

Independent Evaluation of DFAT's  
Economic and Public-Sector Reform  
Program (EPSG III)  
to the Kingdom of Tonga 2015/16 – 201  
7/18

Final Report  
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## Abbreviations

ADB	Asian Development Bank
AFP	Australian Federal Police
ANS	Assessment of National Systems
BS	Budget Support
BSMC	Budget Support Management Committee
CPU	Central Procurement Unit
DFAT	Department of Foreign Affairs and Trade
EPSG III	Economic and Public-Sector Reform Program III
EU	European Union
FY	Financial Year
GDP	Gross Domestic Product
GoT	Government of Tonga
ICR	Independent Completion Report (World Bank)
IFMIS	Integrated Financial Management System
IMF	International Monetary Fund
IPS	International Procurement Specialist
JPRM	Joint Policy Reform Matrix
MCCTIL	Ministry of Commerce, Consumer, Trade, Innovation and Labour
M&E	Monitoring and Evaluation
MEIDECC	Ministry of Meteorology, Energy, Information, Disaster Management, Climate Change and Communications
MoFNP	Ministry of Finance and National Planning
MOH	Ministry of Health
MORC	Ministry of Revenue and Customs
MPE	Ministry of Public Enterprises
NCD	Non-communicable disease
ODA	Official Development Assistance
NZ	New Zealand
PASAI	Pacific Association of Supreme Audit Institutions
PFM	Public Financial Management
PFTAC	Pacific Financial Technical Assistance Centre
PIC	Pacific Island Countries
PSDI	Private Sector Development Initiative
REER	Real Effective Exchange Rate
SOE	State Owner Enterprises
TA	Technical Assistance
TAO	The Audit Office
TOP	Tongan Pa'anga

## Recommendations

This evaluation finds that the Joint Policy Reform Matrix (JPRM) process is an effective vehicle to support economic and public-sector reform in Tonga. The JPRM reduces transaction costs of donor funding for the Government of Tonga (GoT); accelerates policy reforms; and supplements recurrent revenue. The JPRM dialogue opens opportunities for development partners to provide analytical support and provide input into the policymaking process. JPRM has underwritten important reforms in Tonga – the introduction of fiscal anchors is a critical reform in ensuring fiscal sustainability and a stable macro-economy. The introduction of a NCD Tax has increased revenue and early indications are that it is incentivising healthier eating patterns.

EPSG IV should work with GoT to implement the following recommendations:

- Clarify and communicate the objectives and impact of JPRM reforms to ensure that reform impacts are measured, understood and communicated to all stakeholders.
- Strengthen GoT internal coordination of the JPRM process by holding more frequent Budget Support Management Committee meetings.
- Strengthen engagement with stakeholders to ensure that politicians are engaged and supportive of JPRM reforms.
- Strengthen policy consultations to ensure that stakeholder views, particularly the private sector, are incorporated into reforms.
- Develop a JPRM monitoring tool to track the implementation of previous reforms and measure reform quality: Closer monitoring of previous reforms can assist GoT to better identify technical assistance needs; and give all stakeholders a clearer picture of the impact of reforms.
- Re-focus the business enabling environment reforms. Use the Private Sector Development Strategy as an organising framework for the business enabling environment reforms.

EPSG IV should work with development partners to implement the following recommendations:

- Follow-up with GoT more frequently in between missions. Allocate follow-up tasks to development partners with permanent staff in Tonga.
- GoT and development partners should work together to plan out and align evidence-gathering and disbursement schedules.
- Support GoT officials to increase political engagement: development partners can support increased engagement through the provision of analytical support; providing funding for a communications strategy; and where appropriate, engaging directly with politicians to relay development partner support for reforms.

EPSG IV should implement the following recommendations:

- Retain EPSG's three program objectives.
- Continue to use the current modality of budget support funding delivered through the JPRM combined with targeted funding for technical assistance.
- Continue to engage in policy dialogue by being an active participant in JPRM missions.
- Consistently supply specialist personnel from Canberra to engage in JPRM policy dialogue.
- Utilise specialist PFM resources from Canberra to assist in the targeting of TA funding.
- Develop an updated investment design document and M&E framework to use in the next phase of EPSG.
- Post should devote more time to increasing communication of Australian funding of budget support.
- Continue to work with GoT and development partners to ensure adequate integration of gender into the JPRM. This integration should focus on measuring gender impacts of JPRM reforms. DFAT should also ensure JPRM data is disaggregated by gender and that policy consultations are gender sensitive.

In planning the next phase of the program, EPSG III should consider the following prioritisation of the future need for technical assistance.

**Table 1 Recommendations for technical assistance**

Priority for Technical Assistance	Recommendation
<b>Public Financial Management</b>	
<b>Procurement:</b> Further work is required to improve the efficiency of procurement in Tonga. The greatest need is strengthening line ministry capability in areas such as preparing procurement proposals, specifications/ToR and contract management.	<ul style="list-style-type: none"> <li>▪ The Procurement Manager's contract has been extended from June 2018 to December 2018. Recommend after this time to continue this position for a minimum of 12 months until December 2019.</li> <li>▪ Balance between conducting Australian funded procurements versus systems strengthening to be determined after new government priorities established.</li> <li>▪ Systems strengthening work to include a focus on strengthening line ministry capability.</li> <li>▪ Review support to the Procurement Division to ensure it is appropriate considering additional procurement demands from reconstruction post cyclone Gita.</li> </ul>
<b>IFMIS:</b> Procuring and implementing a new Integrated Financial Management Systems (IFMIS) remains the number one priority in Tonga's PFM Reform Roadmap.	<ul style="list-style-type: none"> <li>▪ Include actions relating to IFMIS in future JPRMs.</li> <li>▪ Consider any requests for funding TA as they arise.</li> </ul>
<b>External scrutiny:</b> Still requires significant support. PASAI indicated that the current program could continue focusing on the new Parliamentary Audit Committee and Standard Operating Procedures. PASAI's outputs are concentrated in assessments and strategies. Development partners will need to support implementation.	<ul style="list-style-type: none"> <li>▪ Continue to fund PASAI. Focus on continuing work with Public Accounts Committee, training on Standard Operating Procedures.</li> <li>▪ Longer term options to assist in reviewing whole of government financial statements.</li> <li>▪ Include actions on external audit in future JPRMs (e.g. development of the Audit Office Strategic Plan<sup>1</sup>).</li> </ul>
<b>Internal audit function:</b> Identified in 2015 PEFA. Regular and adequate feedback to management is required on the performance of internal control systems through an internal audit function. The Internal Audit Division in MoFNP was established in 2010, and currently focuses on internal audit of MoFNP operations.	<ul style="list-style-type: none"> <li>▪ Internal Audit Division requested TA to review their operations and provide recommendations. This is a lower priority than funding IFMIS or procurement.</li> </ul>
<b>Private sector</b>	
<b>Business enabling environment</b>	<ul style="list-style-type: none"> <li>▪ PSDI is currently undergoing a review ahead of its next phase of operation. If funding for PSDI's work program in Tonga changes, Post may need to consider funding TA for the business enabling environment component from its bilateral resources.</li> <li>▪ Of the upcoming PSDI work program, the review of foreign investment policy and legislation should be the highest priority work for Post to fund if PSDI funding is not available.</li> </ul>
<b>Joint Policy Reform Matrix</b>	
<b>Supporting JPRM reforms</b>	<ul style="list-style-type: none"> <li>▪ Past practice has been that DFAT has some flexible funding available to support JPRM reforms. This practice is effective and should continue.</li> </ul>
<b>JPRM core funding</b>	<ul style="list-style-type: none"> <li>▪ This evaluation has made recommendations to strengthen GoT/development partner management of JPRM.</li> <li>▪ Many of the recommendations (e.g. developing a monitoring tool) will require funding.</li> </ul>

<sup>1</sup> Flows from the current work to assess the gap between the Audit Office practice for the conduct of financial statements, performance and compliance audits and the International Standards of Supreme Audit Institutions

## 1 Introduction

This Final Report is one component of the Australian Department of Foreign Affairs and Trade (DFAT)'s evaluation of the Economic and Public-Sector Reform Program III (EPSG III) to the Kingdom of Tonga 2015/16 to 2017/18. The terms of reference note: 'the objectives of this evaluation are to: determine the impact of EPSG III relative to the program objectives, understand any impacts EPSG III has had on streamlining engagement between donors and the Government of Tonga (GoT) and supporting broader DFAT policy objectives in Tonga, to provide lessons learnt and recommendations for the future of EPSG III.'

### 1.1 Methodology

A methodology document was submitted to DFAT as the first deliverable in the assignment.<sup>2</sup> The evaluation concentrated on the following components:

- Evaluation interviews with DFAT officials and EPSG III stakeholders.
- Review of EPSG III documents, public data sources and previous reports and evaluations.
- Development of case studies on the topics of Procurement, Non-communicable Diseases (NCD) Tax, and Macro-fiscal anchors.
- The use of available quantitative data to assess the impact of JPRM.
- Qualitative assessment based on information from evaluation interviews.

Attachment 1 contains the core evaluation questions used during interviews and lists the persons / organisations interviewed. Interviews were conducted during two evaluation missions to Tonga in November and December 2017, in person in Sydney and via telephone. The structure of this report is as agreed with DFAT. The terms of reference stipulated a 15–20-page report, this was amended to an approximately 10-page report by DFAT during the evaluation. The author of the report is independent consultant, Sam Porter.

#### 1.1.1 Limitations to the evaluation

Limited program, government and external data was available for the evaluation. For example, no data exists to measure changes in Public Financial Management (PFM) or procurement over the course of the program. EPSG III is not collecting program M&E data and no baseline indicators exist. Insufficient data limited the extent to which the evaluation could measure the impact of EPSG III. Recommendations on strengthening M&E are in section 4.3.

The evaluation faced the general limitation that establishing causality can be difficult in budget support programs.<sup>3</sup> Even where data on impacts is available, it is difficult to precisely know which changes were attributable to budget support funding. Refer to section 3.3 for further discussion.

## 2 What is EPSG III?

### 2.1.1 Economic and political context

Tonga has a GNI per capita of US\$4,060.<sup>4</sup> Tonga's geographical remoteness, dispersion over several islands and small population means it faces a high cost base for both private production and the delivery of public services.<sup>5</sup> Tonga has an open economy although has less trade activities than most Pacific Island Countries. Tonga relies on remittances (projected to be 29.4 per cent of GDP in 2017–

<sup>2</sup> Several of the methodology components were determined not to be feasible or did not yield information that was useful for the evaluation.

<sup>3</sup> See Terms of Reference.

<sup>4</sup> 2016, Atlas Method (current US\$). Data from [www.databank.worldbank.org](http://www.databank.worldbank.org)

<sup>5</sup> Sub-section draws on analysis from IMF (2018) '2017 Tonga Article IV Consultation – Staff report'.

2018) that finance household consumption. Tonga is a constitutional monarchy.<sup>6</sup> The King is the head of state and the prime minister is appointed by the King from the members of parliament after winning majority support in parliament.

From the mid-2000s, Tonga experienced a series of significant events. These includes riots in Nuku'alofa in 2006; the GFC in 2008–2009; and democratic reforms in 2009. The GFC reduced remittance payments from Tongans working overseas, export earnings and budget revenues. Within this context, GoT pursued a program of economic and public-sector reforms. These reforms were set out in successive versions of the Tonga Strategic Development Framework (2011–2014) and (2015–2025).

Prime Minister Pohiva's Democratic Party of the Friendly Islands won the most seats in the November 2017 elections. Prime Minister Pohiva retained his position as head of government and a new Cabinet was announced on January 17, 2018. Ministries relevant to EPSG – Ministry of Public Enterprises (MPE), Ministry of Meteorology, Energy, Information, Disaster (MEIDECC), Ministry of Revenue and Customs (MORC) and MCCTIL – each have had changes in ministers.

Cyclone Gita hit Tonga in February 2018. The economic impact of the cyclone is estimated to be almost 40 per cent of GDP.<sup>7</sup> Recovery from the cyclone will be a priority for GoT in the next several years. Tonga is an open economy and is interlinked with OECD countries as a source of remittances, tourists and aid. A recession in Australia, New Zealand or the US would negatively impact on Tongan economic growth. Remittance providers are under pressure from the loss of correspondent banking relationships – this has the potential to increase the costs of remittances and decrease incomes for households receiving remittances.<sup>8</sup>

### **2.1.2 Overview of EPSG III**

EPSG III (2015–2016 to 2017–2018) was designed to 'build on the outcomes of EPSG I (2009–2010 to 2011–2012) and EPSG II (2011–2012 to 2013–2014), through which Australia has actively supported Tonga's reform program to reduce debt, repair its budget, improve revenue collection and promote private sector development.'<sup>9</sup>

EPSG III consists of two components: budget support delivered through the JPRM and a package of technical assistance to support economic and governance reforms. The Investment Concept Note noted that budget support had been a successful modality in EPSG I and II in reducing transaction costs for DFAT and GoT; promoting policy dialogue; and leveraging the technical expertise of the World Bank and ADB. The Investment Concept Note noted that DFAT had a 'perceived comparative advantage in direct support to government service provision' through technical assistance. Attachment 5 gives further details on the structure and funding of EPSG III.

Over 70 per cent of EPSG III funding has been to component (1) budget support and so this evaluation concentrates on that component. Budget support funding is delivered through the JPRM which is a joint mechanism between five development partners and GoT (see section below). The success (or otherwise) of EPSG III's funding of budget support is a function of the success of the JPRM. Consequently, this evaluation focuses on the JPRM as-a-whole. Where possible, the evaluation examines DFAT's individual contribution to the JPRM (see section 4).

<sup>6</sup> The terms of reference did not call for a separate political economy assessment to be undertaken. This evaluation has relied on Barbara J. & McLennan S (2016) Assessment supplemented by information sourced from evaluation interviews regarding the Tongan political and institutional context.

<sup>7</sup> Early estimate relayed to consultant by DFAT officials.

<sup>8</sup> All from IMF (2018).

<sup>9</sup> DFAT (2015b) 'Investment Concept Note – EPSG III', DFAT internal document.



Section 3.4 evaluates the outputs of component (2) technical assistance. Technical assistance is funded by DFAT bilaterally and separate to the JPRM. In some instances, TA supports reforms that are included in the JPRM matrix.

### 2.1.3 How does the JPRM work?

A matrix of policy reforms and results indicators is agreed between GoT and participating development partners.<sup>10 11</sup> The JPRM matrix is aligned to Tonga's Strategic Development Framework 2015–2025. The JPRM matrix is included as Attachment 2. The matrix uses a three-year timeframe and results indicators are set on a rolling basis.

Funding is agreed between individual development partners and GoT before the commencement of the financial year. Combined development partner funding for both 2017–2018 will be approximately AU\$21.89 million. DFAT will contribute AU\$4 million (18 per cent); MFAT NZ\$2 million (9 per cent); EU €2 million (14 per cent) and ADB and World Bank US\$5 million (30 per cent) each.

Funding is disbursed if development partners are satisfied that results indicators are met. JPRM is managed iteratively. Results indicators are set at the start of the financial year and then adjusted if necessary. Development partners either use the entire matrix as the basis of disbursement or agree on a sub-set of results indicators separately with GoT. Each development partner has their own separate internal approval procedure for disbursement – DFAT's procedures are discussed in 4.3.

GoT and development partners jointly organise three to four missions per year. Missions are used to collect evidence on results indicators, discuss TA and enable policy dialogue between GoT and development partners. Aid Management Division of the Ministry of Finance and National Planning (MoFNP) coordinate GoT ministries to participate in the JPRM. The World Bank coordinates JPRM development partners and acts as focal point to GoT. Representatives from each development partner usually attend missions with DFAT and MFAT providing officials from both Post and headquarters.

## 3 What is the value of EPSG III to Tonga?

### 3.1 What are the direct outputs of JPRM for the Government of Tonga?

The evaluation found that the JPRM:

- **Finances 6.82 per cent<sup>12</sup> of GoT's recurrent expenditure<sup>13</sup>:** Total recurrent expenditure for 2017–2018 is planned at TOP\$344.5 million and budget support under JPRM is planned to be TOP\$23.5 million. JPRM funding enables more recurrent expenditure than would otherwise be possible.
- **Supports the objectives of the Tonga National Strategic Development Framework 2015–2025<sup>14</sup>:** GoT officials noted that the selection of reform actions was driven by GoT officials and not development partners.
- **Reduces the transaction costs of receiving aid<sup>15</sup> by efficiently coordinating development partners and harmonising their approach to policy reforms<sup>16</sup>:** CEO MoFNP noted that having development partners

'JBSC (Budget Support) is a great tool that has developed into a platform of coordination now led by Government.'

*GoT officials' comments recorded in World Bank (2017).*

<sup>10</sup> Participating development partners are DFAT, MFAT, EU, World Bank and ADB.

<sup>11</sup> EU also funds a separate budget support program in the water sector. This program is separate from JPRM.

<sup>12</sup> Consultant's calculations based on GoT (2017) and information received from development partners.

<sup>13</sup> Evaluation interview with MoFNP Budget Division.

<sup>14</sup> Evaluation interviews with MoFNP CEO; MoFNP Aid Management Division.

<sup>15</sup> Evaluation interview with MoFNP CEO; D-CEO Aid Management; World Bank (2017), p15.

<sup>16</sup> Evaluation interviews; World Bank (2017) ICR.



'around one table with one agenda' was more efficient for GoT compared to the counter-factual of each development partner negotiating separate programs and reform matrices.

- **Successfully uses the World Bank as the coordinator and focal point for development partners:** GoT officials appreciate having the World Bank as one 'contact point' within development partners to coordinate JPRM interactions; and, the skilled staff members that the World Bank have contributed to the JPRM in recent years.<sup>17</sup>
- **Promotes policy dialogue with development partners.** The JPRM dialogue opens opportunities for development partners to provide analytical support and provide input into the policymaking process. Analytical support is provided via technical assistance funded by development partners.
- **Impact on predictability of aid disbursement was not clear.** The 2017–2018 Tonga Annual Budget Statement noted that 'unpredictability of aid flows and budget support remain as major budgetary concern that government continues to grapple with'.<sup>18</sup> Budget support payments are not always disbursed within the planned financial year (see section 3.3 for further discussion). Data was not available to compare the predictability of disbursements under budget support versus other aid modalities.

## 3.2 How does the JPRM support reforms in Tonga?

### 3.2.1 How does the JPRM support reforms?

- **Accelerating reforms**<sup>19</sup>: This acceleration is due to both the provision of technical assistance to enact reforms; and to the forward inertia created by the JPRM annual cycle.
- **Supporting government-owned reforms:** MoFNP asks line ministries to nominate reforms that are important to their objectives.<sup>20</sup> These reforms then form the basis of the JPRM matrix.
- **Supporting contentious reforms:** Reforms to procurement and fiscal management were cited as contentious and would not have been completed without the JPRM.<sup>21</sup> Note, however that **some GoT officials also expressed a contrary view that some budget support actions would have happened regardless of the JPRM.**<sup>22</sup>
- **Supporting reformists:** The JPRM process can leverage the work of those committed to individual reforms (may be individual ministers, ministry CEOs or other bureaucrats).
- **Providing technical assistance:** to supplement the technical capacity of line ministries. Technical assistance can also improve the quality of reforms and accelerate their achievement. For example, in the NCD tax case study, the TA funded by DFAT in MoH was essential for providing accurate analysis to MORC to assist in setting the levels of excise tax.
- **Keeping ministries engaged through the annual cycle of indicators.**
- **Elevating the profile of reforms beyond the status of an individual ministry.**<sup>23</sup>

#### Case study: Fiscal anchor

JPRM leveraged the work of reformists within MoFNP to drive the adoption of a medium-term fiscal framework and fiscal anchor system. MoFNP noted the JPRM was an effective tool to support reform.

Long-term TA from ADB had contributed to strong capacity in MoFNP Budget Division. On-demand TA from World Bank was important to support MoFNP develop the fiscal framework and models.

*(See Attachment 4 for full case studies)*

<sup>17</sup> Evaluation interviews with MoFNP CEO; MoFNP Aid Management Division.

<sup>18</sup> GoT (2017) 'Tonga Budget Statement 2017-18', p66.

<sup>19</sup> Evaluation interviews with MoFNP CEO, MoFNP Aid Management Division, MoFNP Budget Division, MORC, PSC,

<sup>20</sup> MoFNP officials were satisfied that reforms were government-owned. An iterative process does exist between GoT and development partners regarding potential future reforms to include in the matrix.

<sup>21</sup> Evaluation interview with ADB/World Bank coordinator in Tonga.

<sup>22</sup> View expressed to consultant by officials in MORC, MEIDECC and MCTLL.

<sup>23</sup> Evaluation interview with DFAT Health Team, Tonga Post.

### 3.2.2 Are JPRM reforms of high quality?

Development partners and GoT officials cited concerns that reforms are assessed as 'completed' to meet JPRM trigger requirements and then not operationalised. Stakeholders raised examples of where reforms are 'rushed' and legislation / policies are not fit for purpose and so difficult to implement.<sup>24</sup> In some cases, insufficient attention is paid to implementation and ministries may not have the funding or technical skills to implement reforms.

**Consultations for reforms could also be strengthened:** The Tongan Chamber of Commerce and Industry's (TCCI) view is that policy consultations with the private sector are cursory (ticking the box) and infrequent. This view was supported by development partners. Ministries, however, feel that their consultation with stakeholders is adequate. Some ministries appeared to be 'rushing' consultations with stakeholders to comply with deadlines to meet JPRM results indicators. However often this rush is because of delays in progressing reforms due to either inaction by ministries or actions by stakeholders to impede reforms (see 3.2.3 below).

### 3.2.3 What are the influences on policy reform in Tonga?

JPRM reforms in Tonga are subject to many influences:

- **CEOs of key ministries, notably MoFNP:** The personality, interest and skill of the CEO can drive successful reforms.
- **Active ministers:** Previous MoFNP ministers have driven reforms and assisted to draw line ministries into the JPRM process. The previous minister for MEIDECC was cited as another example of an individual minister driving reform (Energy Bill).<sup>25</sup>
- **Deputy CEOs and a small group of talented, committed bureaucrats in each ministry:** This group may change over time however the defining feature is that it consists of a small number of individuals. Previous evaluations noted that weak capacity meant that only a limited number of reforms should be pursued at any one time.<sup>26</sup>
- **Political actors can either drive or block reforms:** There is a risk to the reform process when the senior bureaucracy is not well aligned with politicians, either cabinet or parliament.<sup>27</sup> Conversely, strong political support for reforms can increase their chance of success.
- **Vested interests opposing individual reforms:** World Bank (2017) noted that 'there were also challenges posed by those who stood to lose from reforms and related vested interests, particularly as it pertains to the reforms linked to procurement, receivership and privatisation of the TCC'.

#### Case study: Procurement reform

The outputs of DFAT-funded advisers are just one part of the overall procurement system that is impacted by the political economy within line ministries, between ministries and at the political level. There is substantial opposition to procurement system reform from vested interests opposed to change. DFAT advisers have supported reformists within MoFNP who are committed to improving the procurement system.

## 3.3 Issues relating to the management of JPRM

The following issues were raised during the evaluation relating to the management of JPRM.

- **Objectives of reforms:** GoT and development partners have a good understanding of the objectives of individual reforms. However, understanding of the objectives of the package of

<sup>24</sup> Evaluation interview with PSDI.

<sup>25</sup> Evaluation interview with MEIDECC CEO.

<sup>26</sup> World Bank (2017).

<sup>27</sup> This was evident during the December 2017 JPRM mission discussions where senior bureaucrats did not appear to have up-to-date information regarding processes for submitting policies/legislation to Cabinet and Parliament.

JPRM reforms from both GoT and development partners is limited. This limited understanding is due in part to the difficulty in measuring the impact of reforms.

- **Measuring impact and monitoring reforms:** MoFNP Aid Management Division expressed interest in a comprehensive economic impact study of the JPRM.<sup>28</sup> This study<sup>29</sup> could be completed in time for the start of the next three-year cycle. The study could also be used to strengthen engagement with political actors (see earlier point). MoFNP and development partners should also work together to track the implementation of previous reforms.
- **Adjustment of results indicators:** Adjusting results indicators can dilute the incentives for GoT to reform. However, adjustment is also often necessary given the political economy realities of reform implementation. It should be noted the negotiation of results indicators requires the commitment of skilled resources from development partners and especially from the World Bank.
- **Setting of results indicators and disbursement cycles:** The JPRM matrix and donor disbursement are based on an annual cycle. New reforms need to be completed each year. For all development partners to disburse within the financial year, GoT actions need to be completed by January–March. This leaves the GoT only 6–9 months to complete reforms.
- Development partners are currently discussing<sup>30</sup> the possibility of experimenting with multi-year results indicators and disbursement cycles. A multi-year cycle could better incentivise reform implementation and set a more realistic timeframe for finding ‘new reforms’. However, there would also be implications for all development partners for the regularity of missions. Whatever the result of these discussions, GoT and development partners should work together to plan out and align evidence-gathering and disbursement schedules.
- **GoT internal coordination:** Stronger internal GoT coordination would make JPRM missions more effective by providing more information beforehand. Aid Management Division have plans to introduce more regular meetings of JPRM ministries to improve coordination.
- **Political engagement:** Most JPRM reforms require either Cabinet or Parliamentary approval of new legislation, policies, regulations and strategies. MoFNP needs to ensure that it is sufficiently engaged with politicians. Development partners can support MoFNP when needed by either meeting with politicians as a JPRM cohort or through their bilateral discussions with government.
- **Development partner coordination:** development partners could follow-up with GoT more frequently in between missions. Follow up tasks could be allocated to development partners who have permanent staff based in Tonga. This is already

#### Case study: Fiscal anchors

MoFNP successfully engaged politicians to support this reform by providing analysis to inform politicians decisions. This analysis was supported by on-demand TA from the World Bank. MoFNP also implemented an outreach strategy.

#### Case study: NCD tax

The NCD tax was implemented by MORC supported by MoH. This NCD tax was successfully implemented. The reform did not result in an improved relationship between MoH and MORC / MoFNP.

<sup>28</sup> There is no scheduled review period for JPRM. Development partners schedule separate reviews/evaluations of their programs (such as this evaluation)<sup>28</sup>. These reviews act as de-facto evaluations of the JPRM as DP programs are linked to the JPRM.

<sup>29</sup> This study would face the same limitations relating to data faced by this evaluation.

<sup>30</sup> Discussions being held at the regional level.

occurring to some extent however could be systematised and tasks divided more clearly between development partners.

### 3.3.1 Scope of future JPRM reforms

**Business enabling environment reforms** could be more strongly focused on the critical constraints to economic growth in Tonga. The World Bank's Pacific Possible report can provide an analytical basis for prioritising reforms. **MCCTIL has both a new minister and a relatively new CEO.** The PSDI program is currently being reviewed by the ADB and its work program in Tonga could change following the review. **Development partners should engage closely with the new MCCTIL leadership to understand their priorities for reforms that strengthen the business enabling environment.**

## 3.4 What have been the outputs of the TA funded by DFAT?

This section discusses the outputs of the second component of EPSG III: technical assistance. Technical assistance was targeted at reforms linked to Tonga's Public Financial Management (PFM) Reform Roadmap.<sup>31</sup> Some actions from the roadmap were also included as results indicators in the JPRM matrix. DFAT-funded AUD\$2.5 million in technical assistance during the period 2015–2016 to 2017–2018.<sup>32</sup>

**Table 2 Evaluation of outputs of TA-funded by DFAT**

Reforms supported	Outputs	Evaluation	Status
External Scrutiny	Assessment against Supreme Audit Institutions Performance Measurement Framework completed	Auditor General noted the assessment is being used to develop the Audit Office	Pacific Association of Supreme Audit Institution (PASAI)'s outputs are concentrated in assessments and strategies. Development partners will need to support implementation. External scrutiny in the government still requires significant support. For example, GoT has not yet completed a single performance audit, as they do not possess staff members with the technical skills.
	The Audit Office Communications Strategy completed	Support needed to implement the strategy.	
	Draft Process Manual for scrutiny of public accounts completed	Draft is too complicated and needs further work	
Integrated Financial Management System (IFMIS)	No outputs	Due to delays from GoT in proceeding with a decision on which IFMIS system to use.	Reforms to IFMIS, AIMS and the Chart of Accounts were all delayed due to slow government decision-making. In the case of IFMIS, a combination of key technical staff being absent; the rotation in MoFNP ministers distracting senior management to other priorities; and the absence of clear decision-making on the issue within MoFNP.
Aid Management System	No outputs	The decision on the Aid Management System is contingent on a decision regarding iFMIS being made.	
Chart of Accounts	Staged action plan completed for MoFNP to redevelop the chart of accounts.	Limited progress under this TA due to delays in GoT decision-making.	
PSDI <sup>33</sup>	Electronic business registry Reform to business licenses	Outputs were successfully implemented.	Refer to section 3.5 for a discussion on the impacts of PSDI's outputs.

<sup>31</sup> DFAT also funded technical assistance to the Tonga Electoral Commission. This TA was not included in the scope of the evaluation. Further details regarding this TA are included in Table 3 in Attachment 5.

<sup>32</sup> This funding figure includes assistance to the Tonga Electoral Commission – see Attachment 5 for more details.

<sup>33</sup> Private Sector Development Initiative (PSDI) PSDI is an ADB program co-financed by the Governments of Australia and New Zealand. PSDI helps Pacific countries improve the enabling environment for business and support inclusive, private sector-led economic growth. For more details see: <http://www.adbpsdi.org/p/what-is-psdi.html>

Reforms supported	Outputs	Evaluation	Status
	Secured transactions legal framework and registry. All three outputs completed.	PSDI's work both informs JPRM and provides TA to assist in reform implementation. Impact is discussed in section 3.5.	

### 3.5 What impacts has the EPSG III program had?

This section examines available evidence regarding the impact of EPSG III. Data available to assess the impact was limited. Even where data is available it is difficult to attribute changes in either the performance of GoT or the impact on Tongan citizens and businesses to EPSG III.

#### 3.5.1 Has the performance of the Tongan government improved because of EPSG III (JPRM or technical assistance)?

- The World Governance Indicators<sup>34</sup> show no change for Tonga during the period of the evaluation.
- Qualitative evidence indicated a deterioration in inter-ministerial cooperation and coordination on policy reform and implementation during the past three years.
- Both GoT and development partners have confirmed that the quality of policy dialogue through the JPRM process continues to improve. The JPRM process was cited as an important tool to strengthen inter-ministerial cooperation.
- International Monetary Fund (IMF) Article IV reports<sup>35</sup> in 2015, 2016 and 2017 all report that the government has made either 'good progress' or 'generally good progress' on key policy advice outlined in the previous year's Article IV consultation. The IMF has lengthened Tonga's surveillance cycle from 12 months to 24 months due to this good progress.
- No quantitative data was available to assess progress on reforms in PFM or procurement. It is likely that continued implementation of the PFM reform map has contributed to improved public sector governance and more effective public expenditure.
- World Bank Doing Business indicators show no change during the period of the evaluation.
- Some stakeholders interviewed thought the business enabling environment had deteriorated due to the actions of government.<sup>36</sup>
- A draft PSDI evaluation report noted that PSDI work in supporting an electronic company registry, new business licensing and secured transactions had modernised Tonga's business regulatory framework, making processes smoother and faster. **However, these outputs did not achieve the intended outcome of increased private sector activity; and there is no clear measure of the impact of these outputs on economic activities.**<sup>37</sup>

#### Case study: Fiscal anchor

- The Government wage bill is estimated to stabilise at approximately TOP\$148 million between 2017–2018 and 2019–2020.
- The fiscal anchors were published in the 2017–2018 Budget Statement for the first time.
- The 2017–2018 Budget Statement estimates that each fiscal anchor will be achieved in 2018–19 and 2019–2020.

<sup>34</sup> World Bank (2018).

<sup>35</sup> A core responsibility of the IMF is to oversee the international monetary system and monitor the economic and financial policies of its 189-member countries, an activity known as surveillance. Article IV of the IMF's Charter outlines its surveillance responsibilities. The IMF conducts surveillance missions, known as *Article IV Consultations* periodically in each of its member countries. More information can be found on the IMF website: <http://www.imf.org/en/About/Factsheets/IMF-Surveillance>.

<sup>36</sup> An example cited by the private sector was MCTLL employing price controls on the retail price of stationary.

<sup>37</sup> ADB (2018), p98.



### 3.5.2 What has been the impact on Tongan citizens and businesses?

- **Economic growth** in 2016–2017 has been above Tonga's medium-term average and GDP per capita is growing in real terms. Tonga's exchange rate is in-line with fundamentals and there has been no loss of competitiveness. Credit to the private sector is growing, although is still not back at pre-GFC levels.<sup>38</sup>
- **Risks to the economy:** IMF's Debt Sustainability Analysis upgraded the risk of debt distress from moderate to high risk.<sup>39</sup> Government foreign currency reserves remain adequate at 5.9 months of import cover.<sup>40</sup> The Tongan economy is still relatively undiversified with remittances growing in importance from 23.9 per cent of GDP in 2012–2013 to a projected 29.7 per cent in 2018–2019.<sup>41</sup> The impact of Cyclone Gita is still being assessed and will provide an indication of the adequacy of government plans for climate proofing infrastructure and disaster response recovery.
- **Increased business confidence**<sup>42</sup>: IMF estimates indicate an increase in productive sector activities. Tourism is estimated to have grown from 11.3 per cent (of GDP) in FY15 to 15 per cent in FY18. Exports are estimated to have grown from \$19.4 million (4.46 per cent of GDP) in FY15 to \$26.4 million in FY18 (6.24 per cent of GDP).
- **Increased private sector investment**: Estimates from the IMF indicate that FDI (as percentage of GDP) has increased from 2.4 per cent in FY15 to 2.8 per cent in FY18. The IMF do not publish estimates for private investment (only FDI) and the latest available National Accounts data is for the year 2015–2016.
- **Improved competitiveness of the economy**: World Bank Doing Business shows a minor decline in Tonga's Distance to Frontier score during the life of EPSG III, from 63.98 to 63.43. This size of decline is negligible and is not meaningful for the evaluation. Tonga is maintaining its competitiveness<sup>43</sup> as measured by its real effective exchange rate (REER<sup>44</sup>). The REER was 101.7 in FY15 and 101.8 in FY17.<sup>45</sup>

#### Case study: NCD tax

A preliminary assessment of the impact of the NCD tax showed that tax increases did induce healthier eating patterns. Both mutton flaps and turkey tails appear to be substitutable goods.

Tongan smokers are also sensitive to price: 20 per cent of smokers switched to tobacco products that are not subject to tax.

It should be reiterated that the evaluation was not able to establish causality between outputs of EPSG III and impacts on GoT performance or on Tongan citizens and businesses.

<sup>38</sup> IMF (2018)

<sup>39</sup> The reason for the increase was the IMF using a new methodology to take into account the future impact of natural disasters on Tonga's economy and public finances

<sup>40</sup> IMF (2018) estimate for 2017-18

<sup>41</sup> IMF (2018)

<sup>42</sup> World Bank Enterprise Surveys can provide data on business confidence. The latest available Enterprise Survey for Tonga was in 2009

<sup>43</sup> IMF (2018)

<sup>44</sup> The REER is a weighted average of a country's currency relative to an index or basket of other major currencies, adjusted for inflation. The REER is a measurement of an economy's competitiveness at the macro level.

<sup>45</sup> FY17 is the latest year available, IMF do not publish future year estimates of REER

## 4 What is the value of EPSG III to DFAT?

### 4.1 DFAT policy framework

EPSG III is informed by the DFAT policy framework, including the Foreign Policy White Paper, Australian Aid Development Policy, draft Pacific Development Framework and the Aid Investment Plan.

The White Paper details the 'Stepping-up' agenda, intensifying Australia's engagement with the Pacific. The stepped-up engagement will be delivered through three pillars: promoting economic cooperation and integration (including labour mobility); tackling security challenges; and strengthening people-to-people links, skills and leadership. EPSG III draws its policy backing from the first pillar. **The White Paper does not imply additional development funding for the Pacific over the amounts already provided. This evaluation assumes therefore that the next phase of the EPSG Program will be delivered using a similar level of funding.** The White Paper does however imply that the Australian Government will seek to leverage different parts of its official development assistance (ODA) and bilateral relationship to produce stronger outcomes.<sup>46</sup>

'To pursue common interests and respond to the region's fundamental challenges, Australia will engage with the Pacific with greater intensity and ambition, deliver more integrated and innovative policy and make further, substantial long-term investments in the region's development.'

*Foreign Policy White Paper, p101.*

JPRM also meets the requirements of the Development Policy. JPRM meets the investment priorities of effective governance, infrastructure and building resilience. JPRM reforms aim to improve both private sector development and human development in Tonga, the two development outcomes sought by the Development Policy.

The draft Pacific Development Framework provides the link between the Development Policy and the Aid Investment Plan. As the document is still in draft form, the evaluation was not able to assess how it would inform future DFAT engagement in the JPRM.

**'Governance, economic and private sector development reforms.** Our key investment in this area will be the Tonga Economic Reform Program, which will support a medium-term program of reforms to strengthen revenue, effectively manage government expenditure, reduce debt and promote private sector growth. Australia and other donors will link aid payments to agreed reform benchmarks, and will provide technical assistance to support implementation.'

*Australia Aid Investment Plan Tonga, p3.*

DFAT's Aid Investment Plan for Tonga contains three strategic priorities: Governance, economic and private sector development reform; a more effective, efficient and equitable health system; and skills development in support of economic opportunities for Tongan workers. EPSG III supports the first objective of the AIP.

### 4.2 What is the value of EPSG III to DFAT?

Budget support delivered through the JPRM is supporting a reform agenda in Tonga. Budget support is an efficient mechanism for DFAT to engage in policy dialogue with GoT. Transaction costs for the modality are low.<sup>47</sup> DFAT leverages its funding of AUD\$4 million with the combined

#### Case study: Procurement

EPSG III's investment in procurement reform is leveraged by Australia's bilateral program in Tonga. The AFP reported that their procurements through GoT systems had significantly improved due to the work of the DFAT-funded Procurement Manager.

<sup>46</sup> Evaluation consultation with DFAT Pacific Division.

<sup>47</sup> Data was not available to make a comparison of EPSG III's modality vis-à-vis alternatives. DFAT officials interviewed mostly considered EPSG III to be a low transaction cost modality. Transactions costs are low because DFAT leverages the technical expertise and coordination role of the World Bank; and because JPRM provides a ready-made platform for policy dialogue with GoT.



development partner funding of AUD\$21.89 million. DFAT also leverages the technical expertise and convening power of the World Bank.

Budget support funding is complemented by the funding of technical assistance. The TA accelerates JPRM reforms and improves their quality. Technical assistance provided in procurement has strengthened procurement outcomes in other Australian-funded programs that use GoT systems.

### 4.3 The future of the EPSG program

**Objectives:** The evaluation found that EPSG's three program objectives remain relevant in the Tonga economic and political context and should be retained.

**Modalities:** The terms of reference asked the evaluation to consider alternative modalities for the next phase of EPSG. Four alternative modalities were considered likely to be used and these have been analysed in Attachment 5. **DFAT should continue to use the current modality of budget support funding delivered through the JPRM combined with targeted funding for technical assistance.**

DFAT could provide the same total funding and review the split between budget support and technical assistance. DFAT could fund more TA and less budget support – although this would not be GoT's preferred option. Increasing funding for TA relies on having robust strategic program management, as discussed in the section below. Increasing funding for TA could provide support for JPRM reforms; however, it would also mean more funding is directed towards administrative costs associated with adviser recruitment with less directed towards budget support. This issue should be explored further during the design phase for EPSG IV.

**Program management and staffing:** DFAT should implement the following recommendations to strengthen program management:

1. Continue to engage in policy dialogue by attending and being an active participant in JPRM missions. Engagement in policy dialogue comes through participation and not necessarily through the quantum of funding given by a development partner.
2. Consistently supply specialist resources from Canberra (economists / PFM) to engage in JPRM policy dialogue. Since 2016, the Development Economics Unit has been able to support the JPRM process when resource persons are available. Specialist resources are important to increase the effectiveness of DFAT's engagement.
3. DFAT should supply specialist PFM resources from Canberra to assist in the targeting of technical assistance funding. Targeting of TA should take place after the PFM priorities of the government elected in November 2017 have been made clearer at the Tonga PFM symposium.<sup>48</sup> Targeting should be guided by future updates of the Assessment of National Systems (ANS) and PEFA Assessment.<sup>49</sup>
4. Develop an updated investment design document and M&E framework to use in the next phase of EPSG. Absence of a M&E framework makes monitoring and evaluating EPSG III difficult. EPSG III does not generate data that can be used to evaluate impact. The lack of data also makes it difficult to 'tell the story' of EPSG to stakeholders. The updated investment design document can provide clear indicators to measure progress in program implementation.

**Risk:** A risk assessment tool was completed as part of the EPSG III design. During the design phase of the next phase of support, a refresh of the risk assessment should be undertaken. The relevant risk

<sup>48</sup> The PFM Symposium was originally scheduled for February 2018 however has been delayed. A new date has not been set – the symposium is likely to be delayed due to the recovery from Cyclone Gita.

<sup>49</sup> PEFA is a tool for assessing the status of public financial management. A PEFA assessment provides a thorough, consistent and evidence-based analysis of PFM performance at a specific point in time. See [www.pefa.org](http://www.pefa.org) for more details.

owners/delegates will need to weigh those risks against the likely benefits when deciding whether to fund the future program.

DFAT faces a form of key personnel risk relating to World Bank staffing. The World Bank's coordinating role relies upon the continued assignment of high-capacity staff members. This risk was not identified in the previous risk assessment and should be captured during the refresh.

**ADB and World Bank funding scale-up:** The ADB and World Bank will both increase their funding to Tonga in the next five years. This scale-up represents an opportunity for Tonga to access grants and concessional loans to finance development needs, particularly around climate resilience and infrastructure. Where ADB/World Bank funding supports reforms that are included in JPRM, this is an opportunity to accelerate the reforms through technical assistance. However, there is also a risk that the priorities of projects will not be aligned with the priorities of JPRM.

**Political governance support:** DFAT already provides political governance support. This support funds PASAI to work with the Public Accounts Committee of the National Parliament. DFAT should continue to provide support to the Public Accounts Committee. DFAT should explore if there are one to two other reform areas where DFAT can engage key stakeholders in the reform process.

**Communication: DFAT officials expressed a view that Australian funding of budget support lacks visibility and therefore does not adequately support DFAT's wider policy goals in Tonga:** Only a small number of MoFNP bureaucrats are likely aware of the funding given by each development partner to budget support. The World Bank as coordinating development partner is seen within the bureaucracy as the 'face of EPSG III'. Post should devote more time to increasing communication of Australian funding of budget support. **Stronger communication could allow the World Bank to continue in its coordinating role whilst also increasing the visibility of Australian funding.**

**Gender and climate change: DFAT should continue to work with GoT and development partners to ensure adequate integration of gender into the JPRM:** This integration should focus on measuring gender impacts of JPRM reforms. For example, the Employment Relations Bill will have a potentially positive impact on women by providing increased workplace protections. EPSG should focus on highlighting the impact of JPRM reforms on women. Impact can be assessed through a more consistent collection of gender disaggregated data – development partners should support GoT to do this. DFAT should also that policy consultations are gender sensitive.

The JPRM could include a specific climate change action area with triggers covering: integration of climate risks; resilience building across all sectors; actions to assist MoFNP build capacity to access global climate finance. Climate and disaster resilience could also be included across all areas of the JPRM.<sup>50</sup> Inclusion of climate-focused reforms would still need to clearly identify how the JPRM would add value to the reforms.

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<sup>50</sup> DFAT (2016).

## Attachment 1 Evaluation interviews

Evaluation interviews used the following three core questions regarding the JPRM.

- How have you found engaging with the JPRM process? What were your expectations? What has been good and what would you like to see changed?
- If the JPRM hadn't occurred, what do you think would have happened? Would the things that have occurred still be in place now? How would this have happened? (counterfactual question, what is the value of the JPRM? Has having in place made any difference?)
- Looking forward to future years of the JPRM, what would you like to see it focus on and/or come out of it? (essentially what should be changed about the JPRM? Particularly thinking about policies and reforms, if possible draw out answers around funding requirements and TA)

Additional questions were used specific to each interview depending on the stakeholder's involvement in EPSG III.

The table below lists persons / organisations interviewed for this evaluation.

Date	Organisation	Persons
<b>Pre-Mission Evaluation Interviews</b>		
24/11/17	DFAT	Rhona McPhee, Ana Baker, Jeannette Tuionetoa, Matthew Fehre, Victoria Dimond
28/11/17	DFAT	Rhona McPhee, Jonathan Gouy, Victoria Dimond
29/11/17	World Bank	David Knight, Kim Edwards, Virginia Horscroft
6/12/17	DFAT	Rhona McPhee, Ana Baker, Jeannette Tuionetoa, Victoria Dimond
6/12/17	MFAT	Alex Shahryar-Davies
6/12/17	DFAT	Anthony Samson
7/12/17	DFAT	Scott McLennan, Sophie Temby
7/12/17	DFAT	Simon Flores, Mark Rounds, Richard Bontjer
<b>Mission to Tonga: 11–15 December 2017 12/12/17 Evaluation Meetings</b>		
12/12/17	Tonga Chamber of Commerce (TCCI)	Lakai Fonua- Acting CEO and Paula Taumoepeau- TCCI Council President
12/12/17	New Zealand High Commission	Elena Procuta- New Zealand Deputy High Commissioner and 'Olivia Fukofuka- Senior Program Officer
12/12/17	Ministry of Commerce, Consumer, Trade, Innovation & Labour (MCCTIL)	MCCTIL Acting CEO Sandra Dee Fifita/ Head of Division Labour Kolotia Fotu
12/12/17	Ministry of Finance and National Planning	MoFNP CEO- Balwyn Fa'otusia
12/12/17	Ministry of Finance and National Planning	MoFNP Deputy CEO Aid Mgmt Natalia Palu Latu
12/12/17	Australian High Commission	AHC Health Team- Second Secretary Development- Madeleine Scott and Health Program Manager- Debra Allan

Date	Organisation	Persons
13/12/17	Ministry of Revenue and Customs	MORC- Michael Cokanasiga Senior Assistant DCEO, Technical Customs Division /Teisa Cokanasiga Senior Assistant DCEO, Technical Tax Division
13/12/17	Asian Development Bank/World Bank	Tatafu Moeaki ADB/WB Country Coordinator
14/12/17	Chinese Embassy	Second Secretary Economics and Commercial- Claire Xu Ye and Yu Hongmiao
14/12/17	Public Service Commission	PSC Acting CEO-Helen Lusitania Eke Head of Remuneration- Tevita Fotu, Head of HR- Falemai Fale
14/12/17	Ministry of Finance and National Planning- Procurement Division	Michael Duncan (Procurement Manager- TA)
14/12/17	European Union/National Authorising Officer	EU Technical Assistant to the NAO- Taiatu Ataata
15/12/17	Australian High Commission in Tonga	Senior Program Manager Ana Baker, Program Manager Jeannette Tuionetoa (Economics, Public Sector and Governance Programs)
15/12/17	Australian High Commission	HE Andrew Ford, High Commissioner
15/12/17	Ministry of Meteorology, Energy, Information, Disaster Management, Climate Change and Communications	MEIDECC CEO Paula Ma'u (Energy/Climate Change)
Mission to Tonga: 11–15 December 2017 12/12/17 JPRM Mission Meetings		
13/12/17	Donor Partner Meeting (Elena Procuta MFAT, Taiatu Ataata EU, Tatafu Moeaki ADB/WB, Kim Edwards/Andrew Blackman)	
13/12/17	CEO, PAMD MoFNP (only ADB/WB met with MOFNP CEO)	
13/12/17	BSMC (MORC, PSC, MPE, MEIDECC, MCCTIL, AGO, MoFNP, Procurement, FFD)	
13/12/17	MORC (Michael Cokanasiga Senior Assistant DCEO, Technical Customs Division /Teisa Cokanasiga Senior Assistant DCEO, Technical Tax Division)	
13/12/17	PSC (Acting CEO-Helen Lusitania Eke)	
13/12/17	MPE (Falahola Naitu Deputy CEO Monitoring and Compliance)	
14/12/17	MoFNP (Procurement, FFD and Wrap-up: CEO Balwyn Faotusia, Deputy CEO Aid Mgmt Natalia Palu Latu, Kilisitina Tuaimeia'api Head of Budget Division, Pisila 'Otunuku Head of Procurement Division)	
Evaluation interviews: 15 December 2017 – 31 January 2018		
	ADB PSDI	
	ADB	
	World Bank	
	DFAT	Matthew Fehre

## Attachment 2 Joint Policy Reform Matrix (August 2017)

No later version was available as at 30 January 2018

Reform area	FY2016/17 Actions	FY2017/18 Actions	Status	Results indicators
<b>Supporting Fiscal Resilience</b>				
Fiscal strategy Gov't lead: MFNP Partners: WB (lead)	The Recipient's Cabinet has approved a transparent, target-based fiscal anchor system and monitoring framework that supports medium-term fiscal sustainability and a more efficient mix of public spending.			<ul style="list-style-type: none"> <li>Analysis of the relationship between current fiscal outcomes, budget projections, and the path toward fixed medium-term fiscal targets conducted as part of Budget preparations</li> <li>Baseline (FY13-FY17): No such analysis in Budget documents</li> <li>Target: (FY18-FY20): Analysis included in Budget documents</li> <li>Proportion of borrowing that is highly concessional</li> <li>Indicator: Borrowing that is above 35 percent concessionality as a proportion of all borrowing</li> <li>Baseline (FY13-FY15): 100 percent</li> <li>Target (FY16-FY19): 100 percent</li> </ul>
Revenue Gov't lead: Ministry of Revenue and Customs Services Partners: PFTAC (lead), WB	Increase in the rate of fuel excise tax by 16 per cent and other excise tax and import duty rates in order to improve revenue mobilisation and strengthen incentives to consume healthy foods.	<ul style="list-style-type: none"> <li>Cabinet approval and submission to Parliament of Revenue Services Administration Act.</li> <li>Recommendation</li> <li>Reword the action to say:</li> <li>Cabinet approval to be processed through the law committee with the intention to submit to parliament of Revenue Services Administration Act.</li> <li>Cabinet approval and submission to Parliament of new customs legislation.</li> <li>Recommendation</li> <li>Reword the action to say:</li> <li>Cabinet approval to be processed through the law committee with the</li> </ul>	<ul style="list-style-type: none"> <li>Authorisation by CD No.839 of 19/08/2016 for a new Revenue Services Administration Bill 2017.</li> <li>Deferred by law committee on 23/06/2017 for clarifications on fees issues.</li> <li>The issues have been resolved and the Bill is due to be re-submitted to Law Committee for approval, then forwarded to Cabinet for final approval before submission to the Legislative Assembly during the next session.</li> <li>From now until 16 Nov it is difficult to convene the law committee members which comprises of ministers, furthermore any draft legislation or regulations must be resubmitted to the new government for consideration before the process is to continue.</li> </ul>	<ul style="list-style-type: none"> <li>Domestic revenues as a proportion of GDP increases</li> <li>Indicator: Tax revenue as a proportion of GDP</li> <li>Baseline (avg FY11-FY14): 17.3 percent</li> <li>Target (avg FY16-FY18): 18.3 percent or higher</li> </ul>

Reform area	FY2016/17 Actions	FY2017/18 Actions	Status	Results indicators
		intension to submit to parliament of new customs legislation.	<ul style="list-style-type: none"> <li>Upon consideration of the new Cabinet, submission to the law committee will be made prior to submission to parliament.</li> <li>Given the new timeline the trigger is recommended to be reworded</li> </ul>	
Public service management reform Gov't lead: MFNP Other gov't agencies: Remuneration Authority, PSC Partners: WB (lead)	Cabinet approval and initial implementation of a new public service remuneration structure and performance management system to ensure effective public service delivery, adequate pay, and consistency with fiscal sustainability.	<ul style="list-style-type: none"> <li>Completion of performance moderation process and disbursement of performance rewards, as evidenced by advice to Cabinet.</li> <li>Cabinet approval of the recommendations from a review of the implementation of the new remuneration structure and performance management system.</li> </ul>	<ul style="list-style-type: none"> <li>Results will be passed on to the APRA (Annual Performance Remuneration Award) 6th October to discuss then they will convey and discuss with the Minister of Finance and National Planning (MoFNP), then the Minister of MoFNP will table to Cabinet.</li> <li>PSC and WB TA has discussed and agreed that everything will be on hold until election is finalised but MoFNP believes that work can run in parallel and does not have to wait for the finalisation of elections. Requesting confirmation from WB whether the TA can proceed.</li> </ul>	<ul style="list-style-type: none"> <li>Improve wage bill affordability</li> <li>Indicator: Public wage bill as a proportion of domestic revenue</li> <li>Baseline (FY14): 57 percent</li> <li>Target (FY18 and FY19): 53 percent or lower</li> </ul>
<b>Supporting Government Accountability and Private Sector Regulation</b>				
Procurement Gov't lead: MFNP (Procurement Unit) Partners: DFAT, WB	Implementation of new procurement tracking database and identification of a small number of compliance and performance indicators and associated targets, to be publically disseminated	<ul style="list-style-type: none"> <li>Publication of key performance indicators from new database on procurement website.</li> </ul>	<ul style="list-style-type: none"> <li>Implemented since 1st July 2017 and delays were due to IT problems and relocation to St George.</li> <li>Anticipated to be publicised on procurement website by December 2017.</li> </ul>	<ul style="list-style-type: none"> <li>Increased compliance with requirements for public procurement</li> <li>Indicator: Proportion of contracts above the small purchases threshold that are subject to open competition.<sup>51</sup></li> <li>Baseline (FY14): 35 percent of contracts subject to open competition</li> <li>Target (FY19): At least 50 percent of contracts subject to open competition</li> </ul>
Financial management, accounting, reporting and audit		<ul style="list-style-type: none"> <li>Revision of Chart of Accounts to standardise economic and administrative classifications in the Government's budget system.</li> <li>Recommendation</li> </ul>	<ul style="list-style-type: none"> <li>Revision of Chart of accounts is only up to phase 1 (Removal of non-economic items) out of 3 phases but yet to be completed.</li> <li>Phase 1 is still in progress: i) Nanise to identify the non-economic items, ii) Report</li> </ul>	<ul style="list-style-type: none"> <li>External audit recommendations acted upon</li> <li>Indicator: Proportion of outstanding audit recommendations 12 months after submission of the audit report to the Legislative Assembly<sup>52</sup></li> </ul>

<sup>51</sup> Aligned with the definition of PEFA Dimension PI-19(i) based on M2 scoring methodology as set out in 2011 Public Financial Management Performance Measurement Framework.

<sup>52</sup> Where an outstanding audit recommendation is one which has not been adequately addressed as determined by the Auditor General in his Audit Report. The baseline for this indicator is based on audit recommendations made in all management reports for FY2011 and FY2012 which are outstanding as stated in the Tonga Audit Office Annual Report for FY2012. These are 36

Reform area	FY2016/17 Actions	FY2017/18 Actions	Status	Results indicators
Gov't lead: MFNP (Treasury, budget) Partners: ADB, DFAT, PFTAC (lead)		<ul style="list-style-type: none"> <li>Reword this action to take into account the 3 phased approach and limit to what is possible.</li> </ul>	<p>to HODs to seek their feedback, iii) Summarise comments from HODs and incorporate etc.</p> <ul style="list-style-type: none"> <li>Nanise is requesting for a TA (Mark Silin, PIFTAC) to assist and walk her through the Road Map for the Chart of Accounts Reform –Tonga in order to complete Phase 1.</li> <li>Hoping TA can start next year January.</li> <li>Road Map for Chart of Accounts Reform – Tonga has to be revised.</li> </ul>	<ul style="list-style-type: none"> <li>Baseline (FY15): 85 percent (115 of 136)</li> <li>Target (FY18): 50 percent</li> <li>Adoption of new Chart of Accounts in FY19 budget preparation.</li> </ul>
Anti-corruption Gov't lead: Ministry of Justice	Corruption Commissioner to establish the Commission [Tongan Gov't]			
Utility and service regulation Gov't lead: deputy prime minister Partners: ADB, WB, EU (lead)	Cabinet has approved for public consultation a National Energy Bill, which includes provisions for multi-sector regulation for all energy sub-sectors (electricity, gas, petroleum).	<ul style="list-style-type: none"> <li>Finalisation, approval by Cabinet, and submission to Parliament of a National Energy Bill which integrates legislation in the existing Petroleum, Electricity, and Renewable Energy Acts and incorporates feedback from public consultations.</li> <li>Recommendation</li> <li>Reword the action to say:</li> <li>Finalisation, Cabinet approval to be processed through the law committee with the intension to submit to parliament of a National Bill which integrates legislation in the existing Petroleum, Electricity and Renewable Energy Acts and incorporates feedback from public consultations.</li> </ul>	<ul style="list-style-type: none"> <li>Shaleshni to provide an update on procurement of the supporting TA for the Energy Bill drafting</li> <li>Proposed time to commence is 3rd week of October 2017 latest</li> <li>Estimated time for completion: 60-80 days, Mid October 2017 – February 2018</li> <li>Draft Bill ready for parliament, March 2018.</li> <li>The earliest anticipated starting date is 28th October 2017 – Subject to change depending on the finalisation of the Contract.</li> <li>The undertaking should conclude by 27th Feb 2018.</li> </ul>	<ul style="list-style-type: none"> <li>Effective oversight of regulated sectors</li> <li>Indicator: Monitoring reports for regulated sectors published on a regular basis</li> <li>Baseline (2015): No baseline report</li> <li>Target (2019): Reporting issued by regulators that covers all sector under their oversight</li> <li>Increased proportion of renewable electricity generation</li> <li>Indicator: Share of renewable electricity in total electricity generation</li> <li>Baseline (FY15): 6.4 per cent</li> <li>Targets: FY17-9 per cent (Achieved 8.4 per cent); FY18 – 12 per cent; FY19 – 16 per cent</li> <li>Improvement in generation efficiency</li> <li>Indicator: Fuel consumption per kWh electricity generated</li> <li>Baseline (FY16): 4.04kWh/L</li> <li>Targets: FY17-4.06kWh/L (Achieved 4.13 kWh/L)</li> </ul>

recommendations in FY2012 and 112 recommendations in FY2011, of which it has received 33 responses. The baseline and target for this indicator will be reviewed and updated as information from more recent audit reports becomes available.



Reform area	FY2016/17 Actions	FY2017/18 Actions	Status	Results indicators
				<ul style="list-style-type: none"> <li>FY18-4.08kWh/L; FY19-4.10kWh/L</li> </ul>
Labour market Gov't lead: MCL Partners: ADB, ILO (lead), WB		<ul style="list-style-type: none"> <li>Finalisation, approval by Cabinet and submission to Parliament of an Employment Relations Bill that ensures basic labour protections and reduces gender disparities.</li> <li>Recommendation</li> <li>Reword the action to say:</li> <li>Finalisation, Cabinet approval to be processed through the law committee with the intension to submit to parliament of an Employment Relations Bill that ensures basic labour protections and reduces gender disparities.</li> </ul>	<ul style="list-style-type: none"> <li>Employment Relations Bill is still in draft form, and we do not have any CD authorisation for it.</li> <li>The draft was circulated for public comments and consultation in 2013.</li> <li>Ongoing dialogue between MCCTIL and ILO. They will be ready to submit to cabinet after November 2017, when the new government is in place.</li> </ul>	<ul style="list-style-type: none"> <li>Key labour market protections are in place</li> <li>Indicator: Number of basic labour rights enshrined in domestic legislation<sup>53</sup></li> <li>Baseline (2015): None of eight in place</li> <li>Target (FY19): At least six of eight in place</li> </ul>
<b>Supporting a More Dynamic and Inclusive Economy</b>				
Private sector development strategy Gov't lead: MCL Partners: ADB		<ul style="list-style-type: none"> <li>Cabinet approval of a prioritised and sequenced private sector development strategy that supports inclusive growth and economic participation of women, youth and disabled.</li> <li>Recommendation</li> <li>Reword the action to say:</li> <li>Cabinet approval of a prioritised and sequenced private sector development strategy that supports inclusive growth and economic participation of women, youth and disabled to be processed through the law committee with the intension to submit to parliament.</li> </ul>	<ul style="list-style-type: none"> <li>On hold from ADB early September due to financial constraints.</li> <li>ADB to confirm when they would re-commence so not sure whether this trigger is achievable or not.</li> <li>Ananya to provide an update on PSDI support for private sector reforms.</li> </ul>	<ul style="list-style-type: none"> <li>TBC</li> </ul>
Business law reform, including foreign investment	Foreign investment legislation approved by	<ul style="list-style-type: none"> <li>Cabinet approval of revised foreign investment regulations, including reserved and restricted lists, and</li> </ul>	<ul style="list-style-type: none"> <li>Authorisation by CD No.670 of 26/06/2015 for a new Foreign Investment Regulations</li> </ul>	<ul style="list-style-type: none"> <li>Increase in interest from foreign investors</li> <li>Indicator: Vetted application from foreign investors</li> </ul>

<sup>53</sup> The 8 basic labour rights measured are: i) paid annual leave; ii) notice period for redundancy; iii) severance pay for redundancy; iv) equal remuneration for equal work; v) gender non-discrimination; vi) right to maternity leave; vii) paid sick leave; viii) right to unionise.

Reform area	FY2016/17 Actions	FY2017/18 Actions	Status	Results indicators
Gov't lead: MCL Partners: ADB	Cabinet for submission to Parliament.  Submission of the Receivership Bill to Privy Council, with Cabinet approval.	[tbc depending on updates from PSDI mission] <ul style="list-style-type: none"><li>▪ Recommendation</li><li>▪ Reword the action to say:</li><li>▪ Cabinet approval to be processed through the law committee with the intension to submit to parliament</li></ul>	<ul style="list-style-type: none"><li>▪ Foreign Investment Regulation going to Cabinet will depend on the approval of the Foreign Investment Bill from parliament.</li></ul>	<ul style="list-style-type: none"><li>▪ Baseline (FY15): 21 applications</li><li>▪ Target (FY19): 30 applications or greater</li></ul>
Public enterprise reform Gov't lead: MPE Partners: ADB	Cabinet has directed the Ministry of Public Enterprises to proceed with a sale of shares in Tonga Cable Ltd.	<ul style="list-style-type: none"><li>▪ Cabinet approval to reform at least one additional PE in accordance with the PE Reform Policy, where 'reformed' may consist of privatisation, liquidation, substantial restructuring, outsourcing or another form of public-private partnership.</li></ul>	<ul style="list-style-type: none"><li>▪ i) Reform of Tonga Cable Ltd (TCL) – Sell shares to digicel- completed</li><li>▪ ii) Reform of the Talamahu Market &amp; Tonga Asset Management Association to have a shared director - completed</li><li>▪ iii) a TA funded by ADB is still working on the privatisation of the Tonga Broadcasting Commission.</li></ul>	<ul style="list-style-type: none"><li>▪ Increased private participation in PE portfolio</li><li>▪ Indicator: Number of private enterprises that have been reformed</li><li>▪ Baseline (FY2015): None</li><li>▪ Target (FY19): At least two</li></ul>

ADB = Asian Development Bank; DFAT = Australian Department of Foreign Affairs and Trade; EU = European Union; FY = fiscal year; gov't = government; IFMIS = integrated financial management information system; ILO = International Labour Organisation; kWh = kilowatt hour; L = litre; MCL = Ministry of Commerce and Labour; MFNP = Ministry of Finance and National Planning; MPE = Ministry of Public Enterprises; PE = public enterprise; PEFA = public expenditure and financial accountability; PFTAC = Pacific Financial Technical Assistance Centre; TBD = to be determined; TOP = Tongan Pa'anga; WB = World Bank.

## Attachment 3 Terms of Reference

Independent Evaluation of DFAT's Economic and Public Sector Reform Program to the Kingdom of Tonga 2015/16-2017/18

### Background

The Australian Department of Foreign Affairs and Trade (DFAT) will undertake an evaluation of its Package of Economic and Private Sector Governance support, including Joint Budget Support Project to the Kingdom of Tonga between 2015/16-2017/18, and economic and governance Technical Assistance. Governance, economic and private sector development reforms is one of strategic priorities in Australia's Aid Investment Plan in Tonga.

2. Australia and other donors have provided budget support to the Kingdom of Tonga since 2009. The Joint Budget Support Project has provided approximately AUD\$22 million to the Kingdom of Tonga's general revenue annually over this period. Of this, DFAT contributes AUD\$4 million annually. Other donors are the Asian Development Bank (ADB), European Union (EU), the New Zealand Ministry of Foreign Affairs and Trade (MFAT), and the World Bank. These donors provide a mix of grant and loan budget support. This general budget support is complemented by approximately \$2 million in budget support to the health sector, in support of the second strategic priority in the aid investment plan.

3. Donors disburse funds to the Government of Tonga (GoT) on the basis of Tonga's performance in achieving significant economic and public sector reforms. The reform actions are based on the priorities put forward by the GoT in consultation with donors, documented in a Joint Policy Reform Matrix, which is updated through regular joint donor missions. The Budget Support Project has three pillars that support the overall policy reform objectives: strengthen public financial management, strengthen fiscal management and enhance the business enabling environment. The Project is coordinated by the World Bank, who led the quarterly monitoring missions.

4. To date DFAT has been satisfied with the reforms achieved by the GoT and has disbursed the full amount of funds annually. This evaluation is to further understand what impact the Budget Support Program has had, and what lessons can be learnt and applied to the next Program from 2018/19 onwards.

5. As part of the Economic and Public Sector Reform Program, DFAT also funds a package of economic governance support for the institutions who are responsible for progressing Tonga's Public Financial Management roadmap. Australia's investments in this area include:

- a bilateral agreement with the Pacific Association for Supreme Audit Institution (PASAI), technical assistance is provided to the Tonga Office of the Auditor General (TOAG) and the Public Accounts Committee of Parliament, to improve transparency and accountability in the governance and management of public resources
- a Procurement Manager is placed within the Central Procurement Unit (CPU) Division of the Ministry of Finance and National Planning (MoFNP), to support GoT staff in line ministries on the procurement processes as per the GoT's Procurement Regulations.
- An International Procurement Specialist (IPS) was deployed to assist the CPU, MoFNP, to provide training to public and private sector stakeholders working on procurement reforms and work with the Ministry of Health, to build capacity, and to help identify capacity constraints that hinders the compliance of the procurement process within the ministry.
- In addition, DFAT has a co-financing agreement for the provision of TA to support the MoFNP with their Financial Information Management System, and proposed Aid Information Management System.

- Through its regional programs, DFAT also supports PFTAC, working closely with the MoFNP on their Chart of Accounts and Accounting system; and PSDI, who work with the ministries of Public Enterprises, and Commerce, Consumer, Trade, Innovation and Labour, in creating an enabling business environment.

## Objectives

5. DFAT's contribution to the Economic and Governance Program has three main objectives that are very similar to the Budget Support Project's three pillars:

- Improved public sector governance
- More effective public expenditures
- Improving the business enabling environment

6. The objectives of this evaluation are to: determine the impact of the overall Program relative to the objectives above, understand any impacts EPSG III has had on streamlining engagement between donors and the GoT and supporting broader DFAT policy objectives in Tonga, to provide lessons learnt and recommendations for the future of EPSG III.

## Statement of requirement

7. The evaluation team will consist of an independent consultant, who will be briefed by DFAT Development Economics Unit staff in Canberra, and accompanied by staff at Post to relevant meetings in-country.

The independent consultant will be expected to produce the following outputs:

- Evaluation Plan outlining the scope and methodology of the evaluation by 27 November 2017 (includes briefing with DFAT Canberra PFM Staff)
- Short report on key findings of initial in-country evaluation visit by 15 December 2017
- 15–20 page DRAFT evaluation report (excluding annexes) for DFAT by 31 January 2018
- 15–20 page FINAL evaluation report (excluding annexes) for DFAT by 28 February 2018
- 1 hour presentation of the report to DFAT

The evaluation consultant will be responsible for drafting the outputs above in consultation with DFAT staff in Canberra and at Post.

8. Specific evaluation components:

## Situation analysis

A summary of inputs of EPSG III to date including funds from donors, policy dialogues, performance indicators, capacity-building activities including technical assistance.

Exploration of the direct outputs for the GoT (with a particular focus on DFAT's four main Program objectives) including: impact on the size and share of external assistance, impact on the size and share of the budget available for discretionary spending, the predictability of disbursement of funds, level of coordination in TA/policy dialogue etc., the outputs of the TA provided by DFAT (including comparisons with other donor's TA), the impact on streamlining relationships with donors including alignment with government objectives and reductions in transaction costs of receiving aid.

Examination of whether the selection of the Budget Support Reform Actions is additional and helpful to the existing work of the Kingdom of Tonga, and an assessment of the quality of the reforms that have been met.

Exploration of the direct outputs for DFAT including: impact on streamlining relationships with the GoT and donors including alignment with DFAT objectives, and reductions in transaction costs of providing aid.

### **Impact assessment**

Exploration of induced outputs for the GoT (with a particular focus on DFAT's three main Program objectives) including any changes in the quality of: macroeconomic and budget management, quantity and quality of goods and services provided by the public sector, PFM and procurement systems, public policy formulation and execution processes, public sector institutions, laws, regulations and norms of behaviour, and general governance indicators (e.g. decentralisation, rule of law).

Estimation of the possible impacts of DFAT's contribution for the induced outputs for the (with a particular focus on DFAT's three main Program objectives) including any changes in the quality of: macroeconomic and budget management, quantity and quality of goods and services provided by the public sector, PFM and procurement systems, public policy formulation and execution processes, public sector institutions, laws, regulations and norms of behaviour, and general governance indicators (e.g. decentralisation, rule of law).

Estimation of impacts of EPSG III to government service users and beneficiaries including possible increased use of goods and services, increased business confidence, increased private sector investment, improved competitiveness of the economy, improved confidence of the population in the GoT.

### **Recommendations**

Provide recommendations for DFAT's future engagement in EPSG III beyond 2017/18 noting the changing economic and donor context, factoring in lessons learnt and recommendations gleaned from items above. This discussion should include:

- The relevance of the future Program under the current design, including prioritisation of the future need for Technical Assistance to various aspects of EPSG III
- Level of funding – what is appropriate to provide given EPSG III objectives, donor and government context
- Level of comfort with expenditure of funds in line with DFAT risk tolerance
- Recommendations for making EPSG III delivery more efficient, including consideration of alternative modalities. This analysis should be based both on the counterfactual of if alternative modalities had been used in EPSG III to date instead, and in the future if alternative modalities should be considered.
- Recommendations for achieving more and better gender and climate change outcomes in the future Program
- Assessment of the appropriateness of DFAT's program objectives and the balance of governance relative to economic objectives.

9. It is envisaged that in order to provide evidence for the above the following types of analysis would be undertaken: macro-economic impact assessment, drivers of change analysis, case studies, and/or creation of and assessment against SMART indicators. Additionally, analysis on Public Financial Management Roadmap and the quality of public spending and revenue – from an estimates, actuals and implementation perspective. These would be to identify the causes of policy and behaviour change for the GoT and donors including DFAT. It is acknowledged that establishing causality can be difficult in Budget Support Programs. As part of the Evaluation Plan design process DFAT would

discuss with the evaluation team what methodologies would be reasonable given the timing and data available.

10. Roles and responsibilities of DFAT: DFAT will provide background briefing and key documents, access to existing documentation and evaluations of EPSG III, assistance in arranging meetings with Tongan Government officials and other donors. DFAT would make available either a Development Economics team member or Public Financial Management team member to be a point of contact for technical questions. DFAT Post will help coordinate the meetings of the mission.

11. Roles and responsibilities of the independent consultant: A review of key documents provided by DFAT at the commencement of the assignment in order to determine that information that is already available and to inform preparation of the evaluation plan/methodology. When feasible, additional update sessions with DFAT staff in Canberra and at Post to share and discuss methodology and preliminary findings to be conducted. The independent consultant will be expected to consult key stakeholders (listed below in consultation requirements). He/she is also expected to work collaboratively with the GoT and other donors, and to share information and analysis at appropriate junctures.

12. The evaluation is expected to require up to 25 workdays of input for the evaluation consultant. This includes:

- Approximately 5 workdays of desk briefing with the team, research and to prepare the evaluation plan
- Approximately 10 workdays in Tonga to conduct meetings with relevant donors, Technical Assistants and Tongan Government officials. Meetings via phone with donors in Canberra, Sydney, Wellington, Manila and Washington DC may also be required. A debrief meeting with DFAT team in Tonga prior to departure and writing up the Report is suggested.
- Approximately 10 workdays to produce the Aide Memoire, Report and Presentation, and deliver the presentation

13. Consultation requirements:

Required: DFAT (Post and Canberra based teams), World Bank (Sydney based team), Joint WB/ADB Liaison Office in Tonga, Tongan Ministry of Finance and National Planning, National Reserve Bank of Tonga, Ministry of Commerce, Consumers, Trade, Innovation and Labour, Public Service Commission, Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change and Communications, the Office of the Solicitor General, and the Ministry of Revenue and Customs Services.

Desirable: MFAT, ADB, EU, Office of the Prime Minister, Ministry of Public Enterprises, Tonga Cable Limited, Tonga Power Limited, Tonga Telecommunications Corporation, Ministry of Education and Training, Tonga Chamber of Commerce, the Remuneration Authority, PASAI, TOAG, Public Accounts Committee, CPU CEO and Procurement Manager, and PFTAC.

## Duration and phasing

14. The schedule for the evaluation is as follows:

- Week of 20 November 2017: Independent consultant recruited
- Week of 27 November 2017: Evaluation Plan received and agreed with DFAT
- Week of 4 December 2017: Weeklong visit to Tonga
- Mid-February 2018: Possibly another visit to Tonga to coincide with the Joint Policy Reform Matrix mission
- By 31 March 2018: Report and presentation received and agreed with DFAT

### **Specification of the team**

15. The individual should have:

- Demonstrated experience working with and reporting M&E results on economic policy programs, economic public finance programs and other public policy programs, preferably with familiarity with Budget Support Programs
- At least 10 years' experience working in the M&E field
- At least 5 years' experience working with and reporting M&E results in international development, preferably with experience in the Pacific with demonstrated experience to draw on international best practice
- Preferably have sound knowledge of DFAT corporate policy on quality reporting systems and business processes for aid delivery, and be conversant with DFAT development assistance procedures, regulations and policies
- Excellent communications and interpersonal skills
- English proficiency

### **How to apply**

16. To apply please submit:

- A one page expression of interest addressing the team specifications above
- CV (max 4 pages) including 2 referees

To 'Ana Baker Senior Program Manager Australian High Commission Tonga Ana.Baker@dfat.gov.au  
no later than 30th October 2017.



## Attachment 4 Case studies

Three case studies were chosen to highlight different aspects of EPSG III. Procurement reform was supported under component (2) of EPSG III, the package of technical assistance. The NCD tax and macro-fiscal anchors were both reforms included under the JPRM matrix. The NCD tax was chosen to highlight how a JPRM reform can include a sectoral ministry (in this case, Ministry of Health). The macro-fiscal anchor was a critical reform that underpins Tonga's macroeconomic and fiscal sustainability. The macro-fiscal anchor and procurement reforms were also highlighted by stakeholders as contentious reforms.

	Procurement	Non-Communicable Diseases (NCD) Tax	Macro-fiscal anchor
JPAM reforms	Procurement reform was supported under component (2) of EPSG III, the package of technical assistance. Procurement TA did support the JPRM reforms listed below however their work was more extensive than only these reforms.  Implementation of new procurement tracking database and identification of a small number of compliance and performance indicators and associated targets, to be publicly disseminated	Increase in the rate of fuel excise tax by 16 per cent and other excise tax and import duty rates to improve revenue mobilisation and strengthen incentives to consume healthy foods.	The Recipient's Cabinet has approved a transparent, target-based fiscal anchor system and monitoring framework that supports medium-term fiscal sustainability and a more efficient mix of public spending.
JPAM result indicators	<ul style="list-style-type: none"> <li>Increased compliance with requirements for public procurement</li> <li>Indicator: Proportion of contracts above the small purchases threshold that are subject to open competition<sup>54</sup></li> <li>Baseline (FY14): 35 percent of contracts subject to open competition</li> <li>Target (FY19): At least 50 percent of contracts subject to open competition</li> </ul>	<p>Domestic revenues as a proportion of GDP increases:</p> <ul style="list-style-type: none"> <li>Indicator: Tax revenue as a proportion of GDP</li> <li>Baseline (avg FY11-FY14): 17.3 percent</li> <li>Target (avg FY16-FY18): 18.3 percent or higher</li> </ul>	<p>Analysis of the relationship between current fiscal outcomes, budget projections, and the path toward fixed medium-term fiscal targets conducted as part of Budget preparations:</p> <ul style="list-style-type: none"> <li>Baseline (FY13-FY17): No such analysis in Budget documents</li> <li>Target: (FY18-FY20): Analysis included in Budget documents</li> <li>Proportion of borrowing that is highly concessional</li> <li>Indicator: Borrowing that is above 35 percent concessionality as a proportion of all borrowing</li> <li>Baseline (FY13-FY15): 100 percent</li> <li>Target (FY16-FY19): 100 percent</li> </ul>
Objectives of the reform	<ul style="list-style-type: none"> <li>Strengthen GoT procurement system through implementation of the Procurement Reform Strategy.</li> <li>Provide high quality procurement for Australian funded programs using GoT systems.</li> </ul>	<ul style="list-style-type: none"> <li>Implement taxation changes that would increase revenue and promote healthier diets.</li> </ul>	<ul style="list-style-type: none"> <li>Implement a target-based fiscal anchor system and monitoring framework to support medium-term fiscal sustainability and a more efficient mix of public spending.</li> </ul>

<sup>54</sup> Aligned with the definition of PEFA Dimension PI-19(i) based on M2 scoring methodology as set out in 2011 Public Financial Management Performance Measurement Framework.

	Procurement	Non-Communicable Diseases (NCD) Tax	Macro-fiscal anchor
Background and DFAT interest	<ul style="list-style-type: none"> <li>Procurement was chosen as a DFAT priority for TA based on the recommendations of DFAT's 2015 Assessment of National Systems.</li> <li>Improving procurement impacts upon Australia's entire bilateral program including the Health program and assistance from the Australian Federal Police (AFP).</li> </ul>	<ul style="list-style-type: none"> <li>Probability of dying from an NCD in the Pacific is high, 70 per cent for most Pacific Island Countries, compared to 9 per cent in Australia. Tonga has a high incidence of NCDs and high-risk factors. The economic burden of NCDs as a proportion of Tongan GDP will be 8.3 per cent in 2030 and 12.3 per cent in 2040; compared to a global average of 3.25 per cent and a middle-income average of 5.22 per cent.</li> <li>DFAT interest is in both increased revenue collection to support fiscal sustainability and improved health outcomes. Health sector support is one of three pillars in the Aid Investment Plan</li> </ul>	<ul style="list-style-type: none"> <li>Fiscal sustainability is an ongoing challenge for GoT. Tonga has a large public sector relative to the size of the economy. The public-sector wage bill is a key determinant of overall fiscal policy outcomes.</li> <li>Debt management is another important component of fiscal sustainability. Public debt is estimated to be 49.2 per cent of GDP in 2017–2018<sup>55</sup></li> <li>Loans have been contracted in the past for projects without an adequate rate of economic or financial return.</li> </ul>
Actions taken	<ul style="list-style-type: none"> <li>EPSG III funded two international advisers – an International Procurement Specialist (IPS) and a Procurement Manger.</li> <li>The IPS was deployed to assist the Procurement Division in MoFNP implement the Government Procurement Reform Strategy approved in 2013. Towards the end of the adviser's assignment the IPS was working in the Ministry of Health as part of a shift in focus to strengthen procurement at a line ministry level. Outputs of the IPS included: <ul style="list-style-type: none"> <li>Support manuals to complement Procurement Regulations.</li> <li>Facilitation of training,</li> <li>Establishment of Policy Unit in the Procurement Division.</li> <li>Delivery of a structured training and awareness program across government. A total of 84 sessions were conducted across all 25 ministries/departments, including the outlying islands. More than 60 percent of presentations were in the Tongan language and conducted by national counterparts.</li> <li>Established a Pilot Framework Agreement.</li> <li>Buying Guide produced.</li> </ul> </li> <li>The Procurement Manager was placed within the CPU of the Procurement Division in MoFNP. The Procurement Manager conducts Australian funded</li> </ul>	<ul style="list-style-type: none"> <li>Excise taxes on healthy foods decreased; excise taxes on unhealthy foods, soft drinks and tobacco increased.</li> <li>Ministry of Revenue and Customs implemented the excise taxes in coordination with Ministry of Health (MOH).</li> </ul>	<ul style="list-style-type: none"> <li>GoT approved a Medium-Term Debt Strategy. This Strategy created a new policy framework to manage debt and provided a set of conditions under which debt could be contracted.</li> <li>To complement the Strategy, a medium-term fiscal framework was created. This framework combined targets for government debt, deficits and wage bill.</li> <li>This framework created a transparent, target-based fiscal anchor system and monitoring framework. Targets were published for the first time in the 2017–2018 Annual Budget.</li> <li>To meet the wage bill target, MoFNP undertook an awareness program targeted at government and Parliament. This program included TV and radio appearances; sending analysis to Cabinet of wage bill costs.</li> </ul>

<sup>55</sup> IMF (2018).

	Procurement	Non-Communicable Diseases (NCD) Tax	Macro-fiscal anchor
	<p>procurements valued more than TOP 10,000 in accordance with GoT Public Procurement Regulations 2015. The Procurement Manager also provides roving contract management support and mentoring to line ministries that assume responsibility for the contract once it is signed. If the Procurement Manager has spare capacity, they are tasked with providing support to staff in the CPU conducting procurements utilising GoT recurrent budget funding. The current split of time between Australian and GoT funded procurements is about 50:50</p>		
Impact	<ul style="list-style-type: none"> <li>▪ Australian funded procurements using GoT procurement system have improved (AFP) whilst others (Health) have been put on hold. AFP feedback was positive regarding the role of the Procurement Manager in progressing procurements and providing ongoing support during contract management (i.e. unblocking payments, monitoring performance of works contractors).</li> <li>▪ The two adviser positions have contributed to improvements in the procurement system. For example, the initial feedback from the private sector regarding the buying guide and pilot framework agreement has been positive regarding providing some order to a previously fragmented supply chain</li> <li>▪ Support to GoT procurement officials has resulted in a CPU with a higher skill level and ability to implement reforms.</li> <li>▪ However, there has been less change in high-spending line ministries such as health. The relationship between CPU and MoH procurement is poor.</li> <li>▪ The CPU is also not formally connected to the procurement units in line ministries – the latter report up into the line ministry hierarchy and there is no horizontal mechanism connecting them to CPU.</li> </ul>	<p>Taxes were introduced in July 2016. Final assessment by the World Bank on the impact is due in June 2018. Preliminary findings indicate<sup>56</sup>:</p> <ul style="list-style-type: none"> <li>▪ Price on oranges and apples did not change; neither did consumption. Prices are sticky on the way downwards. Limited knowledge of tax changes by consumers contributes to price stickiness.</li> <li>▪ Prices on mutton flaps, turkey tails and chicken quarters increased. Community was aware of changes to some extent. Mutton flaps and turkey tails appear substitutable for healthier goods and behaviour did change.</li> <li>▪ Chicken quarters experienced price rises but this induced minimal behaviour change. Chicken quarters do not appear to be substitutable for healthier options.</li> <li>▪ Instant noodle and ice cream also experienced price increases. A small number of consumers consumed less quantity of these products. Of consumers surveyed who did consume less, close to 90 per cent attributed their behaviour change to the price increases.</li> <li>▪ Tongan smokers are sensitive to price. 20 per cent of smokers switched to products not subject to tax changes (Tapaka Tonga<sup>57</sup>). There are other anti-</li> </ul>	<ul style="list-style-type: none"> <li>▪ The Government wage bill is estimated to stabilise at approximately TOP\$148 million between 2017–2018 and 2019–2020.</li> <li>▪ MoFNP are very committed to this reform<sup>59</sup>. It is not possible to determine yet whether this will be successful.</li> <li>▪ The fiscal anchors were published in the 2017–2018 Budget Statement for the first time. The 2017–2018 Budget Statement estimates that each fiscal anchor will be achieved in 2018–2019 and 2019–2060.</li> </ul>

<sup>56</sup> All from Osornprasap (2017a) unless indicated.

<sup>57</sup> Domestically produced tobacco product that was exempt from the tax increases.

<sup>59</sup> Evaluation interview with MoFNP Budget Division.

<sup>60</sup> Note this budget was published before Cyclone Gita. At the time of writing data was not available to assess the impact of the cyclone and recovery efforts on the fiscal anchors.

	Procurement	Non-Communicable Diseases (NCD) Tax	Macro-fiscal anchor
	<ul style="list-style-type: none"> <li>Overall progress on procurement reform has been subject to political pressure to block or reverse reforms.</li> </ul>	<p>smoking measures being enforced (implication is that it is difficult to disentangle the effects)<sup>58</sup></p>	
Lessons learned	<ul style="list-style-type: none"> <li>The Procurement Reform Strategy theoretically targets the right areas to drive change.</li> <li>However, neither EPSG III or GoT collects data that can evaluate the impact of procurement reforms.</li> <li>The outputs of advisers however are just one part of the overall procurement system that is impacted by the political economy within line ministries, between ministries and at the political level. for example, building the relationship with MoH has been challenging for the IPS, reflective of the overall poor relationship between CPU and MoH.</li> <li>There is substantial opposition to procurement system reform. Further progress on procurement reform is subject to understanding government's priorities following the recent election. The greatest need is for improvements to procurement capacity at the line ministry level.</li> </ul>	<ul style="list-style-type: none"> <li>This case study was chosen to highlight if sectoral reforms can successfully be included in the JPRM.</li> <li>There was no evidence that the NCD tax had improved the relationship between MoH and central agencies (MoFNP and MORC). There is also not evidence that the central agencies have adopted a 'health agenda' as part of their priorities. MORC also noted that they now feel responsible for health outcomes, well outside their mandate of revenues and customs.</li> <li>MORC indicated that the NCD tax was a GoT initiative but that the JPRM process assisted in accelerating the reform. MORC implemented the change often working independently from MOH.</li> <li>DFAT officials noted that MOH would not have had the 'clout' to drive this reform and so MORC/JPRM involvement was critical.</li> <li>MORC officials appreciated the technical assistance provided to MOH and noted this assisted them in implementing the reform.</li> </ul>	<ul style="list-style-type: none"> <li>MoFNP Budget Division drove the reform, supported by the CEO and other Divisions. Long-term technical assistance has assisted MoFNP build their skills and capacity to enact this reform. ADB provided TA to Budget Division from 2009–2015. MoFNP Budget Division noted that the 'JPRM matrix is effective but that this can be easily outweighed by the opinions of just one politician'.<sup>61</sup></li> <li>The JPRM process leveraged reformists within Budget Division and MoFNP to drive this change.</li> <li>MoFNP successfully engaged the political level by providing analysis to inform politicians decisions and implementing an outreach strategy.</li> <li>Reducing the government wage bill is an ongoing task. There is (and will continue to be) opponents of reform.</li> </ul>

<sup>58</sup> Osornprasap (2017b)

<sup>61</sup> Evaluation interview with MOFNP Budget Division.

## Attachment 5 EPSG III program structure

### EPSG Program Structure

EPSG III Component	Rationale for using component at design	Sub-component	Implementing partner	Activities	EPSG III Funding	2015–2016	2016–2017	2017–2018
<b>Budget support</b> Budget support delivered through the World Bank-led Joint Policy Reform Matrix (JPRM). Budget support is untied (i.e. not sector specific) and linked to achievement of JPRM reforms.	Evaluated as a successful mechanism in Tonga by World Bank and ADB. Enhanced policy dialogue, focused development partners engaged in budget support and government on key priorities, reduced transaction costs Strong technical partner in World Bank. DFAT can leverage WB expertise to monitor fiscal/economic developments in Tonga. IMF (through Pacific Financial Technical Assistance Centre (PFTAC)) and ADB actively engaged.	Budget support	Government of Tonga	Budget support	\$4 million / year	\$4m	\$4m	\$4m
<b>Technical assistance</b> A package of economic governance support for the institutions who are responsible for progressing Tonga's Public Financial Management roadmap.  TA is funded by DFAT bilaterally and separate to the JPRM. In some instances, TA supports reforms that are included in the JPRM matrix.	Perceived DFAT comparative advantage in 'direct support to government service provision'. Few development partners other than DFAT engaged in directly supporting improved public service provision.  Priorities of procurement and audit were chosen based on Tonga PFM Reform Roadmap; and recommendations from Assessment of National Systems.	External scrutiny	Pacific Association of Supreme Audit Institutions (PASAI)	Technical assistance, training	\$400,000	\$200,000	\$200,000	\$0
		Procurement	Scope Global	Advisers	\$837,363.23		\$418,681	\$418,681
		Integrated Financial Management System (IFMIS) and Aid Management System	ADB	Technical assistance to support system procurement	\$150,000 for iFMIS \$200,000 for Aid Management System	\$0	\$350,000	\$0

EPSG III Component	Rationale for using component at design	Sub-component	Implementing partner	Activities	EPSG III Funding	2015–2016	2016–2017	2017–2018
		Chart of accounts	PFTAC	Technical assistance and training.	Funding data not available.	N/A	N/A	N/A
		Business enabling environment	Private Sector Development Initiative (PSDI)	Technical assistance for drafting policies, laws, regulations, strategies; advice to ministries; analytical work.	Funding data not available.	N/A	N/A	N/AN/A
<b>Technical assistance</b> TA to the Tonga Electoral Commission	Supporting Tonga's Electoral Commission through an agreement with the Australian Electoral Commission to oversee free, fair and transparent national and district elections.	Support to Tonga Electoral Commission	Australian Electoral Commission	Technical assistance and training.	\$565,000	N/A	N/A	N/A

## Attachment 6 Alternative modalities

Throughout the Pacific, DFAT uses multiple modalities to incentivise PFM, economic and governance reforms. The amount of funding for EPSG III is relatively small compared to programs in larger countries. It is therefore not possible to implement the range of modalities that DFAT uses in countries with larger programs such as PNG. The evaluation only examined a limited set of alternative modalities that were deemed to be possible to implement in Tonga:

The table below analyses alternative modalities that could potentially be used in future iterations of EPSG III.

### Analysis of alternative modalities

Modality	Advantages	Disadvantages
<b>1. Maintain current program design</b> Strengthening EPSG III using the recommendations in this evaluation.	<ul style="list-style-type: none"> <li>Policy dialogue.</li> <li>Leveraging combined development partner JPRM funding + World Bank technical expertise.</li> <li>Targeted TA strengthens PFM.</li> <li>Stronger PFM improves program outcomes for other Australian aid programs.</li> <li>Can target PFM TA towards issues identified in ANS.</li> </ul>	<ul style="list-style-type: none"> <li>Australian funding not recognised unless communication strengthened.</li> </ul>
<b>2. Fully outsource JPRM to the World Bank</b> Direct budget support funding via the World Bank (i.e. DFAT funds WB who then disburses to GoT). Ensure appropriate communication of the source of budget support funding.	<ul style="list-style-type: none"> <li>DFAT transactions costs reduced. No need for specialist resources from Canberra.</li> </ul>	<ul style="list-style-type: none"> <li>Loss of policy dialogue.</li> <li>JPRM discussions lose weight of Aust/Tonga bilateral relationship.</li> </ul>
<b>3. Re-focus technical assistance as a 'JPRM support facility'</b> Funding for TA would be directed only at supporting reforms included in the JPRM and reform implementation. The facility would be jointly managed by Post and MoFNP. Facility program manager could be placed inside the Aid Management Division of MoFNP.	<ul style="list-style-type: none"> <li>Increased TA for JPRM reforms may accelerate reforms and improve quality.</li> <li>Fully maximises DFAT's comparative advantage in provision of TA.</li> </ul>	<ul style="list-style-type: none"> <li>Cannot target TA towards PFM reforms not included in matrix.</li> <li>Cannot target TA towards issues identified in ANS.</li> </ul>
<b>4. Establish a TA facility with a mandate to address each of DFAT's program objectives. Transfer all budget support funding to TA</b> The facility would make use of specialist contracted staff to assist Post with program design, strategic planning and M&E. Specialist staff could manage the planning of funding agreements, monitor activities and provide technical advice.	<ul style="list-style-type: none"> <li>Provision of TA is a comparative advantage for DFAT vs other development partners</li> <li>Greater visibility of DFAT funding.</li> <li>Facility is in effect a form of earmarked budget support as it subsidises discretionary spending on consultants.</li> <li>Support a wide range of reform and capacity-building across government.</li> <li>Potential to complement increase in multilateral budget support resources with complementary TA.</li> <li>TA funding allows for building of deep relationships in selected sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Previous evaluations noted this option was too expensive for the size of the program.</li> <li>More funding spent on management costs and advisers.</li> <li>Does not leverage combined development partner JPRM funding or World Bank technical expertise.</li> <li>Funding not directed through GoT systems.</li> <li>Loss of policy dialogue.</li> <li>Unclear how much TA Govt could usefully absorb given thin capacity.</li> </ul>



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