



Climate PFM At-a-Glance: TONGA

USD\$131.0 Million 2018/19 Recurrent Budget
 USD\$81 Million 2018/19 Development Budget
 USD\$19.3 Million 2018/19 Confirmed Budget Support

US\$422.3 Million Nominal Gross Domestic Production (GDP)
 US\$4,095 (2016 est) GDP/Per Capita

103,900 (2014 est) Population
 Root Crops, Vanilla, Squash, Fish: Main Export

Tonga has:

- Continued to experience strong growth supported largely by construction activities;
- Carefully managed expenditures to avoid fiscal slippage;
- Introduced fiscal anchors to maintain fiscal sustainability; and
- Some challenges still remain.

Public Finance Management (PFM) is key to:

- Effective economic management;
- Achieving development outcomes; and
- Accessing climate change and disaster risk management (CCDRM) finances.

A summary of PFM performance and key areas for reforming are identified in the consolidated PFM issues matrix¹.

Country's Strategic Direction

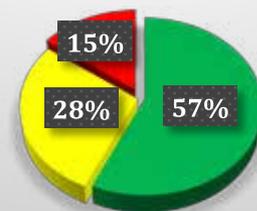
Tonga Government has adopted its Tonga Strategic Development Framework II (TSDF II) for the period 2015-2025 with a vision to improve the quality of life for all the people of Tonga through improving justice, economic opportunities and good governance. Tonga also adopted a 10-year National Infrastructure Investment Plan 2013-2023 outlining economic infrastructure initiatives in energy, communications, water & waste management and transport. Tonga's 2035 Climate Change (CC) Policy focuses on building resilience by re-designing policy to boost people's ability to respond to the effects of CC. An Anti-Corruption Commissioner Act 2007 has been adopted but yet to be fully operationalised.

Public Finance Management Performance

Figure 1 below illustrated the outcomes of the analysis of the PFM issues consolidation which showed that 57% of the PFM machinery

assessed was performing satisfactorily due to the adoption of solid legal and regulatory framework that sets out the process for planning, budgeting, executing and accountability. Much of the PFM reform activities have been progressed, especially in key areas of budget preparation whilst it is still lagging in the execution side, particularly in some key functions of accountability and oversight such as procurement and project management. Key PFM weaknesses identified are in the internal control, fiscal reporting, procurement appealing processes, monitoring and evaluation (M&E), project management and public scrutiny. These key functions would require immediate actions as presented by 15% in red colour coding in figure 1 below.

Figure 1: Overall PFM Performance: 2018



Legend: Satisfactory (Green), Medium term reform (Yellow), Immediate reform (Red)

Further look into the machinery of the PFMS, the analysis finds that Tonga shared 5 common challenges faced by other FICs.

These are namely;

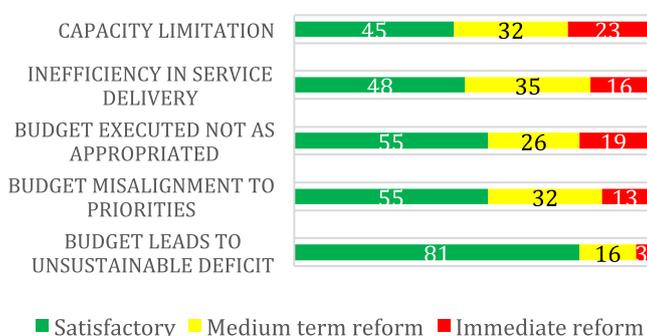
1.	Unrealistic budget leads to unsustainable deficits
2.	Budget misalignment with priorities
3.	Budgets executed not as appropriated
4.	Inefficiency in service delivery
5.	Capacity limitation

¹ A traffic-light coding single matrix consolidated PFMS issues guided by PEFA and PCCFAF identified specific PFMS weaknesses and strengthens related to climate finance fiduciary criteria. The RED required immediate reform actions; GREEN: satisfactory performance and ongoing monitoring to avoid slippage and Yellow requires medium policy reform actions.

PFMS performance by common challenges²

Overall, the PFM system is performing satisfactorily illustrated by the percentage level presented in figure 2 below according to each common challenge with the exception of capacity limitation, suggesting labour and skill shortages and lack of infrastructure capabilities. Although the PFM consolidated issues matrix analysis finds a small percentage (23%) of the PFM capacity that requires an immediate enhancement of policy actions, the bulk lies in the area of oversight and scrutiny contributing to the slow progress of the NIE accreditation process for direct access to the GCF or Adaptation Fund.

FIGURE 2: PFM PERFORMANCE UNDER 5 COMMON CHALLENGES: 2018



Addressing capacity limitation

Capacity limitations are frequently cited as key constraint to obtaining “best-practice” performance standard for PFM. The following are suggested actions to address capacity constraint in Tonga.

1. Prioritise capacity to areas that matter most in achieving development outcomes and meeting climate change and disaster risk (CCDR) funds fiduciary criteria;
2. Access to capacity building, supplementation and substitution opportunities;
3. Improve infrastructure (soft and hard) capabilities³;
4. Secure political support of stakeholders involved in PFM reforms (leadership/commitment); and
5. Alignment of donors’ aid modalities to country’s strategies - coordination and harmonisation.

Suggested key PFMS reform Areas

The country has received a grant of US\$29.9 million from the Green Climate Fund via ADB

and also a US\$12.2 million grant from ADB for a transformational renewable energy project moving away from fossil fuels toward a greater climate-resilience renewable energy generational system⁴. The Tongan economy has enjoyed robust growth and macroeconomic stability, however risks to the outlook are tilted to the downside stemming from external and domestic sources. Remittances and revenues from tourism look promising, albeit heavily contingent on the global world economic affairs. Addressing the potential risks, the PFM system should be strengthened to ensure robust accountability, effective and efficient budget management and control.

The following are suggested key PFM areas to consider reforming immediately (within 1 – 2 years timeframe):

- a. Integrating priorities into the budgeting and revamping of the accounting coding system;
- b. Developing an M&E framework to measure policy reform performance against desired results;
- c. Strengthening internal control and internal audit;
- d. Strengthening procurement appealing and transparency processes and mechanisms; and
- e. Developing project management processes, guidelines and framework.
- f. Strengthening of private sector engagement with government for climate finance investment opportunities.

Highlights of available Support Programs

- ADB/PFTAC can provide assistance towards strengthening budget management, monitoring, procurement and asset management.
- World Bank can provide assistance jointly with ADB and others on areas within their line of support.

Key documents

- Tonga Strategic Development Framework II: 2015-2025
- Tonga Climate Change Policy
- PEFA Reports and Pacific Country Peer Review
- PFM Consolidated Issues Matrix
- Climate Public Expenditure and Institutional Review Report

² PFM identified common challenges facing FICs.

³ Financial information management technology and key PFM documentations and institutions.

⁴ The total cost for the project is US\$53 million including Tonga government contribution of about US\$6 million through taxes/duties exemptions.