AusAID Delivery Strategy for Economic and Public Sector Governance in Tonga

2013/14 – 2016/17

Table of contents

1. Executive summary 5

2. Tonga's economic and public sector governance development context 8

3. Australia's current support for economic and public sector governance 10

4. Theory of change 15
   a. Theory of change workshop 15
   b. End-of-strategy outcomes 16
   c. Principles to guide future EPSG investments 18
   d. The role Tonga's development partners are playing in the change process 19
   e. Policy dialogue 20
   f. Supporting cross-cutting aid issues 21

5. How Australia will deliver its support 22
   Outcome 1: Public sector governance 23
   Outcome 2: Economic and financial governance 24
   Outcome 3: Business enabling environment 27
   Outcome 4: Effective aid through alignment, harmonisation and mutual accountability 27
   Political governance 28

6. Strategy management 28
   a. Managing and coordinating the strategy and portfolio 28
   b. Transition planning from the existing program to the new program 28
   c. Resource implications 29
   d. Monitoring and evaluation 30
   e. Risk management 32

Annexes

Annex 1: Tonga Economic and Public Sector Governance Performance Assessment Framework 34
   1.1 Objectives and outcomes 34
   1.2 Monitoring 40
   1.3 Program performance 46

Annex 2: Risk Management Matrix 47

Annex 3: Draft implementation schedule for pipeline programming 53

Annex 4: Policy Reform Matrix 54

Annex 5: Root cause analysis 60

Annex 6: Results map (program logic) 61

Annex 7: Key PFM reforms currently supported by GoT and donors 63

Annex 8: Workshop agenda and participants 64

Annex 9: Summary of current and future spending initiatives/ agreements 67

Tables

Table 1: Australia's 2012/13 bilateral program of support for economic and public sector reform

Table 2: Proposed forward engagement for EPSG bilateral program

Acronyms

AAS	Aid Advisory Service
ADB	Asian Development Bank
AEC	Australian Electoral Commission
APPR	Annual Program Performance Report
AusAID	Australian Agency for International Development
CMS	Customs (Cargo) Management System
EPSG	Economic and Public Sector Governance
EPSR	Economic and Public Sector Reform
FMIS	Financial Management Information System
GoA	Government of Australia
GoT	Government of Tonga
MoCTL	Ministry of Commerce, Tourism and Labour
MoFNP	Ministry of Finance and National Planning
MoPE	Ministry of Public Enterprises
MoR	Ministry of Revenue
MTBF	Medium Term Budgetary Framework
NRBT	National Reserve Bank of Tonga
NZ-IDG	New Zealand International Development Group
PACC	Project and Aid Coordination Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PICPA	Pacific Islands Centre for Public Administration
PRM	Policy Reform Matrix
PSC	Public Services Commission
PSDI	Private Sector Development Initiative
QAI	Quality at Implementation Report
RCA	Root Cause Analysis
RMS	Revenue Management System
SIDS	Small-island developing states
TSDF	Tonga Strategic Development Framework 2011 - 2014
UN	United Nations
UNDP	United Nations Development Program
WB	World Bank

1. Executive summary

Since 2001, the Government of Tonga (GoT) has been committed to implementing a comprehensive economic and public sector reform program. The reform program is supported by new 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.

Australia has provided support for the government's reform program under Partnership Outcome One of the Tonga Australia Partnership for Development, and in line with commitments towards 'aid effectiveness' made at Paris, Accra and Busan. Australia's aid program supports achievement of the GoT's Tonga Strategic Development Framework (TSDF) 2011-14, which provides the strategic direction to guide the work of the GoT to achieve development outcomes over its four-year term. It is envisaged that support for a more effective and efficient public sector (the core objective of Partnership Outcome One) can provide the basis for implementing policies and programs that promote sustainable improvements in living standards and ensure that service delivery reaches the poor.

To date, Australia's program of support to economic and public sector reforms (EPSR) has been relatively ad hoc, largely as a result of Tonga's political and economic environment and the need for the program to respond to the short-term needs of the GoT following a number of political and economic disruptions (civil unrest in 2006, lingering effects of the global financial crisis, a series of natural disasters, and an increasing debt burden). Tonga has recently undergone a period of significant transition including a move to democratisation in 2010 and a civil service restructure in 2011. As Tonga's new political and institutional system becomes more embedded, AusAID is seeking to adopt a strategic framework to reflect a renewed medium-term focus by the GoT and donors.

This Delivery Strategy provides a strategic framework for AusAID to better prioritise areas of support for improved economic and public sector governance in Tonga. The framework will allow AusAID to manage requests for assistance based on clear prioritisation criteria and, over time, will improve the coherence and effectiveness of Australian assistance in this area. The Delivery Strategy builds on an established program of support to the GoT based on a credible GoT-led reform program. AusAID will continue to provide assistance to the GoT in areas where there is a demonstrated commitment to reform and where the operational environment exists to enable AusAID to contribute effectively to institutional change. In particular, AusAID will support activities where the following conditions can be met:

- The activity supports achievement of the Policy Reform Matrix;
- The activity is identified within the GoT Corporate Plans and PFM Roadmap as a key priority for developing a more efficient and effective public sector;
- A readiness assessment of the partner agency is conducted before assigning long-term advisory support;
- The activity displays mutual accountability between the Government of Australia (GoA) and the GoT and, where possible, the activity is underpinned by effective inter-

ministerial coordination for policy, economic governance and human resource development for overall effective economic and public sector governance;

- The activity is able to provide clear results to ensure the delivery of Australia's aid program is more efficient and effective, in line with the recommendations of AusAID's Comprehensive Aid Policy Framework.

AusAID's Economic and Public Sector Governance Delivery Strategy will focus primarily on end-of-strategy outcomes identified under four pillars. These have been developed in collaboration with senior management staff from the GoT during a Theory of Change workshop held in Tonga in March 2013 and are loosely based on the four enabling themes of the TSDF. The four pillars and end-of-strategy outcomes are:

- **Public sector governance – GoT agencies demonstrate measureable improvement in the efficiency of public service delivery.** This pillar focuses on strengthening the capacity and operating environment of the Tonga public service. In particular, AusAID will provide support for public sector reform programs aimed at promoting capacity development (including engaging with regional agencies such as PICPA) and ensuring better human resource planning. AusAID will work increasingly through donor partners, such as the World Bank and ADB, where AusAID funds are able to lever further results through expanding partner programs in Tonga.

- **Economic and financial governance – GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as sustainable revenue collection.** This pillar seeks to ensure that strengthened public financial management will contribute to improved service delivery. It is envisaged that a joint Policy Reform Matrix, agreed to by the GoT and donors, will continue to provide the cornerstone for AusAID's program in support of economic and public sector reforms in Tonga. AusAID's support in this area will be targeted at four core areas:
    - Supporting the GoT to improve the quality and management of expenditure, (including linking corporate plans, the TSDF and the medium-term budget framework) through technical assistance;
    - Supporting GoT efforts to improve revenue policy and administration through technical assistance and funding agreements to upgrade to the GoT's management information systems;
    - working with central agencies, including the Ministry of Finance and National Planning (MoFNP), Public Service Commission (PSC) and Audit Office, to improve public sector procurement practices and strengthen audit capacity. These two areas of Tonga's public financial management system have been identified in a 2011 Assessment of National Systems as requiring further strengthening before AusAID would consider greater use of these systems;
    - working with the Statistics Department to improve national statistics with a view to generating more timely and accurate information for economic planning and monitoring.

- **Business enabling environment – The majority of public enterprises reform and GoT agencies enable measureable development of the private sector.** AusAID will continue to support public enterprise reform and promote improvements in the business environment through the provision of conditional and targeted budget support tied to achievement of reforms identified in the Policy Reform Matrix. AusAID will continue to provide support for private sector development (including measures to strengthen competition and promote foreign investment) through regional programs such as the ADB's Private Sector Development Initiative (PSDI).

- **Effective aid through alignment, harmonisation and mutual accountability – GoT agencies and development partners ensure a more coordinated whole of government approach to partnership for PFM reforms.** The Policy Reform Matrix will provide an effective mechanism for a coordinated policy dialogue between the GoT and donor partners. This will be reinforced by regular communication and improved monitoring arrangements (including working to develop a shared body of evidence) between the GoA and GoT.

In addition to delivering support for economic and public sector reforms, Australia will provide assistance to improve Tonga's political and institutional environment. In 2013, AusAID introduced a four-year governance strengthening program aimed at ensuring a more accountable, responsive and effective government. This is provided in collaboration with the United Nations Development Programme (UNDP) and Australian Electoral Commission (AEC).

It is envisaged that a total program budget of $30 million over four financial years will be provided in accordance with this Delivery Strategy. This will include: $6.5 million in TA and other capacity support programs, $3.5 million for a governance strengthening program; and $20 million in performance-linked aid. AusAID's Economic and Public Sector Governance Program will be managed primarily from Nuku'alofa Post by a Senior Program Manager and Program Manager and overseen by the First Secretary. The Tonga Desk in Canberra will provide a dedicated resource, expected to be the Desk-based economist, to assist with program management and monitoring.

Measures to mitigate key fiduciary risks for AusAID funds will include: short-term technical assistance to provide intensive and regular monitoring of AusAID funds (including an annual sample audit of procurement transactions below TOP 3,000); participation in World Bank-led biannual Policy Reform Matrix monitoring missions, and: a requirement for the GoT to produce timely acquittals of AusAID budget support funds.

A key aspect of AusAID's activities in this sector will be increased cooperation and coordination with development partners. AusAID will seek to ensure that the Economic and Public Sector Governance Program is provided in the most effective and efficient way possible by drawing from a sound evidence-base and the lessons learnt from a series of reviews conducted in this sector.

2. Tonga's economic and public sector governance development context

A key priority area of the Tonga Australia Partnership for Development is economic and public sector governance. Priority Outcome One of the Partnership identifies 'a more efficient and effective public sector' as a basis for implementing policies and programs that promote sustainable improvements in living standards and that ensure that service delivery reaches the poor. It is the responsibility of government to ensure that policies and programs are fiscally sustainable, strategically targeted on the core development priorities, and implemented in the most cost-effective manner.

While Tonga has already achieved high standards against most of the Millennium Development Goals (MDGs), particularly in the areas of health, education and environmental sustainability, the challenge confronting the Government is to ensure that those achievements are not only sustained, but that they are harnessed as a platform to further improve living standards.

Economic context

Tonga has a highly centralised economy with administrative capacity constraints across the public and private sector that affect implementation and service delivery. A significant proportion of the national budget is allocated to wages and salaries, with little left for maintenance and development. The economy is highly vulnerable to external shocks and has been slow to recover from a series of crises in recent years, including civil unrest in 2006, the 2009 Global Financial Crisis (GFC) and a series of natural disasters in 2009. The private sector is small and unlikely to grow in the short to medium term and Tonga's growth prospects as a result are limited. In this environment, the immediate fiscal outlook is highly constrained and the Government of Tonga (GoT) may need to implement its policies with less financial resources than planned. This underlines the fundamental importance of ensuring the Government's expenditure program carefully targets development priorities, that wastage and inefficiencies are eliminated, and that revenue services are as effective as possible. It also requires a responsive and appropriately skilled and focused public sector. The GoT has begun a fiscal consolidation program to ensure greater macroeconomic stability in the medium-term. However, this will require ongoing support from donor partners to reduce further pressure on cash resources.

The public sector is the main service provider and delivery agent in Tonga. It is also the primary employer in the country. The public sector in Tonga is relatively complicated with a historically greater level of political interest in the type of assistance which should be provided. There has been a strong working relationship between AusAID and the Ministry of Finance and National Planning (MoFNP), including strengthening its role in coordinating assistance in the public sector area.

Political and institutional environment

Since the Tonga Australia Partnership for Development was negotiated and signed in 2009, the political and economic environment in Tonga has changed considerably. In late 2010, Tonga transitioned from an executive monarchy to a modern parliamentary democracy. The first democratically elected government was formed in early 2011. Further significant political reform is unlikely in the immediate term, however a number of ministerial

reshuffles and a vote of no-confidence (that did not pass) in mid-2012 indicate a level of fragility in the new Government. National elections, to be held in Tonga in 2014, have also injected a level of uncertainty in the reform program and will require a renewed commitment to reforms by the new Government. Despite the prospect of change, it is envisaged that the foreseeable future will see Tonga establishing and building on the accountability, transparency and democratic measures undertaken to date. This is still a new process and will take some time for both Government and constituents to become accustomed to. AusAID will continue to monitor the political environment through participation in World Bank-led dialogue with Government and through annual Partnership for Development talks to ensure that the operational environment is in place for activities to contribute to institutional change.

In 2011, the GoT initiated a major restructure of its civil service aimed at rationalising the public service and ensuring that the structure of government was suitable to deliver the demands placed on the newly elected government. The first phase of the restructure involved a whole-of-government restructuring process built on functional-based ministries (consolidated from 26 to 13) and separation of power. The restructure added a level of uncertainty, in late 2011, to the aid program operating environment and has precipitated the need to reassess Australia's program in the sector. In November 2013, the Governments of Australia and Tonga will be negotiating a new five-year Partnership for Development. It is envisaged that economic and public sector governance will remain a core priority of the Partnership.

GoT has been pursuing a program of economic and public sector reform since 2001. This process has gained momentum since 2009 and there is sufficient evidence to support the view that GoT is taking its reform program seriously. This can be found in the fact that:

- Tonga has successfully transitioned from a constitutional monarchy to a democratically-elected governance system;
- GoT has successfully implemented the first phase of a whole-of-government restructuring process built on functional-based ministries and separation of power and aimed at rationalising the public service;
- GoT's ratings for most indicators on the World Bank's PEFA assessment have improved since 2007[1];
- GoT has already undertaken a wide range of public sector and economic reforms including: a comprehensive review of its tax policy and administration; concrete steps to improve its business environment, and; significant work to move its public enterprises onto a more commercial footing, and;
- In 2012 and 2013, the World Bank and AusAID provided budget support to the GoT upon achievement of actions identified in the joint Policy Reform Matrix (for financial years 2011/12 and 2012/13).

A 2011 Assessment of National Systems in Tonga found that reforms had been government-led (with assistance from donors), were relevant, effectively sequenced, and had succeeded in creating some internal demand for change. This provides a sound basis for Australia to

[1] Only two indicators observed a backward trend. These were: 'competition, value for money and controls in procurement' and 'legislative scrutiny of the annual budget law'.

continue providing assistance in this area. The ANS notes that the GoT's PFM reform program is credibly placed to deliver further improvements. However, political will and leadership skills (particularly at Prime Minister, Ministry of Finance and CEO level) will be needed to sustain and build on the reforms that have commenced. The implementation of further reform initiatives is unlikely to be swift and will need consistent commitment from GoT and realistically-paced support from donors.

Strategic framework

The Tonga Strategic Development Framework 2011-14 (TSDF) provides the strategic direction to guide the work of the GoT to achieve development outcomes over its four year term. AusAID's engagement in economic and public sector governance (EPSG) aims to draw on the GoT's TSDF, in line with Australia's commitments towards aid effectiveness made at Paris, Accra and Busan. AusAID will continue to align its EPSG program with the strategies and targets identified in the TSDF. This includes support for the TSDF's four enabling themes. These are:

- continuing progress to a more efficient and effective government by focusing on its core functions;
- improving the macro-economic environment and fiscal management, including effective revenue services to ensure a level playing field and that services to the people can be effectively funded;
- ensuring Public Enterprises are sustainable and accountable and, where appropriate, moved into the private sector; and
- ensuring a more coordinated whole of government approach in Tonga's partnership with development partners.

In 2013, with Pacific Financial Technical Assistance Centre (PFTAC) assistance, GoT released a PFM Roadmap 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) assessment and proposes actions to address gaps and ensure that a comprehensive and integrated process of reform is underway. The Roadmap feeds into rolling three-year Corporate Plans produced within each ministry. Both the Roadmap and the Corporate Plans will be central to AusAID's pipeline programming for this sector.

3. Australia's current support for economic and public sector governance

AusAID support to economic and public sector governance in Tonga currently comprises performance-linked aid, long-term technical advisory support and direct funding to the GoT for specific public sector reform projects.

Table 1: Australia's 2012/13 bilateral program of support for economic and public sector reform

Objective	Activity	Modality	Partner
More efficient public service	Public service training and various public service reform projects;	Direct funding agreements (5	PSC

	salary top-up for PSC Commissioner	Accountable Cash Grants)	
Improving procurement practices	Procurement advisory support	Technical assistance (PACTAM)	MoFNP
Strengthening public financial management	Economic and planning advisory support	Technical assistance (PACTAM)	MoFNP
Strengthening public financial management; strengthening fiscal policy, and; promoting structural reforms relating to the business regulatory environment	Budget support tied to achievement of actions identified under a medium-term reform agenda (the joint Policy Reform Matrix	Budget support (Performance-Linked Aid)	GoT, World Bank, ADB, NZ-IDG
Improving revenue efforts	In-line support to Deputy Commissioner of Revenue (Head of Customs); Tax compliance and auditing advisory support; IT systems upgrades (CMS, RMS,FMIS)	Technical assistance (PACTAM/ GoT); direct funding agreement; funding agreement with ADB for IT systems upgrades	MoR, ADB
Good macro-fiscal management through improved economic forecasting	Advisory support for Statistics Department (completed)	Technical assistance (PACTAM)	Statistics Department

Without an overarching strategy to guide AusAID's approach to supporting economic and public sector governance much of the assistance provided to Tonga has been ad hoc with Australia responding to individual requests from the GoT. Australia has been the only donor willing and able to fund long-term advisory support[2]. Tonga also approaches Australia to pay the salary of in-line positions, particularly when the GoT recruits Australian citizens to fill those roles. On a number of occasions Australia has been approached to fund salaries only after recruitment has been undertaken. A key aim of this Delivery Strategy is to provide a strategic framework to guide AusAID's engagement in economic and public sector governance.

Performance linked-aid

In 2011, development partners engaged in a coordinated economic policy dialogue with the GoT, led on behalf of development partners by the World Bank. This has involved working with the GoT to define and sequence a medium-term reform agenda focused on much needed economic and fiscal reforms to stimulate Tonga's economic recovery. The resulting Policy Reform Matrix has provided a focus for GoT and donors on key priorities. Linking budget support, in the form of performance linked aid incentive grant payments, to the

[2] The ADB has recently signalled its willingness to move towards providing long-term advisory support, however its resources in the area remain limited.

achievement of policy reforms has become a cornerstone of Australia's approach to supporting Tonga's economic and public sector governance reforms.

AusAID works closely with the World Bank in recognition of the bank's comparative advantage to address economic and fiscal reform issues, and in response to Tonga's request for greater coordination among donors. Australia and the World Bank have linked the disbursal of separate budget support payments to the achievement of the same set of government priority reforms. AusAID's budget support program is provided in coordination with the World Bank's Tonga Public Finance and Structural Reform Operation[3]. As such, AusAID is able to draw on the World Bank's analysis of Tonga's macro-economic circumstances. AusAID's Pacific economists work closely with the World Bank's technical experts to assess reform achievement. In 2012 and 2013, based on Tonga achieving its reform benchmarks, AusAID disbursed $5 million of performance-linked aid as sector budget support for health and education worker salaries.

Technical assistance

Australian technical assistance (TA) for economic and public sector governance is currently provided to four core public sector line agencies: the MoFNP, Ministry of Revenue (MoR), Public Services Commission (PSC), and the Statistics Department. An assessment of whether this mix of ministries and the type of assistance required to each ministry is the most effective and appropriate has been undertaken as part of a review of the economic and public sector reform (EPSR) program. The review found that the mix of ministries was relevant to the objectives of the Partnership for Development and the Policy Reform Matrix. However, the review noted that, given significant capacity constraints in the department, a more detailed assessment of the Statistics Department should be undertaken before any further assistance (in particular technical assistance) is provided to ensure that assistance will provide lasting results.

Technical assistance in this sector has been supporting key areas of Tonga's reform program. However, its contribution to capacity development remains difficult to assess. Many adviser positions operate in isolation with limited or no national counterparts and, as such, have made limited progress in capacity building. TA requests are still ad hoc and are not linked to a coherent PFM Roadmap. In order to better coordinate advisory support and avoid duplication, donors have developed a TA matrix in parallel with the Policy Reform Matrix. This draws a clearer alignment between the work being undertaken by advisers and the achievement of reforms identified in the Matrix.

The 2013 review of AusAID's economic and public sector reform program noted a high level of political interest in Tonga's public service. Many adviser positions have been working in politically charged environments and, on a number of occasions, advisers have been drawn away from their ToRs to respond to requests from senior levels of Government. This has resulted in the sector requiring a high level of management attention at Post and in Canberra, as AusAID has been drawn directly into politically sensitive areas and is in regular dialogue with the Government concerning the development benefits advisors can provide when working in these circumstances. This remains a risk under this Delivery Strategy, which

[3] Previously known as the Tonga Economic Recovery Operation.

AusAID will seek to mitigate through clearly-defined ToRs and stronger performance management arrangements between Post and advisers (discussed in Section 6D).

Despite the concerns raised above, the Tonga Program has assessed that, if managed correctly, technical advisory support will continue to provide a relevant and targeted approach to addressing Tonga's ongoing capacity constraints. As noted in the 2013 review, capacity development will take time and expectations will need to be realistic about what can be achieved through individual advisory support.

To date, there has been limited consideration of other forms of assistance other than TA or funding of specific positions. A Theory of Change Workshop conducted for this Delivery Strategy in March 2013, with senior management staff from the GoT, identified alternative avenues for support in this area, including introducing training programs, providing opportunities for work attachments, and offering regional staff exchange opportunities. Between 2008 and 2012, AusAID provided opportunities for work attachments for senior management staff from the Tongan public service (primarily PSC) through the Pacific Governance Partnership with the Australian Public Service Commission. An independent progress report for the Partnership noted that, whilst the program had strengthened individuals' professional capabilities, there was limited evidence that participation in the program could be linked to wider positive impacts on public administration or reform. AusAID will undertake a more detailed assessment of alternative modalities to assess where Australia's aid has the capacity to make the greatest difference. Should AusAID consider further use of work attachments, we will ensure that individual work projects are aligned with and support agency plans, and there are mechanisms in place to enable participants to apply and share the knowledge and experience accrued through the program.

Direct funding agreements

AusAID has provided support for public service training and various public sector reform projects primarily through Accountable Cash Grant (ACG) agreements with the PSC. This support has helped provide stability to the GoT during a critical period of transition and has been consistent with the long term goal of delivering aid through partner government systems. However, a number of concerns were raised in AusAID's 2013 review of the economic and public sector reform program with regard to the effectiveness and efficiency of the modality used. As funding agreements draw to a close, AusAID's review of the EPSR program recommended AusAID consider alternative modalities.

Performance review

This Delivery Strategy has been informed by the findings and recommendations of a number of recent reviews conducted of both the economic and public sector reform program and the GoT's reform agenda. These include: 2010 and 2011 reviews of in-line and advisory support in Tonga, a 2011 PFTAC review of GoT revenue administration, the 2011 Tonga Assessment of National Systems, a 2013 review of the economic and public sector reform program, and a 2013 AusAID-funded procurement review.

In 2010, a review of adviser positions for Tonga, conducted as part of a broader review of Pacific advisers, recommended capping the number of advisers to ten to ensure efficiency of the program. The 2010 review confirms the need for clear guiding principles for engagement of advisers in the future, including more strategic approaches to identifying

and assessing where advisors will have the most impact, improved monitoring and evaluation systems and increased focus on capacity development and succession planning for in-line positions. These recommendations are addressed as part of this Delivery Strategy.

In 2011, at the GoT's request, the Pacific Financial Technical Assistance Centre (PFTAC) undertook a review of revenue administration. The review identified that ongoing advisory assistance would be required to support the GoT's restructure of this core area. This is likely to involve, but not be limited to, the areas of customs and tax administration. AusAID will continue to work with the MoR and other development partners to ascertain how Australia can best assist Tonga to improve its revenue administration efforts. This will require us to consider options other than TA that may be more efficient or have a greater capacity to make a difference. This will include working to improve the information technology system, which is identified in the review of revenue administration as a key strategic priority.

A 2013 review of AusAID's EPSR program found that, in the absence of an overarching framework to guide AusAID's approach to economic and public sector reform, much of the assistance provided to the GoT had been ad hoc and lacked strategic direction. This was considered largely the result of Tonga's political and economic environment and the need for the program to respond to the short-term needs of the GoT following a number of political and economic disruptions. As Tonga's new political and institutional system becomes more embedded, the evaluation recommended that AusAID develop a strategic framework for the EPSR program to reflect a renewed medium-term focus by GoT and donors. This is a key aim of this Delivery Strategy and will guide the future program pipeline in this area. A key lesson learned from the review was the need for effective performance management of advisers in order to reduce the burden of adviser issues on Post. This lesson has been addressed as part of this Delivery Strategy.

In March 2013, AusAID funded a review of the public procurement system in Tonga. The review team found that, with the assistance of AusAID, Tonga has taken important steps in developing a modern public procurement system, in particular the enactment of regulations and establishment of institutional and organisational frameworks. However, the review team identified many remaining challenges that will require both improved and sustained commitment by the GoT, and further technical assistance. This included a lack of capacity and skills in the MoFNP's Procurement Division and in the procurement units of line ministries, and repeated cases of non-compliance with procurement regulations. The team recommended that the GoT adopt a strategic and comprehensive Procurement Reform Action Plan to address the principles currently limiting development and implementation of the public procurement system. The team also identified further risk mitigation measures around AusAID use of Tongan procurement systems, which will be actioned. The GoT has recognised the need for an Action Plan to be adopted by Cabinet resolution. This has been included in the Policy Reform Matrix as a trigger for budget support in 2013. Support to assist GoT implement and deliver on its Action Plan will be a critical element of this Delivery Strategy.

Many of the activities proposed in this Delivery Strategy, including a series of policy actions in the area of public financial management, directly address the recommendations of a 2011 AusAID-sponsored Assessment of National (financial, procurement and audit) Systems

(ANS). The ANS notes that there is moderate level of fiduciary and corruptions risks associated with using partner government systems in Tonga. Key fiduciary risks are identified in relation to budget credibility, policy-based budgeting and audit. These risks will be addressed in the EPSG program through direct risk mitigation measures including measures to strengthen audit capacity and to promote a program of audit for GoT – particularly for AusAID-funded programs.

4. Theory of change

The objective of this Delivery Strategy is to provide a medium-term framework to help strengthen GoT systems to deliver development results. The Delivery Strategy encompasses all of AusAID's activities in support of Outcome One of the Tonga Australia Partnership for Development.

AusAID recognises the need to improve the current strategic focus of support in economic and public sector governance in Tonga so that support is clearly linked to measurable targets and results. The Delivery Strategy aims to focus Australia's support and make it more coherent and improve reporting of results being achieved through Australian support.

a. Theory of change workshop

On March 26 and 27 2013, AusAID staff, GoT ministry officials and other stakeholders participated in a workshop to develop a robust, clear and logical theory of change for the Delivery Strategy. The theory of change aims to identify where Australia's aid interventions can best contribute to the development outcomes identified in the TSDF and Partnership for Development.

The workshop used root cause analysis (RCA) to test the consensus amongst the participants around the nature, scope, causes and consequences of the development challenges in EPSG. The consensus RCA is presented in Annex 5. This RCA was used to identify workshop participant perceptions of the capacity of Australian aid to contribute to EPSG reform through the Delivery Strategy. The consensus RCA:

- confirms the relevance of priorities identified in the PFM Roadmap and the Policy Reform Matrix;
- confirms that there are causes of EPSG issues that can only be sensibly dealt with by Tongan stakeholders – for example 'limited consequences for inconsistent use of Public Enterprises Act'; and
- identifies some new areas where donors could make a contribution – for example supporting more effective communication of complex PFM and statistical information for senior decision makers in the Legislative Assembly and Cabinet, as well as supporting audit, statistical and procurement functions.

The workshop identified four agreed end-of-strategy outcomes which help define success for this Delivery Strategy. A series of intermediate outcomes have also been identified that can be reported on through program performance management and AusAID quality processes (this is presented schematically in Annex 6). These outcomes are not additional

to, but rather contribute to, on-going efforts supported by other donors and the GoT under the Policy Reform Matrix.

b. End-of-strategy outcomes

This Delivery Strategy builds on an established program of support to the GoT based on a credible GoT-led reform program. AusAID will continue to provide assistance to the GoT in areas where there is a demonstrated commitment to reform and where the operational environment exists to enable AusAID to contribute effectively to institutional change.

Australia's engagement in support of economic and public sector governance in Tonga will be provided under four key pillars: public sector governance; economic and financial governance; business enabling environment, and; effective aid through alignment, harmonisation and mutual accountability. These pillars are loosely aligned with the four enabling themes of the GoT's TSDF.

The four end-of-strategy outcomes (under each of the four pillars), and the rationale underpinning each, are identified below.

1) **Public sector governance – GoT agencies demonstrate measureable improvement in the efficiency of public service delivery.**

Tonga's public service faces a number of capacity constraints common to small island developing states (SIDS), including a small pool of competent professionals and a high rate of emigration resulting from the global demand for skilled labour. Tonga has historically faced major challenges in the management of its wage bill (leading the GoT to implement a partial hiring freeze since 2011). While wage increases have played a major part in driving expenditure increases, weak human resource planning and inadequate central-agency control over recruitment by some agencies has led to unchecked expansion in the number of civil service positions.

This end-of-strategy outcome seeks to address these issues by focusing on strengthening capacity development and improving human resource planning. Capacity development is focused on building the competencies and capabilities of the Tongan public service, with a view to generating sustained and self-generating performance improvement. In particular, Australia will support on-going efforts by the GoT and other donors to strengthen management of the public sector wage bill and strengthen the capacity, operating environment and motivation of the Tonga public service to implement Corporate Plans that operationalise actions given priority in the TSDF, Policy Reform Matrix and PFM Roadmap. This support will build on the achievements made to date, with the help of AusAID, and the long-standing relationship between AusAID and both the PSC and MoFNP.

2) **Economic and financial governance – GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as sustainable revenue collection.**

The growth of Tonga's economy has been limited by a small revenue base, limited economic development opportunities and vulnerability to shocks, as well as by inconsistent and

inefficient revenue collection. The Global Financial Crisis, a series of recent natural disasters, and significant external debt service obligations, have also placed further pressure on Tonga's already-tight fiscal space. The GoT has had a mixed record of success in aligning budget resources with TSDF priorities[4] and there is significant scope to improve the quality and management of expenditure, including linking corporate plans, the TSDF and the medium-term budget framework (MTBF). This will require both a commitment to improved expenditure prioritisation as well as a strengthening of budget credibility. AusAID will continue to monitor progress in this area through policy dialogue and participation in World Bank missions to ensure that activities are supported by an on-going commitment to reform by the GoT.

This end-of-strategy outcome seeks to develop an environment for strengthened public financial management to contribute to improved service delivery. It is envisaged that the Policy Reform Matrix will provide a basis for sound and targeted policy reform in this area. AusAID will provide direct support to areas where there is the greatest capacity for Australian aid to make a difference and where there is a credible commitment to reform by the GoT.

3) Business enabling environment – The majority of public enterprises reform and GoT agencies enable measureable development of the private sector.

Tonga's business enabling environment is relatively weak, with the country placed 62nd on the World Bank's Doing Business Report in 2013. Inefficient public enterprises have placed significant pressure on public expenditure and have diverted limited public sector funds from expenditure on TSDF priorities. Implementation of the Public Enterprises Act is generally inconsistent. Existing business licensing arrangements in Tonga are onerous and discourage private sector development and foreign investment. A 2013 ADB Private Sector Assessment of Tonga notes that much more needs to be done to address constraints to private sector growth and development.

This end-of-strategy outcome seeks to: ensure that public enterprises are sustainable and accountable (and where appropriate moved to the private sector), and; reduce private sector development constraints by identifying barriers to investment and entrepreneurship that raise transaction costs, discourage investment and hinder the formation and growth of businesses. AusAID will continue to support key reforms to Tonga's business enabling environment through the Policy Reform Matrix, including promoting reforms of SOEs, of the energy sector and of the business environment (to strengthen competition and promote foreign investment). Australia's support in this area will build on recent GoT efforts to strengthen the regulatory framework for public enterprises (including bringing public enterprises' accounts up to date and making audited accounts of public enterprises publicly available in line with a new requirement enacted as part of recent legislative reforms). AusAID will continue to monitor progress on this outcome through policy dialogue and

[4] Whilst the GoT has been successful in maintaining allocations to priority and economic sectors in the budget, this has been somewhat undermined by variances between actual and budgeted expenditure between ministries and between inputs and sub-programs within individual ministries (in some sectors, there has been evidence of a bias in in-year transfers towards lower-quality spending).

participation in World Bank missions to ensure that reforms are supported to achieve institutional change.

4) **Effective aid through alignment, harmonisation and mutual accountability – GoT agencies and development partners ensure a more coordinated whole of government approach to partnership for PFM reforms.**

Australia is committed to delivering more effective aid under the Paris Declaration on Aid Effectiveness (2005), Accra Agenda for Action (2008) and the Busan Partnership for Effective Development Cooperation (2011). Good public sector governance in practice is demonstrated through effective performance assessment and mutual accountability in program implementation. This end-of-strategy outcome seeks to promote greater partnership between the GoA and the GoT, including by ensuring that flows of development assistance are managed more effectively and that a shared body of evidence is developed to support partnership decisions.

c. Principles to guide future EPSG investments

This Delivery Strategy aims to draw focus around key priorities where there is a capacity for Australia to make a difference and to effect institutional change. This depends on:

- The *environment* in which GoT agencies operate and the extent to which the support from donors, including AusAID, can influence that environment in order to contribute to end-of-strategy outcomes;
- The *organisational motivation* of GoT agencies, including the history and culture of the agency as well as the incentives and trade-offs for individuals, groups and the organisation to change; and
- The *organisational capacity*, including the capacity to adapt and the capacity to generate development results.

Under the four proposed end-of-strategy EPSG outcomes, AusAID will support activities where the following conditions can be met:

- **The activity is necessary** – The activity should be identified within the GoT Corporate Plans and PFM Roadmap as a key priority for developing a more efficient and effective public sector.

- **The activity is the right solution** – The activity should be aligned with the TSDF and should support achievement of the Policy Reform Matrix. AusAID will consider the environment in which GoT agencies operate to ensure that activities are both politically feasible and are likely to achieve desired end-of-strategy outcomes.

- **The activity can be implemented and/or managed on an on-going basis by GoT agencies** – A readiness assessment of the partner agency should be conducted before

assigning long-term advisory support or other capacity development approaches, ensuring that:

- There is a baseline competency and functional assessment conducted as part of assessing which capacity development approach will deliver the impact expected;
- There is at least one appropriate counterpart (preferably more) assigned time and space to engage with an adviser for the duration of the assignment; and
- Advisers and related human resource development activities contribute to structured approaches for human resource development in counterpart ministries.

- **The activity will be supported** – The activity should display mutual accountability between GoA and GoT; and, where possible, the activity should be underpinned by effective inter-ministerial coordination for policy, economic governance and human resource development for overall effective economic and public sector governance. This ensures that the targeted public sector agencies have the necessary support to institutionalise the proposed changes, including levels of recurrent funding which allow the agency to deliver programs in its corporate plan.

- **The activity provides benefits for stakeholders** – The activity should be able to provide clear results to ensure the delivery of Australia's broader aid program is more efficient and effective, in line with the recommendations of AusAID's Comprehensive Aid Policy Framework.

d. The role Tonga's development partners are playing in the change process

There are relatively few development partners providing direct support in favour of economic and public sector reform in Tonga. Efforts to coordinate development partner engagement around a joint Policy Reform Matrix have been successful and engagement with the GoT on reform priorities has been led by the World Bank. The Bank represents all donors providing budget support by participating in Budget Support Management Committee (the primary mechanism for formal dialogue regarding selection of and monitoring progress against policy actions) meetings. By providing a single point of contact between donors and Government, the Policy Reform Matrix has helped reduce the strain of coordination on Government and reflected the strength of economic policy dialogue between the Bank and the Government. The Asian Development Bank (ADB), AusAID, the European Union and PFTAC are all providing assistance to the achievement of the proposed program of policy reforms through varying combinations of budget support and technical assistance. AusAID engages at the technical and strategic level to ensure Australia's priorities are represented in joint policy discussions and in monitoring missions to assess progress against agreed reforms. A map of the key PFM reforms supported by GoT and donor partners is provided at Annex 7.

The World Bank has worked closely in Tonga with the IMF and shares a common view on key macroeconomic and structural reform priorities. The Bank participated in the last four IMF Article IV missions, facilitating the discussion on fiscal policy and structural reform, and

works with the IMF to prepare an annual Debt Sustainability Analysis. The IMF has been actively engaged in economic and public sector reform in Tonga through PFTAC, providing short-term TA in support of the Policy Reform Matrix. This has resulted, for instance, in the recent AusAID-funded Review of Revenue Administration, at GoT's request.

AusAID has been able to lever the comparative advantage of the World Bank through the regional Pacific Facility 3 Trust Fund (PF3). PF3 is a multi-donor fund managed by the World Bank on behalf of the contributing development partners, AusAID and NZ-IDG. The PF3 aims to create an environment conducive to generating growth and employment opportunities. Since 2005, the PF3 has provided technical and advisory assistance to directly support achievement of the Policy Reform Matrix. It is envisaged that AusAID will continue to support the Bank to provide similar technical and advisory assistance through the forthcoming PF4 (ten-year) initiative.

The ADB has also been a key player in supporting Tonga's public sector reforms, focusing on comprehensive PFM and public enterprise reforms through loans and technical assistance projects. ADB support has included: extensive TA provided for corporate planning and medium-term budgeting programs; ongoing TA to assist in preparing budget documents; PSDI assistance provided to the Ministry of Public Enterprise (MoPE) on public enterprise reform; and PSDI support to Ministry of Commerce to inform policy decisions, prepare legislative revisions and draft new legislation.

e. Policy dialogue

Policy dialogue has been an ongoing and central component of the EPSR program through annual Partnership for Development talks, regular contact between Tonga Post and GoT central agencies, and dialogue between donors and the GoT through the policy matrix process. The GoT provides the strategic direction, appropriate resource allocation and performance management to ensure that assistance provided maximises the impact on Tonga's reform efforts. Australia will continue to engage with the GoT to ensure joint ownership and effectiveness of EPSG activities in line with the principles and objectives of the *Paris Declaration on Aid Effectiveness.*

The Policy Reform Matrix provides a solid platform for donors to engage in substantial policy dialogue with the GoT. This ensures that reforms are contributing to positive outcomes for Tonga and that the impact on development and poverty reduction is maximised. An internal review of the Pacific Policy Matrices is currently underway in the Pacific Division. This review will enable programs around the region to be structured in the most effective way to contribute to productive policy dialogue and successful outcomes. Experience in Tonga is that budget support has acted as a good incentive to maintain steady progress on reforms.

Policy dialogue is most effective when there is a shared body of evidence. A critical area of focus for AusAID, moving forward, will be working with GoT partners to design and implement a systematic collection of information on the performance of the EPSG program in Tonga. Data collected can then be analysed, with the resulting information used to influence decisions for the continuous improvement of EPSG reform in Tonga. This could

include both monitoring activities and evaluative research and should be negotiated at the design phase.

f. Supporting cross-cutting aid issues

This Delivery Strategy is underpinned by a number of key cross-cutting issues. The following Australian aid program strategies and policies will guide the design and implementation of activities within the EPSG program:

- Promoting opportunities for all—Gender equality and women's empowerment
- Development for All: Towards a disability-inclusive Australian aid program 2009–2014
- Child Protection Policy 2013
- AusAID Effective Governance Thematic Strategy 2011
- AusAID Governance Performance Assessment Framework

In line with AusAID's gender policy, gender issues will be addressed at the initiative level. AusAID will seek to implement Australia's commitments to gender equality in all aspects of program development and delivery including through engagement in policy development, program implementation and consultation. A 2013 Tonga Gender Plan Design Mission recommended that the Tonga Program work with a gender specialist to review designs and support gender-sensitive M&E frameworks, data collection (including sex disaggregated data) and analysis, reporting and communications. It is envisaged that working with a gender specialist will provide an opportunity for gender considerations to be integrated across the full scope of EPSG activities.

AusAID will ensure that gender considerations are reflected in agreements with donor partners and (where relevant) with managing contractors. This will include ensuring that: references to gender equality and gender impact are included in adviser ToRs; gender reporting is integrated into adviser assessments (therefore encouraging advisers to consider the gender impact of their roles); and gender response is integrated into capacity building training programs.

Disability considerations will be integrated across the EPSG program, ensuring that people with a disability are: consulted as part of the design phase; adequately catered for in program designs, and; recognised in reporting arrangements. As part of the Tonga Governance Strengthening Program, AusAID will ensure that people with a disability are given equitable access to opportunities, including during general elections. AusAID will also require that materials for civic education are made disability-accessible. Design documents will need to consider whether EPSG activities influence service delivery improvements for people with a disability.

AusAID will ensure that all AusAID staff and implementing agencies (advisers, consultants, donor partners) adhere to AusAID's Child Protection Policy. As part of AusAID's due diligence framework, all multilateral organisations and partners are expected to act in accordance with the principles set out in the policy and abide by other relevant international declarations, conventions and agreements.

AusAID's support for cross-cutting themes is aligned with a key objective of the GoT's TSDF. Outcome One of the TSDF commits the Government to developing strong inclusive communities, including improving gender equality by implementing the Government's gender development policy. AusAID will continue to encourage the GoT, at annual Partnership for Development talks, to pursue policies and programs that take into account the needs of men and women and that promote inclusive service delivery.

5. How Australia will deliver its support

AusAID is committed to delivering aid in support of economic and public sector reforms where there is a clear and logical evidence-base to support our investments and in areas where there is the greatest capacity for Australia to make a difference. The 2013 Review of AusAID's Economic and Public Sector Reform Program and the March 2013 Theory of Change workshop identified modalities through which AusAID can work best to achieve development results. These will be used to inform AusAID's EPSG medium-term program pipeline.

A key aspect of AusAID's activities in this sector will be increased cooperation and coordination with development partners. This will provide a mechanism for greater donor harmonisation and improved efficiency in the delivery of Australia's aid. AusAID is also committed to engaging routinely with the private sector (in particular with the Tonga Chamber of Commerce) and civil society as part of the design process for EPSG programs.

The following table outlines the proposed forward engagement for the EPSG bilateral program.

Table 2: Proposed forward engagement for EPSG bilateral program

Objective	Proposed activity	Proposed modality	Proposed partners
Public sector governance: GoT agencies demonstrate measureable improvement in the efficiency of public service delivery	Public service training programs and improvement of the public sector	Collaboration with donor partners; technical assistance and other forms of capacity development, including through funding donor partner programs	GoT (MoFNP, PSC), World Bank, ADB, PICPA
Economic and financial governance: GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as sustainable revenue collection	Advisory support to strengthen alignment between GoT expenditure and TSDF priorities; advisory support to MoR; upgrade to management	Budget support tied to achievement of actions identified in the Policy Reform Matrix; technical assistance;	GoT (MOFNP, MoR, Statistics, Audit Office), World Bank, ADB, PFTAC

	information systems & PC/trade systems; advisory support for MoFNP's Central Procurement Unit; advisory support for Audit Office.	funding donor partner programs	
Business enabling environment: The majority of public enterprises reform and GoT agencies enable measureable development of the private sector	Support for SOE reform and private sector development through Policy Reform Matrix	Budget support tied to achievement of actions identified in the Policy Reform Matrix; regional AusAID programs (such as PSDI)	GoT, World Bank, ADB (PSDI)
Effective aid through alignment, harmonisation and mutual accountability: GoT agencies and development partners ensure a more coordinated whole of government approach to partnership for PFM reforms	Budget support tied to achievement of actions identified in the Policy Reform Matrix; policy dialogue between GoA and GoT	Performance-linked aid tied to Policy Reform Matrix; policy dialogue; funding of PF3 & PF4 facility with World Bank	GoT, World Bank, ADB
Political governance: Strengthened governance institutions that are transparent, accountable and responsive to citizens' needs and interests	Support to Parliament, civil society and Tonga Electoral Commission	Funding agreement with UNDP, AEC	GoT, UNDP, AEC

Outcome 1: Public sector governance

Support for public sector reforms

Australia will complement other donor efforts to support the GoT's public sector reform agenda with a view to improving the efficiency, transparency and accountability of public service delivery. In particular, AusAID will continue to maintain recent efforts to leverage the leadership of the World Bank in this sector. AusAID will ensure that activities undertaken are directly aligned with the TSDF (in particular, the enabling theme at 1.2.1[5]) and PFM Roadmap, and support achievement of the Policy Reform Matrix.

To date, Australia's support to public sector governance has been delivered primarily through an existing relationship and funding agreement with the PSC (including salary top-up for the position of Commissioner of the PSC). The 2013 review of AusAID's support in the sector raised a number of concerns with this modality, including: lengthy delays in providing acquittals for AusAID-funds; inefficient application and monitoring of the GoT's agreement management systems; and a high level of political involvement. As existing ACG agreements

5 Enabling theme 1.2.1: 'Continuing progress to a more efficient and effective government by focusing on its core functions; improving coordination, service delivery and optimising use of resources'. This includes 'continuing to implement public sector management reforms'.

draw to an end, AusAID will look towards alternative modalities that are expected to provide greater efficiency in the delivery of Australian aid. This will include diverse approaches to capacity development including engaging with regional organisations such as the Pacific Island Centre for Public Administration (PICPA), which specialises in providing short-term advisory services and training packages aimed at strengthening public administration in Tonga. To date, the experience using PICPA has been relatively mixed with significant delays experienced in PICPA's establishment and a lack of adequate leadership (Director) and advisory capacity. However, it is expected that a new agreement beginning in July 2013, and continued refinement of the Centre, will allow PICPA to better support improvements in the quality and performance of the Tongan public service.

Outcome 2: Economic and financial governance

Australia will continue to support measures to improve expenditure quality through the provision of conditional and targeted budget support. The joint Policy Reform Matrix, which will be the cornerstone of the Economic and Public Sector Governance Program, has been working successfully in its current structure since 2011, with GoT meeting implementation targets for the last two years. It is envisaged that the Matrix will continue to provide a basis for budget support over the period of this Delivery Strategy in order to sustain the momentum of key public sector and economic reforms, and to provide further support for the GoT's fiscal consolidation program. This will be informed by the internal review of Pacific policy matrices. Ongoing efforts to rebuild Tonga's fiscal space to respond to shocks (building cash reserves and improving the efficiency of the public sector) will allow the GoT to mitigate risks associated with the uncertainty surrounding Tonga's external environment.

AusAID will ensure that activities under the EPSG program are aligned with, and support achievement of, actions identified in the joint Policy Reform Matrix. This will be achieved through: ongoing collaboration with the World Bank through the Pacific Facility 3 Trust Fund (and the successor PF4 facility); financial support to the ADB where appropriate, and; long-term advisory support. The Policy Reform Matrix is provided at Annex 4 along with details regarding the responsibilities for advancing each policy reform for 2014.

The Project and Aid Coordination Committee (PACC), overseen by the MoFNP's Aid and Project Management Division, has played a key role in coordinating and monitoring donor resources. AusAID will continue to support the division to ensure that donor resources are managed strategically and in alignment with GoT priorities.

Advisory support

Australia is committed to working through partner government systems in line with the commitments to aid effectiveness made at Paris, Accra and Busan. However, experience to date suggests that GoT processes to procure advisers require strengthening before AusAID can transition to full use of government systems. In the interim, AusAID will continue to ensure joint ownership of technical advisory support, including ensuring GOT involvement in selection processes and increased focus on performance management of advisers.

To date, the experience using PACTAM advisers in the EPSG program has been varied. The 2013 review of AusAID's economic and public sector reform program raised a number of

issues that are addressed within this Delivery Strategy, including: lengthy recruitment processes; an inability for AusAID to effectively manage advisers (including responding to complaints); and questions around the sustainability of adviser outputs. In order to ensure efficiency and effectiveness in the delivery of Australian aid, AusAID will pursue a 'fit for purpose' approach to engaging technical advisory support. Where there is a need for specialised, short-term or critical advisory inputs (as for procurement), AusAID will draw resources directly from the AAS Standing Offer, with the benefit of significantly reduced recruitment times. It is envisaged that if managed right, PACTAM will continue to provide the most value for money to support long-term TA identified by the GoT in priority areas. A key to success will be ensuring that performance management arrangements are clearly identified and, where necessary, the managing contractor (or AusAID, where relevant) is able to play an active role in rectifying problems that may arise in the performance of services. In line with the recommendations of the 2012 independent review of PACTAM, AusAID will ensure closer engagement between PACTAM and Post so that TA is part of a coherent aid program. To ensure AusAID is able to manage advisers more effectively, we will hold quarterly informal meetings with advisers to discuss progress achieved to-date as well as any issues faced in the course of their work. Advisers will also be required to produce biannual reports on their work plan and outputs achieved.

AusAID will continue to provide either advisory or in-line support according to the needs and capacities of the relevant agencies. Requests for in-line and advisory personnel will be coordinated on an annual basis through the Aid Management Division of the MoFNP. In some cases, where capacity is significantly limited, AusAID may need to provide capacity supplementation until an adequate local counterpart can be engaged to fill the position. In other cases, where the input of a single TA may be unable to achieve a desired outcome, AusAID will consider the critical mass of advisory support needed to effect change, in order to ensure the sustainability of the work undertaken by advisers. All requests for personnel, particularly in-line personnel, will include a succession plan and a capacity building plan for GoT personnel. Terms of Reference will be jointly developed by the GoT and AusAID with specific outputs tied to EPSG end-of-program outcomes and aligned with Partnership objectives.

Revenue

In 2011, at the GoT's request, PFTAC undertook a Revenue Policy and Administration Review with a view to strengthening Tonga's revenue regime and improving revenue administration. The findings of this review have provided strategic direction for the MoR and have been used to inform the MoR's Corporate Plan. PFTAC is committed to working with the GoT and donors to further develop the implementation plan, the design and the deployment of the technical assistance necessary following this Review. AusAID will provide technical assistance to support PFTAC recommendations and will continue to seek greater oversight by PFTAC of the work of advisers in the field in a bid to further efforts towards greater donor harmonisation. This work will be supported by development and use of management information systems, such as the AusAID-funded Revenue Management System (RMS), to improve the ability of ministries to forecast cash flow and programming of cash disbursements. MoFNP and MoR staff will be supported to develop the knowledge and skills needed to operate and maintain these systems, and to work to improve the organisational environment for their effective use.

Procurement and audit

AusAID's 2013 procurement review noted significant weaknesses in the GoT's procurement system. AusAID is committed to implementing the recommendations of the review and supporting improved procurement business processes in line with the GoT's PFM Roadmap and the objectives of the Partnership for Development. This will require ongoing dialogue with the GoT to ensure a comprehensive Procurement Reform Action Plan is endorsed by Cabinet and included as a trigger for budget support in the Policy Reform Matrix. Inclusion in the Policy Reform Matrix will provide an opportunity for GoT to affirm its commitment to further procurement reform and will provide momentum to operationalise achievements made to date. In line with the recommendations of the procurement review, AusAID will provide ongoing technical assistance to the MoFNP's CPU (to support development of the GoT's procurement system). It is envisaged that long-term technical assistance will be provided through a complement of two International Procurement Specialists working in in-line positions in the CPU for a minimum of two years.

In line with the PFM Roadmap, AusAID is committed to working with the GoT to develop activities that will strengthen audit capacity and promote a program of audit for GoT. Improving GoT audit practice will require capacity supplementation over the medium term to enable the Auditor General's Office to: complete annual audits of programs and ministries, departments and agencies on time; follow up the findings of its audits in an effective manner; and produce a timely annual report summarising the findings. AusAID will continue to provide support to strengthen Tonga's audit system through Pacific regional programs, including the Pacific Regional Audit Initiative.

Statistics

Australia will provide ongoing support to the Statistics Department with a view to generating more timely and accurate information for economic planning and monitoring. National statistics is considered an essential tool for measuring Tonga's economic progress and was identified as a key area for donor support at the Theory of Change workshop. It is also of vital importance to AusAID as the lack of up-to-date statistical data hampers our ability to target our programs effectively.

The 2013 review of AusAID's economic and public sector reform program noted considerable capacity constraints within the Statistics Department, including: a lack of staff in the department with the right mix of skills to undertake high-level statistical analysis; a lack of availability of counterpart staff, and; out-dated computer systems and software. During the Theory of Change workshop, staff from the department also acknowledged that the department was not currently in a position to effectively absorb technical assistance.

AusAID will undertake a more detailed assessment of the sector, including through discussions with relevant stakeholders such as the Tonga Chamber of Commerce and MoR/ MoFNP, to identify priority needs and the range of options available for delivering Australia's aid in this sector. Should further technical assistance be considered, AusAID will assess the need for a package of support to ensure there is the critical mass required to effect change. AusAID may need to provide ongoing support to ensure that capacity building is sustained in the longer term.

In the interim, AusAID will support the upgrade of the Statistics Department's PC/trade system with a view to improving the macro-economic environment and fiscal management (as identified under the GoT's TSDF). This system is used extensively by government agencies, including the MoFNP and NRBT, for economic analysis and forecasting.

Outcome 3: Business enabling environment

Australia will support GoT efforts to implement a number of public enterprise reforms through the provision of conditional and targeted budget support tied to the Policy Reform Matrix. These include reforms aimed at restructuring inefficient SOEs and at improving compliance with the Public Enterprise Act. Successfully implementing these reforms will allow some public expenditure to be redirected to TSDF priorities whilst other savings will be used to reduce public debt.

Through the Policy Reform Matrix, Australia will also support actions to strengthen the private sector, including reducing the time and costs required to start a business, and creating a level playing field for private business through an appropriate competition policy. This work will be complemented by other Australian Aid programs including regional initiatives to stimulate trade (*e.g*. the Pacific Horticultural and Agricultural Market Access program). AusAID will also continue to provide support to the ADB's Private Sector Development Initiative, which aims to alleviate poverty in the Pacific region by promoting private sector-led growth.

Outcome 4: Effective aid through alignment, harmonisation and mutual accountability

Australia will continue to support and use the joint Policy Reform Matrix to drive harmonised support for on-going PFM and EPSG reforms identified in the PFM Roadmap and GoT agency Corporate Plans. This will avoid unnecessary duplication in the provision of technical assistance. As relationships mature, partnership principles will become more entrenched. True partnership and policy dialogue will be informed by a shared body of evidence for mutual accountability. The information for mutual accountability will come from strengthened EPSG monitoring systems (in MoFNP, MoR, PSC and the Audit Office) supported by data collection, analysis and reporting by the Statistics Department. In the context of providing greater mutual accountability, the GoT will be required to produce timely acquittals and reporting on the use of AusAID funds. AusAID will be required to ensure that budget forecasts, as well as pipeline plans and results, are communicated to the GoT in a timely and effective manner.

As partner agencies are ready to sustain change, Australia will support activities to improve the quality of monitoring information and how it is communicated to decision makers so that it is proactively used to sustain EPSG. This will include ensuring that complex PFM and statistical information are communicated more effectively to senior decision makers in the Legislative Assembly and Cabinet.

Political governance

In addition to delivering support for economic and public sector reforms, under the Partnership for Development Priority Outcome One, Australia will also provide assistance to improve Tonga's political and institutional environment. In 2013, AusAID initiated a four-year governance strengthening program in collaboration with the UNDP and Australian Electoral Commission (AEC). The program has been developed in line with AusAID's Effective Governance Thematic Strategy, seeking to strengthen governance institutions and democratic processes so that they are transparent, accountable and responsive to citizens' needs and interests. The program has three components: (i) support to Parliament to strengthen the capacity of Parliamentarians for improved law making, representation and oversight; (ii) support to civil society organisations to deliver advocacy relating to good governance; and (iii) support to the Tonga Electoral Commission to manage and oversee transparent free and fair national and district elections. Tonga's new political environment provides a unique opportunity to strengthen democratic processes and it is envisaged that this program will contribute to a more accountable, responsive and effective government. Through this Delivery Strategy, AusAID will work to ensure that political governance and economic and public sector governance reform programs are well aligned – particularly in relation to improving the links between policy advice from the public service to Ministers and increasing understanding of public financial management principles by MPs.

6. Strategy management

a. Managing and coordinating the strategy and portfolio

In 2012/13, funding in support of economic and public sector reforms accounted for approximately 52% of the Tonga Program. This is not expected to vary significantly over the period of the Delivery Strategy. Over the next four years, it is proposed that a total budget of $30 million, including: $6.5 million in TA and other capacity support programs, $3.5 million for a governance strengthening program; and $20 million in performance-linked aid, will be delivered under the Partnership for Development Priority Outcome One. Development of AusAID's future budget support program, provided in the form of performance-linked aid, will be informed by the results of the internal review of Pacific Policy Matrices. It is expected that budget support will remain constant at $5,000,000[6] per year (conditional on the GoT implementing actions identified in the joint Policy Reform Matrix).

b. Transition planning from the existing program to the new program

Key activities for this Delivery Strategy, including the provision of performance-linked aid and collaboration with donor partners (such as through the World Bank PF3 facility), are already in place and will enable an easy transition to the new program.

[6] In 2011-12 the GoT budgeted the equivalent of AUD2 million in budget support from Australia. The agreement with the GoT to use AUD5 million for salaries allowed the GoT to build up at least AUD3 million equivalent in cash reserves and thereby enhance budget execution and increase Tonga's resilience to possible future shocks to the economy which could reduce government revenue. This figure is anticipated to remain stable to support GoT's economic recovery and allow a degree of predictability for GoT budgeting purposes.

It is possible that AusAID will continue to receive ad hoc requests from the GoT. These requests will be processed through the MoFNP's PACC to ensure that they are managed strategically and in alignment with this Delivery Strategy (principles set out in Section 4.C). AusAID is prepared to refuse certain requests that are not aligned with GoT/AusAID priorities.

AusAID's program of support for an in-line adviser in the position of Head of Customs (Deputy Commissioner of Revenue) is due for completion in August 2013, after which the MoR will recruit for a local replacement. AusAID will assist in this transition by providing technical advisory support to the new Head of Customs for a period of six to twelve months.

A key change for the Tonga Program will be the consolidation of six initiatives in 2013 down to three (see Annex 9), in line with AusAID's Effective Aid report and the Comprehensive Aid Policy Framework (CAPF). This will reduce the fragmentation across the program and provide clearer alignment between EPSG activities and the joint Policy Reform Matrix. Both the Financial and Economic Management Program (ING000) and the Economic and Public Sector Management (INI190) initiatives were completed in June 2013. The Economic and Public Sector Reform II (INK375) and Tonga PACTAM (ING994) initiatives are due to be phased out in June and November 2014. The Economic and Public Sector Reform III (INK884) initiative will encompass all activities covered under the Partnership Priority Outcome One, with two exceptions. It is envisaged that Performance-Linked Aid will be easier to manage and monitor as a separate initiative (PLA; INK891) given the conditional nature of funding. The Tonga Governance Strengthening Program (INK890), which focuses on political governance, will also be maintained as a separate initiative given that it does not fall strictly within the scope of economic and public sector reform.

c. Resource implications

Implementation of this Delivery Strategy will be led by Tonga Post, with the assistance of a range of staff members in Canberra (desk and economists). AusAID will need to ensure that:

- Tonga Post has a sufficiently experienced Senior Program Manager and Program Manager, which can be supported by Canberra-based staff (including economists), with the time and resources to engage with GoT and other donor partners to:
  - conduct a readiness assessment of partner agencies before assigning long-term advisers;
  - jointly develop clear terms of reference with specific outputs for short-term and long-term advisers;
  - participate in final interviews of shortlisted candidates for long-term adviser positions;
  - plan, conduct, report and follow-up on findings from systematic monitoring visits to GoT partner agencies and their assigned long-term advisers (including reporting on adviser performance);
  - undertake day-to-day program management (including quality assurance processes).

AusAID will work to strengthen adviser performance management arrangements by scheduling quarterly informal meetings between AusAID (Senior Program Manager) and

individual advisers to discuss progress on outputs and address any issues that may arise during the course of their work.

- Tonga Post has a First Secretary and sufficiently experienced Senior Program Manager, which can be supported by Canberra-based staff (including economists), with the time and resources to engage with GoT and other donor partners to:
  - plan, conduct and report findings from systematic monitoring visits and periodic evaluations with GoT partner agencies to establish a shared body of evidence;
  - use shared evidence to plan and conduct policy dialogue with GoT partners;
  - ensure performance-linked budget support drives effective progress towards GoT targets set out in the PFM Roadmap and TSDF priorities; and
  - ensure effective coordination between political governance and economic and public sector governance programs through quarterly team reviews.

The Tonga Program will draw on regular support from Canberra, including the Economics Advisory Group and Pacific Economic Adviser, for specific analytical work and to participate in budget support missions. The Tonga Desk in Canberra will provide a dedicated resource to manage PLA, conduct in-house monitoring, and lead on budget support missions. This role is expected to continue to be filled by the Desk-based economist.

d. Monitoring and evaluation

To date, AusAID's EPSR program has lacked an overarching monitoring and evaluation (M&E) framework to monitor the effectiveness of Australian assistance and the contribution it makes to the development of economic and public sector management in Tonga. Successful M&E requires processes and templates that provide enough information to ensure that AusAID is able to effectively track progress and evaluate effectiveness at the individual, activity and program level. As part of this Delivery Strategy, AusAID has developed a Performance Assessment Framework (PAF) which will enable AusAID to measure the collective impact of the program on the GoT's reform agenda and on the Partnership for Development. This is presented at Annex 1, along with high-level M&E questions to guide evaluation in the sector, and will be updated as the program develops. Indicators for the PAF are drawn from the Policy Reform Matrix, the GoT's TSDF, the PFM Roadmap, AusAID's Governance Section PAF and the Tonga Governance Strengthening Program. The PAF is consistent with the program logic agreed upon with government stakeholders at the March Theory of Change workshop.

More detailed performance measures, including an M&E framework, will be set out in initiative design and implementation arrangements. Implementation Schedules describing the aim, implementation plans, resources and management arrangements will be prepared in collaboration with the GoT and agreed to at annual Partnership talks. This will draw from the PAF and the EPSG M&E framework.

Proposed performance management arrangements

Performance management aims to monitor activities and outputs that demonstrate progress towards end-of-strategy outcomes and to evaluate contributions to outcomes and purpose. The proposed approach to performance management uses strategic indicators and performance questions implemented through four operational pillars to assess program

performance. Monitoring and evaluation processes are aligned with GoT Corporate Plans and AusAID's Comprehensive Aid Policy Framework.

The four pillars are:

1. **Pillar 1: Regular quantitative and qualitative management monitoring** – This pillar is designed to align with monitoring conducted by GoT partner agencies under their Corporate Plans. Implementation partners (GoT, advisers, contractors and donor partners) will monitor the adequacy of progress towards annual plan and end-of-strategy targets (*e.g*. variance from planned inputs, activities and outputs) and monitor the quality of outputs (*e.g*. training or mentoring) on a regular basis. This will be reported back to AusAID at regular intervals determined and agreed upon by AusAID and the implementation partner at the design phase.

2. **Pillar 2: Periodic evaluation of performance** – AusAID will work with implementation partners to undertake biannual output-to-purpose reviews as well as rapid appraisal of contextual change in the sector (and GoT operating environment). These will inform AusAID and GoT biannual supervision missions.

   The 2013 review of the EPSR program flagged the management of adviser performance as a key weakness with the existing program. AusAID will need to ensure that strong management arrangements are in place to avoid adviser issues posing an unnecessary burden on limited resources at Post. In order to address this issue, AusAID will request all adviser TORs include a requirement for advisers to report biannually on progress achieved to date. This will be complemented by quarterly informal discussions between AusAID (Senior Program Manager) and advisers as well as annual Adviser Performance Assessments.

3. **Pillar 3: Scheduled AusAID and GoT supervision** – evaluation questions will be used to guide joint AusAID and GoT scheduled biannual supervision missions to assess whole of strategy performance. This pillar also includes scheduled and *ad hoc* (*e.g*. case study) evaluations to assess performance at a whole-of-strategy level. As part of this performance arrangement pillar, AusAID will hold scheduled quarterly meetings with the GoT's Project and Aid Coordination Committee to ensure program coherence and oversight.

4. **Pillar 4: Sense-making and communication** – data from the above three pillars will be collated, synthesised, interpreted and analysed to provide feedback to GoT (especially agency CEOs), civil society and public sector stakeholders, when required. The analysis will be complemented by – and where possible benchmarked against – national data (*e.g*. data from the Statistics Department) and international PFM benchmarks (*e.g*. PEFA, ADB Regional Assessments and IMF Assessments). Communications will take into account the need for concise plain language; the information most relevant to inform different levels of the system (*e.g*. decision makers, service providers and citizen groups); and inclusion of diverse stakeholders including female and male public servants, citizens and their civil society groups, professional bodies and the private sector.

EPSG program reviews

A mid-term review of the program will be conducted in early 2015-16. This will provide an opportunity to review progress more broadly and assess whether any major changes in approach or outcome targets are required. A final review of this Delivery Strategy is expected to occur at the end of 2017.

e. Risk management

Key risks for development and implementation of activities under this Delivery Strategy are identified below and detailed at Annex 2. Treatments will be identified and managed through the full sector risk register, design processes and ongoing investment management practices in line with AusAID's Risk Management Framework and Policy.

Key risks for this Delivery Strategy are:

- A shock to Tonga's macroeconomic stability due to natural disasters, deterioration of global economic conditions, domestic policy, decrease in external assistance, etc. undermines cash management and disrupts service delivery;
- Backlog of delayed acquittals and return of funds from GoT due to poor financial system practices and capacity results in AusAID being unable to account for funds and ensure funds are used as agreed;
- Poor procurement practices due to lack of understanding of and capacity to implement processes results in AusAID being unable to ensure best value for money and could lead to corrupt practices
- Expenditure to priority areas is diverted due to poor planning (such as the impending loan repayments to China) resulting in delays and failure to achieve improvements;
- Achievement of governance strengthening program objectives is delayed or hindered by changes in the political environment (including elections in 2014); and
- UNDP institutional processes and procedures impact on governance strengthening program delivery and delay implementation of key activities.

AusAID will ensure that appropriate resources and skills are made available to ensure effective performance management of EPSG initiatives. This will be managed through the design process by allocating approximately 5% of operational investment to monitoring, evaluation, supervision and shared evidence for policy dialogue. The Tonga Economic and Public Sector Senior Program Manager will discuss risk management in quarterly meetings with relevant GoT ministries and in annual Evaluation Group Meetings for PACTAM and government counterparts, in addition to providing regular updates and dealing with issues as they arise. The economic and public sector program risk register will be updated quarterly.

Post will continue to engage with the MoFNP through the Policy Reform Matrix assessments led by the World Bank. The World Bank will monitor the GoT's budget closely and, through ongoing dialogue with the GoT, will help ensure that all donor budget support/sector budget support funds are being used for their intended purpose and that GoT's own funds

are not diverted to unbudgeted/low priority activities. AusAID will participate in these biannual World Bank monitoring missions.

AusAID will draw on short-term technical assistance to provide intensive and regular monitoring of AusAID funds, including an annual sample audit of procurement transactions below TOP 3,000 (as identified in the procurement review). Given the complexity of needs in this sector, it is envisaged that the package of assistance outlined above will be provided through a contractual agreement with a specialist procurement firm under the current Aid Advisory Service (AAS) Standing Offer.

Annexes

Annex 1: Tonga Economic and Public Sector Governance Performance Assessment Framework

1.1 Objectives and outcomes

EPSG development objective to 2017	**Tonga Australia Partnership for Development Outcome One: "A more efficient and effective public sector"** This is aligned with the 'Impact' and 'National Outcome' identified in the GoT's Strategic Development Framework: **Impact**: A just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony and prosperity **National outcome**: A sustainable, efficient and effective public sector that develops and implements policies and programs to enable private sector growth and deliver quality public services in Tonga			
End-of-strategy outcome to 2016/17	**End-of-strategy outcome indicators**	**Intermediate outcomes (or outputs)**	**Intermediate outcome/output indicators**	**Key assumptions**
End-of-strategy outcome one	**Public sector governance**			
GoT agencies demonstrate measureable improvement in the efficiency of public service delivery	*Percentage of planned reform activities implemented according to timetable;* *Percentage of reform plans adequately resourced (budgets and actual)*	Progress towards developing sustainable human capacity building systems	*Number of public servants trained; performance ratings for advisers on annual adviser performance assessments*	Achievement in this area will be largely dependent on the ongoing commitment of GoT to undertaking public sector reforms.
Key evaluative questions for end-of-strategy outcome	What evidence is there that individual activities (including advisory support and other capacity development programs) are leading to public servants more effectively performing their roles? What are public servants doing differently as a result of training? How are improvements in public sector staff, plans, systems and processes leading to system-wide capacity development and reform?			• *Interview key stakeholders from GoT & AusAID* • *Consider context*

<table>
<tr><td>End-of-strategy outcome two</td><td colspan="3">Economic and financial governance</td></tr>
<tr><td rowspan="3">GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as sustainable revenue collection.</td><td>% actual recurrent expenditure allocated to TSDF public service delivery priorities</td><td>Improved expenditure management

Key intermediate outcomes for economic and financial governance are identified in the Policy Reform Matrix.</td><td>Key reforms identified in the PFM Roadmap are progressed by MoFNP, MoR</td><td rowspan="3">Key intermediate outcomes will be determined through annual Policy Reform Matrix discussions between GoT and donor partners (finalisation of policy actions occurs in February and is led on behalf of donors by the World Bank).</td></tr>
<tr><td rowspan="2">Number of criteria in periodic PEFA assessments for Tonga that obtain improved ratings</td><td>Improved public sector procurement practices</td><td>Procurement Reform Action Plan is endorsed by Cabinet by August 2013 and fully adhered to; all procurements are undertaken in line with GoT regulations and AusAID risk mitigation measures</td></tr>
<tr><td>Strengthened GoT audit capacity</td><td>Timeliness of annual audits of programs/ministries/depts/agencies; evidence of follow up on audit recommendations</td></tr>
<tr><td>Key evaluative questions for end-of-strategy outcome</td><td colspan="2">How much progress has been made by the GoT, with the support of donor partners, on implementing reforms identified in the PFM Roadmap and Policy Reform Matrix?
How well-aligned have AusAID-funded activities been to the GoT Corporate Plans and PFM Roadmap?
What evidence is there that reform plans are influencing government actions?
What evidence is there that improvements in public sector management or financial management have led to better delivery of services?
How effective have risk mitigation measures been to addressing key risks facing procurement for all AusAID-funded programs?</td><td>• Review current budget papers, agency reports and Corporate Plans
• Review IMF Article IV papers
• Interview key stakeholders from GoT and civil society (e.g. chambers of commerce)
• Compare results with Policy Reform Matrix, TSDF and PFM Roadmap
• Participate in biannual World Bank policy Reform Matrix monitoring missions</td></tr>
</table>

End-of-strategy outcome three	**Business enabling environment**			
The majority of public enterprises reform and GoT agencies enable measureable development of the private sector.	*Tonga rankings in annual World Bank Doing Business Survey*	Reform of public enterprises by MoPE, including corporatisation/privatisation of inefficient SOEs	*Key structural reforms identified in the PFM Roadmap are progressed by MoPE*	Key intermediate outcomes will be determined through annual Policy Reform Matrix discussions between GoT and donor partners (finalisation of policy actions occurs in February and is led on behalf of donors by the World Bank).
Key evaluative questions for end-of-strategy outcome	How much progress has been made by the GoT, with the support of donor partners, on implementing reforms identified in the Policy Reform Matrix?			• *Participate in biannual World Bank policy Reform Matrix monitoring missions*
End-of-strategy outcome four	**Effective aid through alignment, harmonisation and mutual accountability**			
GoT agencies and development partners ensure a more coordinated whole of government approach to partnership for PFM reforms.	*Success of Policy Reform Matrix in coordinating donor support and in providing momentum to the GoT's reform program*	GoT and donors hold each other mutually accountable for agreed development results.	*% of acquittals (for the use of AusAID funds) that are completed and provided on time by the GoT to AusAID*	
Key evaluative questions for end-of-strategy outcome	To what degree has AusAID maximised the effectiveness of its aid via implementation of the whole-of-strategy Policy Dialogue and Partnership Engagement Framework?			• *Scheduled quarterly meetings between AusAID and PACC*

	Political governance			
Strengthened governance institutions and democratic processes that are transparent, accountable and responsive to citizens' needs and interests.		Legislative Assembly strengthened to effectively carry out its oversight, representative and legislative functions.	*Parliamentarians' perception on the effectiveness of the Parliament Secretariat in providing administrative, technical and procedural support to Members;* *Perception of the constituents on the effectiveness of Parliament to perform its legislative and financial oversight functions disaggregated by gender, population, & geography;* *Level of constituents understanding of the roles and functions of Parliament including their rights and civic responsibilities disaggregated by gender, population, & geography*	Program Document for the Tonga Governance Strengthening Program includes a clearly defined monitoring and evaluation framework. These outcomes and indicators are drawn from the Program Document.

		Capacity of CSOs, education providers and communities strengthened for increased participation in law making, policy and oversight processes.	*% of constituents' participating in the law making, oversight and national planning and budgeting processes through an agreed formal engagement mechanism disaggregated by gender, population, & geography;* *% of CSOs with increased capacity to design, mobilize, coordinate and deliver civic education and advocacy activities in the communities;* *Level of understanding amongst students attending formal and informal schools system of democracy, human rights, civic responsibility and reforms to date disaggregated by gender, population, & geography*	
		Capacity of Tonga Electoral Commission enhanced to ensure the effective conduct of free and fair national and local elections.	*Public Perception on capacity of national electoral authority to administer free, transparent and democratic manner* *National and local elections disaggregated by gender, population, & geography*	
		Program efficiently and effectively managed.	*Recipients' perception on the effectiveness and usefulness of the flexible fund as a means to respond to unforeseen and urgent need to support governance initiatives*	

Key evaluative questions for end-of-strategy outcome	How is greater representation of women in democratic and decision-making structures and processes, leading to their more active participation? What evidence is there that parliament is improving its representation of all people? How are formal institutions demonstrating accountability to citizens? How is this improving? How has the involvement of civil society supported more democratic governance? To what extent are civil society actors influencing the agenda of the institutions and agencies delivering services? Is there increasing public confidence in the election process?	• *Scheduled quarterly meetings between AusAID and PACC*
Overarching evaluative questions:	• What is the current economic and public sector governance situation in Tonga? • Have interventions led to expected EPSG changes? If not, why not? If so, why? • What factors (positive and negative) have caused this situation? • What are the implications of the current EPSG situation on progress towards end-of-strategy outcomes and GoT PFM targets? • Could the same outputs have been delivered with fewer inputs? • Could the same inputs have been used to deliver more outputs?	*Questions to be considered in performance review discussions feeding into QAIs and APPRs and annual Partnership talks with GoT.*

1.2 Monitoring

Results Hierarchy	Indicators	Data source / means of verification	Baseline (Year)		Annual Performance (Year 1 2013/14)	Annual Performance (Year 2 2014/15)	Annual Performance (Year 3 2015/16)	End of strategy performance (Year 5 2016/17)
End-of-strategy outcome one – Public sector governance								
End-of-strategy outcome: GoT agencies demonstrate measureable improvement in the efficiency of public service delivery.	*% of planned reform activities implemented according to timetable; % of reform plans adequately resourced (budgets and actual)*	AusAID and GoT supervision		**Target:**	100%	100%	100%	100%
				Actual:				
				Actual:				
Intermediate outcome: Progress towards developing sustainable human capacity building systems.	*Number of public servants trained; performance ratings for advisers on annual adviser performance assessments*	AusAID & implementation agencies		**Target:**				
				Actual:				
End-of-strategy outcome two – Economic and financial governance								
End-of-strategy outcome: GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as sustainable revenue	*% actual recurrent expenditure allocated to TSDF public service delivery priorities*	Corporate Plans and annual reports of implementing agencies; MoFNP annual Budget Papers and SD data		**Target:**				
				Actual:				
	Number of criteria in periodic PEFA	Biennial PEFA assessments		**Target:**				

collection.	*assessments for Tonga that obtain improved ratings*			**Actual:**				
Intermediate outcome: Progress towards developing sustainable human capacity building systems	*Key structural reforms identified in the PFM Roadmap are progressed by MoFNP, MoR*	Biannual World Bank Policy Reform Matrix monitoring missions		**Target:**				
				Actual:				
Intermediate outcome: Improved public sector procurement practices.	*Procurement Reform Action Plan (PRAP) is endorsed by Cabinet by August 2013 and adhered to; all procurements are undertaken in line with GoT regulations and AusAID risk mitigation measures.*	AusAID and GoT supervision		**Target:**	PRAP endorsed by Cabinet			
				Actual:				
Intermediate outcome: Strengthened audit capacity and improved auditing of AusAID funds.	*Timeliness of annual audits of programs/ministries/departments/agencies; evidence of follow up on audit recommendations*	AusAID annual sample audit of procurement transactions; MoFNP supervision of GoT PFM Roadmap; biennial PEFA assessments	Ratings for the relevant PEFA criteria (2010): P1-21(i) D, P1-21(ii) C, P1(iii) D	**Target:**	GoT ratings goal for the relevant PEFA criteria (2014): P1-21(i) B, P1-21(ii) B, P1(iii) B			

End-of-strategy outcome three – Business enabling environment								
End-of-strategy outcome: The majority of public enterprises reform and GoT agencies enable measureable development of the private sector	*Tonga rankings in annual World Bank Doing Business Survey*	Annual World Bank Doing Business Survey		**Target:**				
				Actual:				
Intermediate outcome: Reform of public enterprises by MoPE, including corporatisation/privatisation of inefficient SOEs	*Key structural reforms identified in the PFM Roadmap are progressed by MoPE*	Biannual World Bank Policy Reform Matrix monitoring missions		**Target:**				
End-of-strategy outcome four – Effective aid through alignment, harmonisation and mutual accountability								
End-of-strategy outcome: GoT agencies and development partners ensure a more coordinated whole of government approach to partnership for PFM reforms.	*Success of Policy Reform Matrix in coordinating donor support and in providing momentum to the GoT's reform program*	Biannual World Bank Policy Reform Matrix monitoring missions		**Target:**				
				Actual:				
Intermediate outcome: GoT and donors hold each other mutually accountable for agreed development results.	*% of acquittals (for the use of AusAID funds) that are completed and provided on time by the GoT to AusAID*	GoT, AusAID and implementing partners (TA)		**Target:**				
				Actual:				
Political governance								
End-of-strategy outcome: Strengthened governance institutions				**Target:**				

and democratic processes that are transparent, accountable and responsive to citizens' needs and interests.				**Actual:**				
Intermediate outcome: Legislative Assembly strengthened to effectively carry out its oversight, representative and legislative functions.	*Parliamentarians' perception on the effectiveness of the Parliament Secretariat in providing administrative, technical and procedural support to Members*	UNDP-led perception surveys conducted in partnership with the Tonga Statistics Department	*Absence of perception study*	**Target:**				
				Actual:				
	Perception of the constituents on the effectiveness of Parliament to perform its legislative and financial oversight functions disaggregated by gender, population, & geography	UNDP-led progress reviews in the 4th quarter of each year		**Target:**				
				Actual:				
	Level of constituents understanding of the roles and functions of Parliament including their rights and civic responsibilities disaggregated by gender, population, & geography	UNDP-led field monitoring visits		**Target:**				
				Actual:				

Intermediate outcome: Capacity of CSOs, education providers and communities strengthened for increased participation in law making, policy and oversight processes.	*% of constituents' participating in the law making, oversight and national planning and budgeting processes through an agreed formal engagement mechanism disaggregated by gender, population, & geography*	UNDP-led perception surveys		**Target:**				
				Actual:				
	% of CSOs with increased capacity to design, mobilize, coordinate and deliver civic education and advocacy activities in the communities	UNDP-managed annual progress reports		**Target:**				
				Actual:				
	Level of understanding amongst students attending formal and informal schools system of democracy, human rights, civic responsibility and reforms to date disaggregated by gender, population, & geography	Field monitoring visits	*Absence of curriculum framework for addressing Civic, Democracy & Human Rights Education in formal and informal school systems;*	**Target:**				
				Actual:				

Intermediate outcome: Capacity of Tonga Electoral Commission enhanced to ensure the effective conduct of free and fair national and local elections.	*Public perception on capacity of national electoral authority to administer free, transparent and democratic manner National and local elections disaggregated by gender, population, & geography*	UNDP-led perception surveys	*There is a need to strengthen the technical, logistical and support capacity of the TEC*	**Target:**				
				Actual:				
Intermediate outcome: Program efficiently and effectively managed.	*Recipients perception on the effectiveness and usefulness of the flexible fund as a means to respond to unforeseen and urgent need to support governance initiatives*	UNDP-led perception surveys	*Need for flexibility and responsive funding for strengthening governance institutions & processes in Tonga*	**Target:**				
				Actual:				
Program Milestones				**Target:**	*1. PLA design completed* *3. EPSR III FMA9/10* *1. Budget support is disbursed for 2013 (Dec)*	*1. Budget support is disbursed for 2014 (Dec)*	*1. Budget support is disbursed for 2015 (Jan)*	*1. Budget support is disbursed for 2016 (Jan 2016)*
				Actual:				

1.3 Program performance

Delivering Aid Efficiently and Effectively	
Program delivery objectives (operational effectiveness and efficiency)	**Source of evidence**
A clear strategy	
Is the Delivery Strategy helping to guide effective investment decisions?	Views of AusAID and implementing partner staff; APPR discussions; planned EPSG Delivery Strategy evaluation (2017)
Value for money and consolidation	
Consolidation of six economic and public sector governance initiatives into three initiatives	AidWorks data
Risk management and performance oversight	
Is the quality of initiative evaluations improving, and are lessons from evaluations informing design and implementation?	Views of program staff and advice from PEP Division; planned assessment of quality of evaluations by M&E contractor in 2014.
Transparency and results	
Improved partner dialogue and mutual accountability processes by supporting partner government	Australian and partner government viewpoints

Annex 2: Risk Management Matrix

Objective/s	Risk No.	Risk (what will prevent you achieving the objective/s?)	Existing controls (what's currently in place?)	Risk rating with existing controls in place		
				Consequence	Likelihood	Risk Rating
1. GoT agencies demonstrate measureable improvement in the efficiency of public service delivery	1.1	Program delays due to lack of planning, corporate knowledge and capacity within GoT leads to program underspend and poor program delivery	Bi-annual AusAID and GoT policy dialogue Public Service Commission Corporate Plan	Minor	Possible	Moderate
	1.2	Capacity development programs (including training, advisory support or work attachments if relevant) fail to contribute in any systematic way to organisational capacity development or the achievement of wider public sector reforms. For instance, there is a risk that advisers are drawn away from their ToRs to respond to requests from senior levels of Tongan Government, resulting in AusAID being drawn into politically sensitive areas, and advisers not realising their intended outcomes.	PSC Corporate Plan Quarterly discussions between advisers and Post as well as biannual reporting on work outputs.	Minor	Possible	Moderate
2. GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as	2.1	A shock to Tonga's macroeconomic stability due to natural disasters, deterioration of global economic conditions, domestic policy, decrease in external assistance, etc. could undermine cash management and disrupt service	Conservative tax revenue forecasts adopted by the MoFNP, which are consistent with IMF projections Development partners contributing critical resources to support the budget in challenging fiscal circumstances, allowing	Moderate	Possible	High

sustainable revenue collection		delivery.	the accumulation of cash reserves to manage shocks over the medium-term World Bank's dialogue with Government on appropriate ways to approach and manage expenditure or revenue shocks			
	2.2	GoT does not progress key public financial management or economic reforms resulting in further debt or poor quality expenditure, and therefore not meeting targets to trigger next payment.	The joint reform policy matrix that underpins Tonga's own economic reform program that is linked to budget support and technical assistance from development partners, including Australia, incentivises and enables Tonga to progress these reforms.	Moderate	Unlikely	Moderate
	2.3	Backlog of delayed acquittals and return of funds from GoT due to poor financial system practices and capacity results in AusAID being unable to account for funds and ensure funds are used as agreed	Short-term technical assistance With-holding of disbursement of funds until reporting obligations have been met	Moderate	Possible	High
	2.4	Poor procurement practices due to lack of understanding of and capacity to implement processes results in AusAID being unable to ensure best value for money and could lead to corrupt practices	Annual sample audit of AusAID-funded GoT procurements	Moderate	Possible	High
	2.5	Expenditure to priority areas is diverted due to poor planning (such as the impending loan repayments to China) resulting in delays and failure to achieve improvements	Linking of budget support to core services sector expenditure The World Bank monitors the GoT's budget closely and, through ongoing dialogue with the GoT, helps ensure that all donor budget support/sector budget support funds are being used for their intended purpose	Moderate	Possible	High

			Linking of the PLA measure to the World Bank Tonga Public Finance and Structural Reform Operation AusAID participation in the World Bank's biannual monitoring missions Ministry of Revenue Corporate Plan			
	2.6	The skills and resources in the Statistics Department remain weak resulting in poor GoT data collection, analysis and reporting, and providing a limited body of evidence to inform partnership and policy dialogue.	Statistics Department Corporate Plans	Minor	Likely	Moderate
3. The majority of public enterprises reform and GoT agencies enable measureable development of the private sector						
4. GoT agencies and development partners ensure a more coordinated approach to partnership for PFM reforms	4.1	Current technical assistance model underperforms due to the wrong people, wrong approach, ineffective performance management and lack of oversight resulting in lack of evidence of successful capacity building	Adviser Terms of Reference Annual Adviser Performance Assessments	Minor	Possible	Moderate
	4.2	The program becomes ad hoc and lacks strategic direction due to the EPSG program lacking accountability resulting in poor efficiency in the delivery of	The joint Policy Reform Matrix provides the cornerstone for AusAID's engagement in the economic and public sector reform sector	Minor	Unlikely	Low

		Australian aid				
5. Strengthened governance institutions and democratic processes that are transparent, accountable and responsive to citizens' needs and interests.	5.1	Achievement of program objectives is delayed or hindered by changes in the political environment (including elections in 2014)	Should a change of Government occur, AusAID will work with UNDP to develop contingency plans	Major	Likely	High
	5.2	UNDP institutional processes and procedures impact on program delivery and delay implementation of key activities	Tonga Post has partly mitigated this risk by requesting Program Board Meetings be increased from one to two times per year to ensure issues are identified and resolved quickly. The project also includes a project assistant for the Tonga UNDP Country Office	Minor	Likely	Moderate

Annex 3: Policy Dialogue and Partnership Engagement Framework

Development objective	Area of policy interest	Policy outcome sought	Entry points for policy dialogue	Influential stakeholders	Resources required	Policy dialogue lead for AusAID	Management responsibility
Improved efficiency of public service delivery	Public sector governance	• Improved capacity and operating environment of the Tonga public service (including better human resource planning)	• GoT PFM Roadmap • GoT Corporate Plans	• MoFNP • PSC • World Bank • ADB	Moderate: government and implementing partner meetings	First Secretary, Nuku'alofa	Senior Program Manager, Economic and Public Sector Governance
Improved allocation and use of public expenditure for TSDF priorities as well as sustainable revenue collection	Economic and financial governance	• Improved quality and management of expenditure • Improved revenue policy and administration • Improved public sector procurement practices and strengthened audit capacity • Improved national statistics	• Policy Reform Matrix (World Bank-led) • GoT PFM Roadmap • GoT Corporate Plans • PFTAC Revenue Policy and Administration Review • Procurement Action Plan	• MOFNP • MoR • Statistics Department • Audit Office • World Bank • ADB • IMF (PFTAC)	Moderate: government and implementing partner meetings; Canberra-based economist to monitor progress on Policy Reform Matrix	First Secretary, Nuku'alofa	Senior Program Manager, Economic and Public Sector Governance
Reform of the majority of public enterprises and development of the private sector	Business enabling environment	• Reform of the majority of public enterprises • Reform of the business environment leading to measurable development of the private sector	• Policy Reform Matrix (World Bank-led)	• MCTL • World Bank • ADB (PSDI)	Moderate: government and implementing partner meetings; Canberra-based economist to monitor progress	First Secretary, Nuku'alofa	Senior Program Manager, Economic and Public Sector Governance

					on Policy Reform Matrix		
A more coordinated whole of government approach to partnership for PFM reforms	Effective aid through alignment, harmonisation and mutual accountability	• Coordinated policy dialogue between GoT and donor partners • Improved monitoring arrangements between AusAID and GoT	• Policy Reform Matrix (World Bank-led)	• MoFNP • World Bank • ADB	Moderate: government and implementing partner meetings (including biannual AusAID and GoT meetings to assess performance at a whole-of-strategy level; and quarterly AusAID and GoT meetings to ensure program coherence and oversight)	First Secretary, Nuku'alofa	Senior Program Manager, Economic and Public Sector Governance
Improved political and institutional environment	Political governance	• A more accountable, responsive and effective government	• Tonga Governance Strengthening Program	• Tonga Legislative Assembly • TEC • CSFT • UNDP • AEC	Minimal: some government and implementing partner meetings; participation in in-country monitoring visits	First Secretary, Nuku'alofa	Second Secretary, Nuku'alofa

Annex 4: Draft implementation schedule for pipeline programming

Objective	Activity/ task	Start	End	2013/14	2014/15	2015/16	2016/17	Resources required
Public sector governance								
Improved human resource planning and capacity building	Collaboration with PICPA	July 2013	TBC	X	X	X		TBC
Economic and financial governance								
Strengthened public financial management and strengthened fiscal policy (Policy Reform Matrix)	Performance-linked aid			X	X	X	X	$5 million per year in PLA
	Economic and Public Expenditure Adviser (MoFNP)	February 2011	May 2014	X				1 adviser
	Interim assistance to Deputy Commissioner of Revenue (Head of Customs)			X				1 adviser to support transition arrangement
	FMIS upgrade	July 2013	June 2014	X				$950,000/ 2yrs
Improved public sector procurement practices (TSDF)	Procurement Manager (MoFNP)	February 2013	December 2013	X				1 adviser
Improved public sector procurement practices (TSDF)	International Procurement Specialists	January 2014	January 2016	X	X	X		2 advisers
Business enabling environment								
Structural reform (PRM)	Performance-linked aid			X	X	X	X	$5 million per year in PLA
Effective aid through alignment, harmonisation and mutual accountability								
Other								
Strengthened governance institutions and democratic processes	Tonga Governance Strengthening Program	April 2013	June 2016	X	X	X		$3.8 million/ 4yrs

Annex 5: Policy Reform Matrix

Joint Policy Reform Matrix FY2014-15

Agreed Reform Actions – for completion August 31st 2013 (stakeholders in brackets)	***Responsibility/ implementing partners***	**Indicative Reform Actions – for completion August 31st 2014**	***Responsibility/ implementing partner***
Strengthening Public Financial Management			
1. The Ministry of Finance will reflect new program structures for major ministries in the FY2013/14 budget to improve alignment between expenditure and policy priorities. (ADB, WB & AusAID)	*AusAID and ADB TA supporting corporate planning and medium-term budgeting programs. Ongoing TA provided to assist in preparing budget documents as necessary.* *Ongoing WB assistance provided to Government restructure.*	1. Ministry of Finance will progress key reforms identified in the Public Finance Management Reform Plan to be agreed by Cabinet in mid-2013 and in the Procurement Strategy	*GoT with donor support (ADB, WB & AusAID)*
2. Cabinet will approve a Procurement Strategy outlining steps for strengthening of procurement processes based on the recent procurement review. (AusAID)	*Two AusAID-funded International Procurement Specialists envisaged.*		
Strengthening fiscal policy			
3. Cabinet will approve submission to Parliament of legislation to create a presumptive tax regime for SMEs, to reduce administrative burden on Ministry of Revenue and encourage formalization. (ADB, WB & AusAID)	*PFTAC TA provided to prepare Cabinet papers, consultation papers, and legislation for both reforms.* *Ongoing PFTAC TA provided to Ministry of Revenue on general strategy and priorities.*	2. Cabinet will agree to an exemptions policy clearly stating criteria to be applied when considering requests for tax exemptions, and approve immediate changes to the existing exemptions regime to ensure consistency of tax exemptions with Government policy priorities, with a view to reducing the overall fiscal costs of exemptions.	*GoT/ Cabinet with donor support (ADB, WB & AusAID)*
4. Cabinet will approve submission to parliament of legislation establishing a natural resource tax regime to ensure equitable sharing of benefits from prospective extractive industry activities. (ADB, WB & AusAID)	*Ongoing TA to be considered by ADB, AusAID, World Bank.*		

Promoting Structural Reform			
Energy Sector			
5. Reduction in energy network loss (12% by September 2013 from baseline 14.8%) (EU) 6. Achievement of specified renewable energy generation targets (4% of total energy supplied to the grid by June 2013 from baseline of 0%). (EU)	*World Bank providing extensive TA and analytical support for energy sector reform in electricity and petroleum sectors.*	3. Electricity tariffs will be adjusted to introduce a lifeline tariff and improve incentives for efficient generation, as recommended by the recently completed tariff review. 4. Reduction in energy network loss (11% by September 2014 from baseline 14.8%). 5. Achievement of specified renewable energy generation targets (14.5% of total energy supplied to the grid by June 2014 from baseline of 0%).	*GoT with donor support (ADB, WB & AusAID)* *GoT with donor support (EU)* *GoT with donor support (EU)*
SOE Reform			
7. Government will develop a policy framework, complete due diligence processes, and issue Requests for Proposals for private participation in operation of the International Dateline Hotel, on a management or lease contract basis. (ADB, WB & AusAID) 8. Liquidation of Tonga Investments Limited and sale of Home Gas Retail operations is completed. (ADB) 9. Liquidate Tonga Print or merge part of its business activities (and relevant assets) with Tonga Post, whichever will achieve the greatest financial value for the shareholder and is consistent with the requirements of the Public Enterprises Act. (ADB)	*IFC to provide transaction advice for IDH process, including advice on PPP options.* *WB TA provided for private participation in TDB and expansion of TDB operations into commercial banking.* *ADB PSDI assistance provided to Ministry of Public Enterprises on public enterprise reform.*	6. Transaction for private participation in the operation of the International Dateline Hotel will be complete. 7. Cabinet approve a restructuring plan for Waste Authority Limited and Tonga Water Board for either partial privatization, liquidation or operational separation of regulatory and non-regulatory responsibilities. 8. Implementation of the TCC restructuring plan commenced. 9. Tonga Communications, Tonga Power Limited, Tonga Development Bank and Ports	*GoT with donor support (ADB, WB & AusAID)* *GoT/Cabinet with donor support (ADB)* *GoT with donor support (ADB)* *GoT with donor support (ADB)*

10. Cabinet will approve a plan enabling TCC to operate as a successful business as defined in the Public Enterprise Act, through restructuring and/or full or partial privatization. (ADB) 11. Progress towards full compliance with the Public Enterprises (PE) Act, including: (a) Cabinet approves a SOE director skills-based selection and appointment process consistent with requirements of the PE Act; (b) 100% of PEs and Cabinet comply with the GoT Policy Obligation provisions in the PE Act; (c) 60% of SOEs have audited annual accounts for financial year to June 2012 (or December 2012 as appropriate) complete and have published summary results in newspapers as required by PE Act. (ADB)		Authority Limited achieve their target ROE.[7] 10. Full compliance with the Public Enterprises (PE) Act, including: (a) Full compliance with the Cabinet approved skills based director selection and appointment process (b) 100% of SOEs have completed the director performance process and questionnaire. (c) 100% of SOEs have audited financial accounts for the financial year to June 2013 (or December 2013 as appropriate) complete and have published summary results in local newspapers as required by the PE Act.	*GoT with donor support (ADB)*
Business Environment Reform			
12. Cabinet approves submission to Parliament of Receivership Bill revisions of the Business Names Act. (ADB, WB & AusAID)	*ADB PSDI assistance being provided to Ministry of Commerce to inform policy decisions, prepare legislative revisions, and draft new legislation.*	11. Cabinet approves Competition Policy. 12. Cabinet approves submission of Bankruptcy Bill to the Legislative Assembly. (ADB) 13. Government will submit to Parliament revisions to enable foreign investment in the fisheries and agriculture sectors.	*GoT/Cabinet with donor support (ADB)* *GoT/Cabinet with donor support (ADB)* *GoT with donor support (ADB, WB & AusAID)*

[7] ROE to be determined using the Capital Asset Pricing Model and will be approved by Cabinet by May 2013.

Extended Government of Tonga Reform Matrix
(Including non-binding actions and indicative actions for 2015)

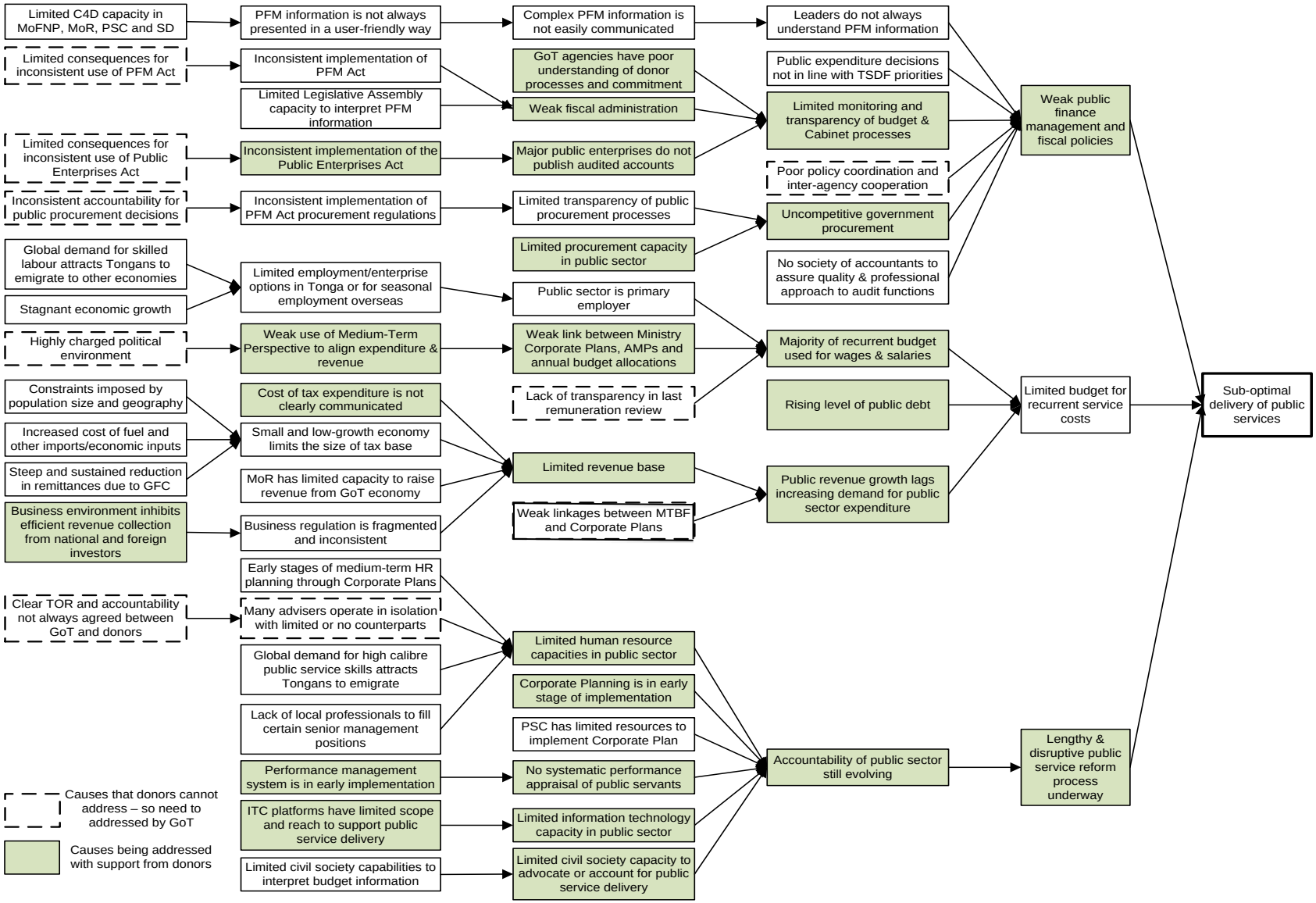
Draft Reform Actions 2013	Indicative Reform Actions 2014	Indicative Reform Actions 2015
Strengthening Public Financial Management		
The Ministry of Finance will reflect new program structures for major ministries in the FY2013/14 budget to improve alignment between expenditure and policy priorities. (ADB, WB, AusAID) Cabinet will approve a Procurement Strategy outlining steps for strengthening of procurement processes based on the recent procurement review. (AusAID)	Ministry of Finance will progress key reforms identified in the Public Finance Management Reform Plan to be agreed by Cabinet in mid-2013 and in the Procurement Strategy (ADB, WB & AusAID) *New program structures for all Ministries will be reflected in the FY2014/15 budget.*	
Strengthening fiscal policy		
Cabinet will approve submission to Parliament of legislation to create a presumptive tax regime for SMEs, to reduce administrative burden on Ministry of Revenue and encourage formalization. (ADB, WB & AusAID) Cabinet will approve submission to parliament of legislation establishing a natural resource tax regime to ensure equitable sharing of benefits from prospective extractive industry activities. (ADB, WB & AusAID) *Government will review the existing exemptions regime, drawing on IFC/World Bank TA regarding the role of incentives in attracting investment.*	Cabinet will agree to an exemptions policy clearly stating criteria to be applied when considering requests for tax exemptions, and approve immediate changes to the existing exemptions regime to ensure consistency of tax exemptions with Government policy priorities, with a view to reducing the overall fiscal costs of exemptions. (ADB, WB & AusAID)	*The fiscal cost of tax exemptions will be reduced and remaining exemptions will be justified under the exemptions policy and subject to cost-benefit analysis.*

Promoting Structural Reform		
Energy Sector		
Reduction in energy network loss (12% by September 2013 from baseline 14.8%) (EU) Achievement of specified renewable energy generation targets (4% of total energy supplied to the grid by June 2013 from baseline of 0%). (EU)	Electricity tariffs will be adjusted to introduce a lifeline tariff and improve incentives for efficient generation, as recommended by the recently completed tariff review. (ADB, WB & AusAID) Reduction in energy network loss (11% by September 2014 from baseline 14.8%) (EU) Achievement of specified renewable energy generation targets (14.5% of total energy supplied to the grid by June 2014 from baseline of 0%). (EU)	*Further progress towards private participation in the management of storage assets.* *Further improvements in petroleum sector regulation, ensuring a closer alignment between retail prices and the costs of supply.*
SOE Reform		
Government will develop a policy framework, complete due diligence processes, and issue Requests for Proposals for private participation in operation of the International Dateline Hotel, on a management or lease contract basis. (ADB, WB & AusAID) Cabinet will approve a plan enabling TCC to operate as a successful business as defined in the Public Enterprise Act, through restructuring and/or full or partial privatization. (ADB, WB & AusAID) Liquidation of Tonga Investments Limited and sale of Home Gas Retail operations is completed. (ADB) Liquidate Tonga Print or merge part of its business activities (and relevant assets) with	Transaction for private participation in the operation of the International Dateline Hotel will be complete. (ADB, WB & AusAID) Cabinet approve a restructuring plan for Waste Authority Limited and Tonga Water Board for either partial privatization, liquidation or operational separation of regulatory and non-regulatory responsibilities. (ADB) Implementation of the TCC restructuring plan commenced. (ADB) Tonga Communications, Tonga Power Limited, Tonga Development Bank and Ports Authority Limited achieve their target ROE.[8] (ADB)	*Full operational and accounting separation of the regulatory and operational responsibilities of Tonga Water Board and Waste Management Limited.* *SOE Holding Company established with a board and management in place and all SOEs transferred into the holding company. Business Plan for the SOE Holding Company prepared in accordance with the requirements of the Public Enterprises Act and adopted by the Board.*

[8] ROE to be determined using the Capital Asset Pricing Model and will be approved by Cabinet by May 2013.

Tonga Post, whichever will achieve the greatest financial value for the shareholder and is consistent with the requirements of the Public Enterprises Act. (ADB) Progress towards full compliance with the Public Enterprises (PE) Act, including: (a) Cabinet approves a SOE director skills based selection and appointment process consistent with the requirements of the PE Act; (b) 100% of PEs and Cabinet comply with the Government Policy Obligation provisions in the PE Act; (c) 60% of SOEs have audited annual accounts for the financial year to June 2012 (or December 2012 as appropriate) complete and have published summary results in newspapers as required by the PE Act. (ADB)	Full compliance with the Public Enterprises (PE) Act, including: (a) Full compliance with the Cabinet approved skills based director selection and appointment process (b) 100% of SOEs have completed the director performance process and questionnaire. (c) 100% of SOEs have audited financial accounts for the financial year to June 2013 (or December 2013 as appropriate) complete and have published summary results in local newspapers as required by the PE Act. (ADB)	
Business Environment Reform		
Cabinet approves submission to Parliament of Receivership Bill revisions of the Business Names Act. (ADB, WB & AusAID)	Cabinet approves Competition Policy.(ADB) Cabinet approves submission of Bankruptcy Bill to the Legislative Assembly. (ADB) Government will submit to Parliament revisions to enable foreign investment in the fisheries and agriculture sectors. (ADB, WB & AusAID)	*Process improvements resulting in reduced time for the granting of business visas.* *Process improvements in resulting in reduced time and cost for the granting of ancillary licenses for business and investment.*

Annex 6: Root cause analysis



Annex 7: Results map (program logic)

Impact (Goal):
A just, equitable and progressive society in which the people of Tonga enjoy good health, peace, harmony and prosperity

National Outcome (Purpose):
A sustainable, efficient and effective public sector that develops and implements policies and programs to enable private sector growth and deliver quality public services in Tonga

End-of-strategy outcome 1 (June 2017): Public sector governance GoT agencies demonstrate measureable improvement in the efficiency, transparency and accountability of public service delivery	End-of-strategy outcome 2 (June 2017): Economic and financial governance GoT agencies demonstrate measureable improvement in the allocation and use of public expenditure for TSDF priorities as well as appropriate and fair revenue collection	End-of-strategy outcome 3 (June 2017): Business enabling environment The majority of public enterprises reform and GoT agencies enable measureable development of the private sector
Intermediate behaviour changes (Outcomes): ● Strengthened management of public sector wage bill by PSC ● MoFNP reflects new program structures for major ministries in the FY2013/14 budget ● Agencies use human resource management systems to support implementation of Corporate Plans ● Public servants behave in a consistently professional manner ● PFM reform information is communicated effectively by MoFNP, MoR, PSC and SD ● Improved commitment control, reporting, purchasing, reconciliation, and monitoring in PSC and MoFNP ● GoT agencies consistently implement public sector procurement practises as per PFM Act ● Agency CEOs consistently enforce public sector regulations	**Intermediate behaviour changes (Outcomes):** ● Improved revenue efforts by MoR ● Improved expenditure management by MoFNP ● Improved economic forecasting by Statistics Department, MoR & MoFNP ● Tax reforms implemented by MoR as a result of PFTAC review ● More transparent granting of tax exemptions by Cabinet ● Improved public expenditure planning by MoFNP informed by medium-term expenditure mapping & TSDF priorities ● GoT agencies implement key reforms identified in the PFM Reform Plan as agreed by Cabinet in mid-2013 ● MoFNP implement and monitor debt strategy ● GoT agencies use performance information to revise PFM Roadmap, sector strategies and Corporate Plans to better fit budget context	**Intermediate behaviour changes (Outcomes):** ● Reform of public enterprises by MoPE including corporatisation/ privatisation of inefficient SOEs ● GoT reforms reduce time and costs needed to start a business ● Current controls on foreign investment in the fisheries and agriculture sectors removed ● Cabinet approves submission of revised Foreign Investment Act to Legislative Assembly ● Liquidation of Tonga Investments complete, including privatisation of Home Gas Limited ● Liquidate Tonga Print or merge part of its business activities (and relevant assets) with Tonga Post ● Cabinet approves either a restructuring plan or key steps towards privatisation for TCC to operate as a successful business (as defined in the Public Enterprise Act)
Immediate behaviour changes (Outcomes): ● Better reporting and use of national accounts ● Hiring freeze implemented across public service ● Cabinet approves whole-of-government remuneration review while maintaining consistency with macroeconomic sustainability objectives ● Planning/budgeting/aid divisions of MoFNP, PSC and MoR interact and deploy their staff more efficiently and effectively ● Sustainable human capacity building systems developed for public servants in partnership with regional institutions ● Performance management system used by PSC, MoFNP and MoR to inform implementation of Corporate Plan ● Performance audit findings are implemented by GoT agencies ● PSC coordinates implementation of Organisational Development Program ● Audit reports used by CEOs and readily available to public	**Immediate behaviour changes (Outcomes):** ● Tax officers, accountants and auditors implement professional good practice standards ● Cabinet approves Revenue Working Group recommendations as the framework for exemptions ● Improved alignment between TSDF priorities and budget outcomes ● Improved linkages between Corporate Plans and MTBF ● Tax and Customs staff use IT systems for more effective and efficient revenue collection ● MoFNP and MoR integrate corporate planning and budgeting processes and documents to improve the policy focus during budget preparation and linkages to TSDF ● Budget prioritises allocation of resources to TSDF outputs ● Cabinet submits legislation for a presumptive tax regime for SMEs to Legislative Assembly ● Cabinet submits legislation for natural resource tax regime ● GoT encourages establishment of Tonga Society of Accountants	**Immediate behaviour changes (Outcomes):** ● Competition policy approved by Cabinet and submitted to the Legislative Assembly ● Bankruptcy Bill approved by Cabinet and submitted to the Legislative Assembly ● Cabinet approves submission of revised Business Names Act to Legislative Assembly ● Cabinet approves advertisement for expressions of interest in private sector participation in the refurbishment and management of the International Dateline Hotel ● Majority of SOEs progress towards compliance with Public Enterprise Act ● Majority of SOEs conduct director performance review processes for MoPE ● Cabinet approves a SOE director skills-based selection and appointment process
Knowledge, attitudes, skills, aspirations ● Public servants have knowledge and skills in: presentation of complex information for effective communication; use of performance management systems; and good practice procurement ● MoFNP and MoR staff have knowledge and skills to operate and maintain FMIS/CMS/RMS ● Improved PFM skills of staff in line ministries ● Civil society knowledge and skills on budget interpretation and public finance transparency ● Agency CEOs have knowledge and skills to use performance audits for continuous improvement of their agencies	**Knowledge, attitudes, skills, aspirations** ● MoFNP and MoR staff have knowledge and skills to operate and maintain FMIS/CMS/RMS ● Civil society knowledge and skills on budget interpretation and public finance transparency ● 6 Sector growth Committees aware of PFM reforms ● MoR prosecutions staff have knowledge and skills to relate to police and Office of Solicitor General ● Tax officers, accountants and auditors aware of certified good practice standards for professionals	**Knowledge, attitudes, skills, aspirations** ● SOE Directors have knowledge and skills as required under the Public Enterprises Act ● CEOs, SOE Directors and private sector company officers have knowledge and skills needed to comply with relevant GoT regulations ●
Products and deliverables (Outputs): ● System to monitor implementation of Cabinet & PSC decisions ● PSC Organisational Development Program with summary of HRD activities from Corporate Plans accepted for action ● Public sector performance audits and baseline of capacity ● TA outputs to strengthen procurement capacity ● Public servants trained to use enhancements to FMIS/CMS/ RMS and payroll system ● IT systems upgraded (FMIS/Payroll System) ● Implement a program of civil society training on budget interpretation and public finance transparency ● Whole-of-government remuneration review of: i) existing anomalies and inconsistencies in staff pay and conditions; ii) alignment between established positions and roles required under revised ministry structures; and iii) vital vacant posts ● PSC Corporate Plan ● Performance Management System and related manuals ● Audit reports synthesised in transparent accountability system	**Products and deliverables (Outputs):** ● Public servants trained to use enhancements to FMIS/CMS/ RMS and payroll system ● On-line tax/customs payment from 2016 ● IT systems upgraded (FMIS/CMS/ RMS) ● PFM Road Map reviewed and updated ● Corporate plans for MoFNP, MoR, SD ● Pilots of better approaches to estimate and budget resources for critical capital repair or replacement ● Government delivers new program structures for major ministries ● Recommendations arising from Revenue Working Group review of tax exemptions and their consistency with Government policy priorities ● Draft legislation for a presumptive tax regime for SMEs ● Draft legislation for natural resource tax regime	**Products and deliverables (Outputs):** ● Level playing field for private sector businesses ● Advertisement for expressions of interest in private sector participation in the refurbishment and management of the International Dateline Hotel (IFC support) ● Review of Tonga Communications Corporation ● Majority of SOEs deliver director performance review and questionnaire to Ministry of Public Enterprises ● Receivership Bill submitted to the legislative assembly ● Competition policy delivered to Cabinet ● Bankruptcy Bill delivered to Cabinet ● Corporate plan for MoPE and MoCTL ● Tonga Society of Accountants established

End-of-strategy outcome 4 (June 2017):
Effective aid through alignment, harmonisation and mutual accountability
Government of Tonga agencies and development partners coordinate whole of government partnership for PFM reforms

Intermediate behaviour changes (Outcomes):
Harmonised approach to alignment with strengthened national systems
Donors collaborate to strengthen Government of Tonga systems and align with them when the systems and agencies are sufficiently strong.

Immediate behaviour changes (Outcomes):
- Donors operationalise commitments under Joint Policy Reform Matrix and PFM Roadmap through Corporate Plans of relevant partner agencies
- Harmonised annual reporting of donor commitments, disbursement and sectoral/geographic allocation
- Joint Policy Reform Matrix used to harmonise donor support for strengthened PFM in Tonga
-

Knowledge, attitudes, skills, aspirations
- Donor staff have knowledge of Corporate Plans for partner GoT agencies
- Donors have knowledge of all initiatives supporting EPSG in Tonga
-

Products and deliverables (Outputs):
- Corporate Plans of partner GoT agencies
- Updated Joint Policy Reform Matrix
- Updated PFM Roadmap
- Regular donor coordination meetings

Intermediate behaviour changes (Outcomes):
Mutual accountability
Government of Tonga and donors hold each other mutually accountable for agreed development results.

Immediate behaviour changes (Outcomes):
- PFM information used to support inter-agency coordination and policy
- MoFNP, MoR and PSC use statistics and monitoring information to inform decisions
- SD supports other agencies to collect, analyse, communicate and use monitoring data
- GoT agencies start to systematically monitor and use KPIs in Corporate Plans to inform management decisions
-

Knowledge, attitudes, skills, aspirations
- MoFNP, MoR, PSC staff have knowledge and skills needed to collect, analyse, communicate and use monitoring data
- Donor staff have knowledge and skills needed to collect, analyse, communicate and use monitoring data
-

Products and deliverables (Outputs):
- Selected GoT staff trained to collect, analyse, communicate and use monitoring data
- Updated statistical legislation and regulations
- Tonga Bureau of Statistics established from SD
- Valid and reliable economic and governance statistics synthesised and presented for effective communication to decision makers
- Periodic PEFA assessments
- Annual output-to-purpose review of Corporate Plan implementation against TSDF

References:

AusAID (2013) Key Policy Reform Matrix Reforms Under Implementation in Tonga. Australian Agency for International Development, Nuku-alofa, Tonga.

AusAID (2009) Tonga Australia Performance Partnership Agreement. Implementation Strategy for Priority Outcome 1: A More Efficient and Effective Public Sector. Australian Agency for International Development, Canberra, Australia.

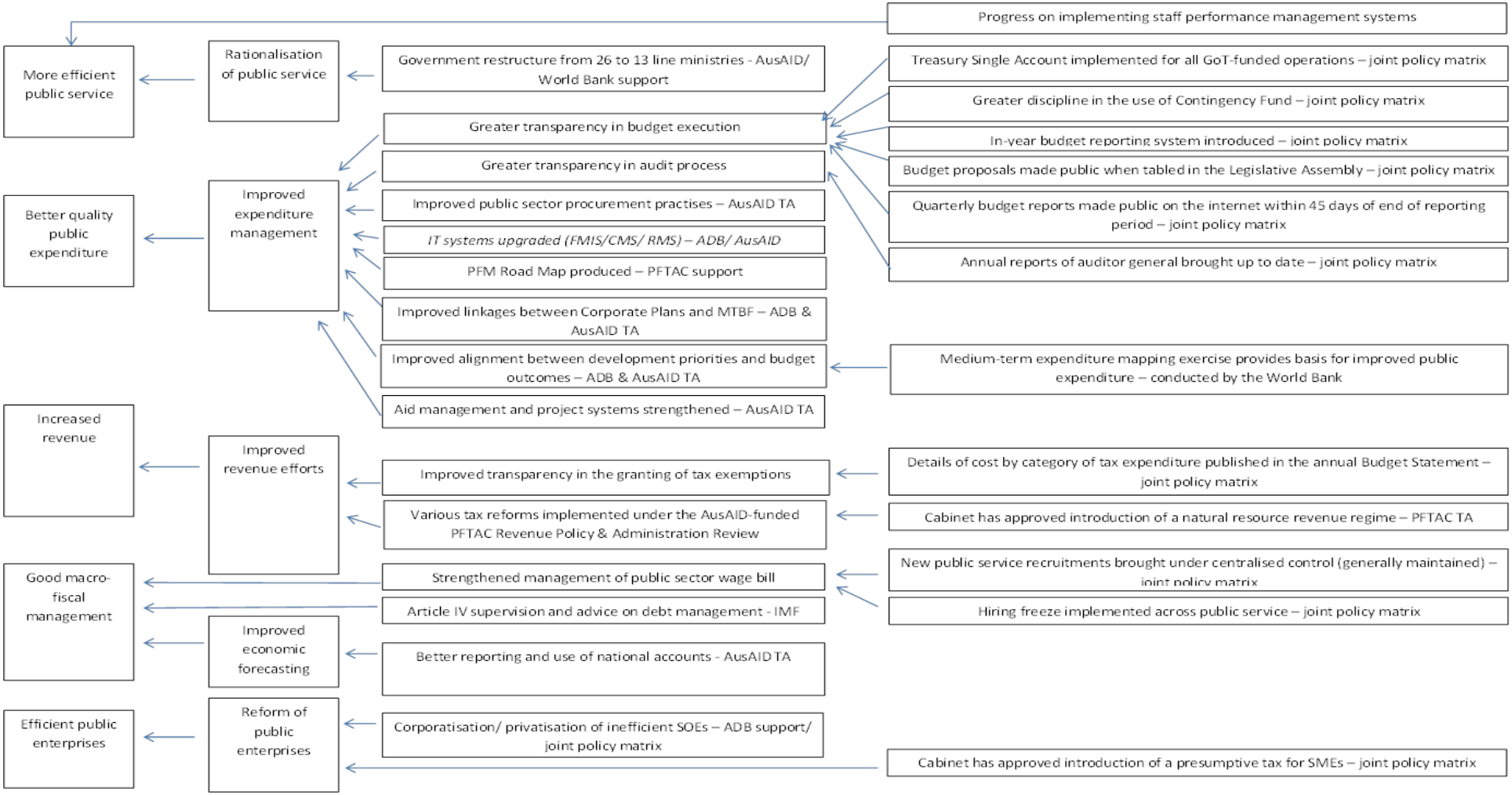
Government of Tonga (2012) Public Financial Management and MoFNP Strengthening Roadmap 2012-2017. Ministry of Finance and National Planning, Nuku'alofa, Tonga.

Government of Tonga (2012) Guide and Template for the Tonga Enhanced Corporate Planning and Budgeting: Components 1-6. Ministry of Finance and National Planning, Nuku'alofa, Tonga.

Government of Tonga (2012) Medium-term Reform Matrix 2011-2014. Ministry Of Finance and National Planning, Nuku'alofa, Tonga.

Government of Tonga (2011) Tonga Strategic Development Framework (TSDF) 2011 – 2014. Ministry Of Finance and National Planning, Nuku'alofa, Tonga.

Annex 8: Key PFM reforms currently supported by GoT and donors



Annex 9: Workshop agenda and participants

Tonga-Australia Partnership for Development
Economic and Public Sector Governance Delivery Strategy
Theory of Change
March 26 and 27, 2013 Nuku'alofa Tonga

Tuesday March 26, 2013		
9:00 – 09:45	Introductions The current situation – progress to date and the Policy Reform Matrix Reasons for Delivery Strategy – its purpose, use and relevance	AusAID
09:45 – 10:00	What we'll do today What we'll do tomorrow Expected outputs and steps to get there ➢ Step 1 – Root Cause Analysis ➢ Step 2 – Theories of change ➢ Step 3 – Identify entry points for ODA and Australian Aid ➢ Step 4 – Results Map (Program Logic) ➢ Step 5 – Delivery options ➢ Step 6 – Key Performance Indicators (measuring what has changed) ➢ Step 7 – Evaluation questions (measuring why change happened)	John Fargher
10:00 – 10:15	How we use key words – for consistent understanding ➢ Program theory (results mapping + theory) ➢ Outputs ➢ Outcomes ➢ End-of-strategy outcomes	John Fargher
10:15 – 11:00	Step 1 – Review root causes ➢ Introduction to root cause analysis (RCA), its uses and limitations ➢ Present draft root cause analysis ➢ Small groups work through RCA to identify gaps, make corrections, add new root causes, test relationships Small groups take working tea break at their convenience Small groups report their findings to whole group	Small groups
11:00 – 11:30	Step 2 – Theories of change ➢ Performance, not capacity [Lusthaus, Carden, IDRC] ➢ How organisations change [Armenakis] ➢ 5 characteristics of a healthy organisation [Morgan & Baser]	John Fargher
11:30 – 12:15	Step 3 – Identify entry points for ODA and Australian Aid ➢ Identify where current agreements, road map and policy reform matrix activities address root causes ➢ Use revised root cause analyses to mark up where ODA can add further value ➢ Identify where Australian Aid has a comparative advantage to make a contribution ➢ Identify where donor support is not appropriate – actions for Government of Tonga and other national partners. Small groups report their findings to whole group	Small groups
12:15 – 12:30	Preparation for what we'll do tomorrow – draft results map	John Fargher
	Thanks and see you tomorrow	AusAID

Wednesday March 27, 2013		
9:00 – 09:15	Welcome back Quick re-cap – what we did yesterday Quick re-cap – what we'll do today	John Fargher
09:15 – 10:15	Step 4 – Results mapping (Program Logic) ➢ Present draft results map and links to road map, policy reform matrix and corporate plans ➢ Small groups work through draft results map to revise goal, purpose and end-of-strategy statements and check intermediate outcome statements ➢ Small groups review output statements and add more to fill gaps ➢ Small groups identify gaps, make corrections, test assumptions and relationships Small groups report their findings to whole group	Small groups
10:15 – 10:30	Tea break	
10:30 – 11:30	Step 5 – Delivery options and risk management ➢ Round table discussion of options for delivering donor support ➢ Groups identify risks associated with weaknesses and threats ➢ Groups reach consensus on preferred delivery options for priority outputs ➢ Groups suggest approaches to managing risks associated with engagement in the sector Small groups report their findings to whole group	John Fargher
11:30 – 12:00	Step 6 – Key Performance Indicators (measuring what has changed) ➢ Brief introduction – what we mean by key performance indicators ➢ Group brain storm of information that would be useful to support implementation of Corporate Plans and mutual accountability	John Fargher
12:00 – 12:30	Step 7 – Evaluation questions (measuring why change happened) ➢ Brief introduction – what we mean by evaluation questions ➢ Group brain storm of key questions to ask to understand why economic and public sector governance change has happened ➢ Identify questions for mutual accountability	John Fargher
12:30 – 12:45	Thanks and next steps	AusAID

Attendees	Position	Section, Ministry/organisation
Ms. Balwyn Fa'otusia	Deputy Secretary	Aid & Project Management Division, MoFNP
Ms. Tufui Faletau	Deputy Secretary	Policy & Planning Division, MoFNP
Ms. Kilisitina Tuaimei'api	Principal Economist	Procurement Division, MoFNP
Mrs. Daphney Stone	CEO	Ministry of Revenue
Ms. 'Akanesi Taufa	Deputy Commissioner	Corporate Services, Ministry of Revenue
Ms. Teisa Pohiva	Legal Officer	Ministry of Revenue
Ms. Falemei Fale	Head of Training and Policy Division	Public Service Commission
Mr. Moleni Ika	Officer	Public Service Commission
Mr. 'Ata'ata Finau	Government Statistician	Statistics Department
Ms. Siosi'ana Fisiinaua	Deputy Statistician	Statistics Department
Ms. Lotomo'ua Tu'ungafasi	Acting Auditor General	Audit Office
Ms. Silia Feiloaki	Auditor	Audit Office
Mr. Scott McLennan	First Secretary	AusAID
Ms. Lilieta Takau	Senior Program Manager	Economic and Public Sector Program, AusAID
Mr. Salesi Fineanganofo	Program Manager	Economic and Public Sector Program, AusAID
Ms. Annick Lombard	Graduate	Economic and Public Sector Program, AusAID

Others consulted

Person consulted	Position	Section, Ministry/organisation
Ms. Natalia Latu	Principal Economist	Aid & Project Management Division, MoFNP
Mr. Peter Poulsen	Economics & Expenditure Adviser	MoFNP
Mr. Tobias Haque	Pacific Economist	World Bank, Suva
Mr. Lai Tora	Economist/ PFM Officer	ADB, Suva
Mr. Saia Faletau	Representative of the World Bank and ADB	World Bank/ ADB, Nuku'alofa

Annex 10: Summary of current and future spending initiatives/ agreements

Initiative	Name of Initiative	Initiative timeframe	Initiative value	Description of program/objectives	Status
ING000	Financial and Economic Management Program (FEMP)	Oct 2004 – Jun 2013	$4,829,717.00	The FEMP Initiative is a legacy program that commenced in 2004 and consists of two activities: Interim Program of Assistance to the Tonga Customs Service (HOD Customs, computerised management system/equipment and training) and top-up salary for the full-time Public Service Commissioner to drive the Public Sector HR Reform Program.	Active
INI190	Economic and Public Sector Management (EPSM)	Jul 2008 – Jun 2013	$4,245,590.01	The program outcomes include improved economic and public sector management and design of a new management arrangement for the economic and public sector. The program has been providing technical assistance for the GoT's priority economic and public sector reform activities through Accountable Cash Grant (ACG) agreements to the GoT and by directly sourcing specialised assistance.	Active
ING994	Tonga Pacific Technical Assistance Mission (PACTAM)	Jan 2006 – Nov 2014	$4,007,948.93	PACTAM provides human resources aligned to Australian Government and development partner priorities. The mechanism is used to fulfill short and long term needs of the GoT, bridging skills gap and building capacity.	Active
INK248	Tonga Performance Linked Aid (PLA)	Dec 2011 – Jun 2013	$10,000,000	The PLA initiative supports: (i) Strengthening public financial management - specifically strengthening the building blocks of the public financial management system, strengthening budget execution, increasing the	Active

				transparency of key budget processes and increasing the credibility of the budget; (ii) Strengthening fiscal policy – specifically strengthening revenue effort, improving the quality of expenditure, and improving the management of the civil service wage bill; and (iii) Promoting structural reforms relating to the business regulatory environment – specifically restructuring and privatising public enterprises and Cabinet approval of legislation to improve the ease of starting a business.	
INK375	Economic and Public Sector Reform II	Jan 2012 – Jun 2014	$2,100,000	The program builds on work undertaken through the EPSM (INI190) Initiative. Activities under this program support implementation of the GoT's economic and public sector reform program and include: (i) A donor harmonisation adviser; (ii) Implementation support for the policy matrix through the AusAID-World Bank PF3 facility; (iii) Support for improved revenue management; (iv) An assessment of national systems; and (v) Support for the GoT civil service restructure.	Active
INK890	Tonga Governance Strengthening Program	Jan 2013 – Jan 2017	$3,500,000	The program has the following components: (i) support to Parliament; (ii) support to civil society organisations; and (iii) support to the Tonga Electoral Commission. The program focuses on: strengthening Tonga's governance	Active

				institutions and developing an improved understanding in the community of the role of parliament; the functions of the electoral commission; and the role civil society organisations play in promoting good governance and supporting an improved understanding of governance concepts in the community.	
INK884	Economic and Public Sector Reform III Program	Jul 2014 – Jun 2017	$6,000,000	The EPSR III program aims to consolidate all activities under Priority Outcome One of the Partnership for Development. The program will provide technical assistance and support to the GoT with the objective of: (i) strengthening public financial management; and (ii) strengthening fiscal policy in line with the priorities identified in the Joint Policy Reform Matrix and PFM Roadmap.	Draft
INK891	Performance-Linked Aid (PLA)	Jul 2013 – Jun 2017	$20,000,000	The program aims to draw on the success of the existing performance-linked aid initiative and provide further support to the GoT's fiscal consolidation program.	Draft