program outcomes. Specifically:

- DFAT direct contracting of the TSC provides AHC with control over TSU inputs and delivery, as well as addressing GoT and developing partner concerns about having a managing contractor embedded between DFAT and MoF.
- Contracting of a Service Provider to provide long and short-term TA as jointly agreed between the TSC and MoF in response to the PFMRR AAPs increases the likelihood of technical support being well targeted and embraced by the ministries with the responsibility for implementing PFM reforms.
- Offering technical specialists the opportunity to provides inputs within the context of a coherent, bounded, approach to PFM Reform also improves the likelihood of attracting specialists with strong track records.

## J. RISK MANAGEMENT AND SAFEGUARDS

In accordance with DFAT aid risk management policies and requirements, a risk assessment has been carried out as part of the design process. The completed risk and safeguard screening tool is attached as Appendix F. The overall risk rating at design is assessed as 'Medium'.

The Risk Register identifies a number of high risks related to the operating environment, including the risk that the PFMR-RSC and the PFMR-RTC do not meet regularly or are ineffective. If the RTC is not effective, credible annual budgets, action plans and annual reviews will not be available to the RSC, and this will restrict effective dialogue between DFAT and MoF and the RSC. This could cause a delay in achieving investment objectives or could result in DFAT funds not being used for their intended purposes.

The ToR for the Technical Support Coordinator funded by DFAT will prioritise the building of governance and secretariat capacity in FFD for the PFM RSC and RTC. The Partnership Engagement and Policy Dialogue Matrix (Appendix B) prioritises engagement between the AHC and MoF emphasising the significance of the PFM-RSC and PFM-RTC to the achievement of GoT and GoA shared outcomes. The ToR for the TSC will also require escalation to the MoF CEO and AHC HOM/DHOM if the PFMR-RSC fails to approve the PFM Reform AAP and/or the PFMR-RTC does not meet at least quarterly.

With the proposed risk treatments in place, the residual risk rating for both 'Operating environment' risks is reduced to medium.

The Risk Register also identifies a risk that, prior to the start-up of TEGS, ad hoc requests for technical assistance will be submitted to AHC without subjecting them to the contestability process embedded in the establishment of PFM Reform Priorities via the PFMRR AAP. This increases the possibility that DFAT funds may not be used to address PFM priorities and of delays in the achievement of investment outcomes.

Premature approval of ad hoc requests for TA would also undermine the expressed intent of both governments to increase both the coherence and effectiveness of Australia's technical assistance in support of Tonga's reform efforts.

The proposed risk treatment is for the HOM, DHOM and Economic Governance program staff to defer response to any ad hoc requests until the TSC is in place so that the TA requests may be contested and prioritised through the proposed PFMRR AAP process.

## APPENDICES

The following appendices are included in Volume 2 of this design document.

- A. Detailed Program Logic
- B. Partnership Engagement and Policy Dialogue Matrix
- C. Governance and Management Framework
- D. Monitoring and Evaluation plan
- E. Detailed Budget/Cost Estimates (including costing methodology)
- F. Risk and safeguards register