

**JOINT ANNUAL REPORT  
2002**

**TONGA**

## **1. Executive Summary**

Article 5, Annex IV of the Cotonou Agreement requires that the National Authorising Officer and Head of Delegation shall annually undertake an operational review of the indicative programme and within 30 days of completion of review, draw up and submit a report to the Development Finance Committee.

This joint annual report for 2002 fulfils this reporting requirement.

Under Cotonou, the indicative financial allocation for Tonga is 3.7 million Euro for the "A" Envelope and 2.0 million Euro for the "B" envelope. The focal area of future EC-Tonga co-operation will be social sectors, through a social sector support programme, allocating 100% of the "A" envelope.

Implementation of the programme financed under Lome IV is proceeding, with the fielding of the PMU during 2002. The tender for works was unfortunately unsuccessful and negotiations are still on going in order to sign the relevant contract. The microproject programme ended at the end of 2002. Finally, a co-financing with the World Bank for the construction of low-cost, cyclone-proof housing is under way.

The CSP programming process was well handled and effectively completed with the signing of the CSP in July 2002.

## **2. Tonga's National Policy Agenda**

Based upon the "Strategic Development Plan N° VII, 2001-2003", the national economic development should be guided by the following major objectives:

- Efficient government sector, aiming at good governance and accountability;
- Sound and encouraging environment for the development of the private sector and its increased involvement in economic activities;
- Development benefits being distributed evenly;
- Well educated and skilled labour force, healthy population as well as development of the potential of youth;
- Low crime and guaranteed national security.

Overall national objectives are ambitious: to accomplish a stable economic and financial environment with less public, but more active private sector involvement and reduced reliance on official foreign assistance will indeed take time.

## **3. Analysis of the political, economic and social situation**

### **3.1 Political situation**

Tonga is a constitutional monarchy. It differs from other Pacific countries in that, as a protectorate, it was never really colonised. Tonga is fully independent since 6 June 1970 and a member of the United Nations. The judiciary is independent. Traditional values and indigenous culture are largely maintained in the society.

Tonga is a politically stable country, dominated by a hierarchical structure and a rather homogenous population. The potential for violent conflicts is minimal at present.

### 3.1.1 Democratic participation

Citizens do not, in principle, have the ability to change their leaders or the system of government. The King appoints the Prime Minister and Ministers until they retire, and presides over the Cabinet, which makes major policy decisions. Currently, the Cabinet is made up of nine ministers and two governors; it includes both nobles and commoners, who serve at the King's pleasure. The Legislative Assembly consists of the Cabinet, nine nobles elected by their peers, and nine people's representatives elected by the general population. The King appoints the Speaker from among the representatives of the nobles. The present system is fairly conservative, but the Prime Minister (the King's younger son) tries to bring more openness and democracy to the civil service, not without causing uneasy feelings. General elections have been held on 7 March 2002 and seven out of the nine people's representative belong to the Tonga Human Rights and Democracy Movement which, during the year 2002, has proposed an alternative structure of Government. The King did not consider this proposal.

### 3.1.2 Human Rights

There are no incidents of political or other extra judicial suppression. The Constitution, which dates back to 1875, forbids torture and inhuman punishment, and provides for a fair public trial, freedom of speech and of the press. The judiciary, whose top judges have been expatriates, is independent of the King and the executive branch.

## 3.2 Economic and Social situation

Basic economic data are summarised in the following table:

Population	101,000 (IMF 2001 est.), of which 33% in the capital
Land area	750 square kilometres, mainly four groups of islands
EEZ	700,000 square kilometres
GDP per capita	US\$ 1,352 (IMF 2001/2002 est.)
GDP growth rate	3.0% (1999/00); 0.5% (2000/01); 1.5% (2001/02)
Inflation rate	5.0% (1999/00); 6.9% (2000/01); 10.4% (2001/02)
GOT total revenue	T\$ 93.2 million (US\$ 41.6 million), 2001/2002 estimate
GOT total expenditure	T\$ 99.4 million (US\$ 44.3 million), 2001/2002 estimate
Exports (f.o.b.)	US\$ 11.8 million (2000/01); US\$ 17.8 million (2001/02)
Imports (f.o.b.)	US\$ 60.8 million (2000/01); US\$ 65.9 million (2001/02)
Total public debt	62% of GDP (2001/2002); external debt=50% of GDP and domestic debt=12% of GDP
Gross internat. reserves	1.75 months (September 2002)

### 3.2.1 Economic situation, structure and performance

Tonga has a GDP per capita of US\$1,352 (IMF 2001/2002 est.), placing it in the lower middle-income group of countries, similar to most other countries in the region. Despite the relatively high GDP per capita, Tonga's economy is threatened by economic fragility, remoteness, insularity and high susceptibility to environmental events and natural disasters.

In 2001/02 the economy stagnated, with an inflation rate rising from 7% (June 2001) to 10% (estimate 2002). The exchange rate of the Pa'anga (national currency) depreciated 6.8% against the Euro during the year 2002.

Tonga depends on primary sector activities and tourism. Agriculture accounts for 23.7 % of GDP and is dominated by production of domestic food crops and a narrow range of cash crops (squash, root crops, vanilla, and watermelons). Services account for nearly 47 % of GDP, of which at least one-third is government activity in one form or another. Lack of economies of scale, limited capital and human resources, and physical isolation hinder the development of a strong manufacturing sector. Tonga's main commodity exports are squash (its exported variety is unique to Tonga) and fish. The potential in the fisheries sector is enormous. At present, production values vary between US\$ 3-8 million and only 7 or 8 licences are given out.

Emigration has played an important role in shaping economic activity. Nearly 80,000 ethnic Tongans are estimated to be residing overseas, with the majority in New Zealand, Australia and the USA. Overseas migrants come disproportionately from the highly educated segment of the population and are most likely to be in the productive age group. Cash remittances from overseas residents are estimated in the order of € 40 million per annum or the equivalent of 32 % of nominal GDP.

Substantial levels of official assistance have been provided to Tonga. During 1995-1998, external loans and grants averaged 17.5 % of GDP. Such flows have supported development of economic infrastructure and human resource services. Aid flows have also contributed to the build-up of a large public sector and to wage pressure in the formal sector.

A notable event during the year 2002 has been the loss of most of the assets of the Tonga Trust Fund (USD 26 million) due to poor advice on the management of the Fund.

### 3.2.2 Social Aspects

According to official statistics, absolute poverty does not exist in Tonga. Traditional community-oriented lifestyles and strong extended family ties provide safety nets for most community and family members. Nevertheless, the official statistics mask some serious emerging problems (e.g. high urban concentration, unhealthy living conditions, malnutrition, migration and increasing criminality), with implications for social services, the labour market, and living standards.

### 3.2.3 Structure of the public sector and recent developments

The public sector plays a dominant role in Tonga. Total central government revenue and grants have averaged about 30 % of GDP over the past five years, while total expenditure has been slightly higher. In addition, the public enterprise sector is large and diverse, comprising of enterprises engaged in a wide range of activities (e.g. utilities, tourism, transportation, banking, and fishing). As a result, the government is also a major employer in the economy.

Recent reports of the ADB suggest that the public sector in Tonga is characterised by low productivity, certain inefficiencies and a bias against foreign investment. The size of the public sector and its role in the economy remain major issues.

Wages and salaries of the public sector accounted for 44 % of current expenditures and represented 14.8 % of GDP in 2001/02. This large share crowds out expenditures on purchases of essential goods and services, and limits the domestic resources available for capital investment. It is particularly relevant for economic growth over the medium term and for higher standards of living for the population that current and capital expenditures on productive and social sectors rise substantially more, while the amount spent on general public services has to decline.

## 3.3 External Environment

### 3.3.1 Balance of Payments

Tonga's external balance of payments can be characterised by large trade deficits, workers' remittances and tourism receipts. While large trade deficit positions are not uncommon in small South Pacific countries, Tonga is unique in its heavy reliance on workers' remittances. External current account deficits have averaged 5-6% of GDP, largely financed by official inflows, comprising concessionary loans and grants. In April 2002 the current account deficit reached 10% of the GDP.

### 3.3.2 Merchandise Trade

Squash, the main export item since the late 1980s, accounts for about 50 % of total merchandise exports. Prospects for exporting more root crops and vanilla are not good due to high transportation costs and competition from other countries. To diversify its exports, Tonga is experimenting with other products such as kava, nonu leaves, and pearl farming. Tonga is also promoting the fishing industry as a new source of foreign exchange earnings. Meanwhile, manufactured goods exports still remain below US\$1 million a year and it is unlikely to grow rapidly in the immediate future.

### **3.4 Sustainability of Current Policies**

#### **3.4.1 Economic Development**

For an economically sustainable development it is crucial that the authorities conceive policies which favour the existing potential for economic growth, which reduce the public sector expenditure for services, which promote capital expenditure and create employment for the young and unemployed. This is a difficult and time-consuming task, but the Government has made first efforts in this direction and it is decided to continue.

#### **3.4.2 Unemployment**

Unemployment is an area of increasing concern, particularly youth unemployment. About 2000 school leavers enter the labour force each year, of which an estimated 500 are able to find regular paid employment. Youth represents an important percentage of unskilled and untrained labour force. This reveals a certain degree of incoherence between the education system and the needs of the labour market. The public sector reform will also lead to an increase of lost jobs in the longer term; the private sector will not be able to absorb them immediately without problems.

Longer term sustainability requests therefore an in-depth discussion about a re-orientation of the education policy and strategy at all levels, and in particular at the level of primary education and vocational training, two levels where future EC co-operation will focus on.

#### **3.4.3 Gender Issues**

The Pacific Human Development Report (UNDP 1999) reveals that the Human Development Index (HDI) for females in Tonga is six percent higher than for males. This largely reflects the higher life expectancy of 71 years for women, compared to 65 years for men. Women's status as measured by the Human Poverty Index (HPI) is also slightly higher than men's.

The status of women in Tongan society is inextricably linked to the highly stratified feudal order that lies at the heart of this constitutional monarchy. Women in Tonga have traditionally had a nominal status generally superior to that of men, but this status has gradually been declining as a result of demographic and social changes. Rapid urbanisation has also seen a decline in traditional values, and one consequence of large-scale international migration is that women are often left behind to manage as single parents.

#### **3.4.4 Environment**

Tonga's limited land resources in conjunction with high population growth rates in urban centres have put considerable pressure on the country's natural resources and worsened its environmental problems. Due to limited land resources, mangrove forests have been cleared and filled to make home sites. Conversion of forest land for agriculture purposes in the past has virtually destroyed Tonga's entire indigenous forest resources with the remaining area of natural hardwood

forest being estimated at about 4,000 hectares, most of which is located on steep and inaccessible areas of 'Eua island.

#### 3.4.5 Governance: Sound Development Management

As noted earlier, Tonga's constitutional monarchy represents a unique political system in the Pacific region. Tonga is also the only country in the region that succeeded in protecting itself from colonisation, a fact that has given strength to the country's aristocratic system and cultural values over the years. The government has embarked on an integrated economic and public service reform programme. The four core legislative changes, which form the foundation of the reform, namely the Public Finance Management Act, the Public Enterprise Act, the Revenue Administration Act and the Public Service Act was approved by Parliament in November 2002. These four pieces of legislation form the foundation for restructuring the public sector and refocusing on private sector led growth.

The core legislation was complemented by the approval by Parliament of the Foreign Investment Act and the Business Licence Act.

A 10 million USD loan agreement was negotiated with the ADB and the first tranche was disbursed in June 2002 in order to finance the Government's reform programme. Further support is anticipated from major bilateral and multilateral donor partners.

The Reform Programme is likely to reduce the number of civil servants and possibly increase the number of unemployed. However, the Government is planning to focus on its core functions, to improve the quality and performance of essential services, and to create additional private sector opportunities to take over activities formerly undertaken by the Government. This trend is anticipated to provide for additional employment opportunities and to increase the probability of more sustainable economic development - if the labour market is able to supply the adequate staff with the appropriate training.

## 4. Overview of past and on-going cooperation

Development co-operation continues to be crucial to the development of the Tongan economy. Tonga is almost completely relying on donor funds for infrastructure and provision of technical assistance for human resource development.

Since 1975 (first Lome Convention) Tonga has been signatory to all of the Lome Conventions covering a twenty-five year period. Through the various instruments of the Conventions, it has received a sizeable amount of grant and (concessionary) loan funding.

The total allocation to Tonga's National Indicative Programmes (NIP) under the successive Lome Conventions alone amounts to **€ 26.8 million** and is detailed as follows:

<b>Lome Convention</b>	<b>EDF</b>	<b>NIP amount in €</b>
Lome Convention I	4	3,200,000
Lome Convention II	5	4,100,000
Lome Convention III	6	6,500,000
Lome Convention IV	7	6,000,000
Lome Convention IV/2	8	7,000,000

In addition, Tonga benefited from Stabex funds, interest subsidies, and risk capital. The European Investment Bank funded so far twelve operations for a total amount of € 11.8 million, the bulk of which were handled through the Tonga Development Bank. Another loan to the Tonga Development Bank is under consideration. The Centre for Development of Enterprises (CDE) is also active in Tonga with technical assistance, studies and marketing projects for companies in tuna, coconut and agriculture industries.

#### **4.1 Focal sectors**

Since Lome III, the EU programme has focussed as core donor on the development of the Vava'u Group of islands. This approach of integrated regional development and the concentration of core donors in each of the regional groupings have ensured that there are funds available for concerted development efforts. The Vava'u Region has benefited from a total of € 15.8 million EU funds to its development over the last fifteen years (EDF 6, 7 and 8). Under a three-phase programme funds were spent especially for infrastructure, energy and agricultural projects, but no activities in the social sectors of the Group. After the first phase of the Vava'u Development Programme (VDP) implemented in 1997/98, a second phase (VDP II) confirmed the benefits of this approach for both, the target groups and the donor organisation. The financing decision for the continuation of the Programme (VDP III) has been taken by the Commission in June 2001 and implementation has started.

##### **4.1.1 9<sup>th</sup> EDF Focal sector – Vava'u Social Sector Support Programme**

The CSP foresees the allocation of 100% of the NIP, i.e. €3.7 million for the enhancement of social services in Vava'u, including participation of the NSA. This will be implemented through: (1) a new Microprojects programme (€0.7 million + €0.3 million from balances) and (2) the Vava'u Social Sector Support Programme (€3 million).

##### **a) Results**

The CSP was signed in July 2002, at the 3<sup>rd</sup> ACP Summit in Nadi. A draft financing proposal was first produced in November and is currently being discussed.

The proposal is for a programme focusing on Education, Health and Sanitation, on the Vava'u group of islands, in the North of Tonga. It will be implemented by the responsible Ministries, in line with the outcomes of the Education and Health sector reforms that are being elaborated by the government of Tonga with support from several donors (NZ Aid, ADB, World Bank, EU). The programme will be

implemented through Annual Work Programmes and will support the Government of Tonga's initiatives in improving the delivery of services in the above areas, including structural improvements, provision of essential medical and educational equipment and supplies, sanitation operations and related public awareness campaigns.

b) Progress in activities

It is expected that the financing proposal will be finalised during the month of March 2003 and subsequently submitted to headquarters for presentation to the EDF Committee 2003 during the 3<sup>rd</sup> quarter and signature of the Financing Agreement during the 4<sup>th</sup> quarter of 2003. Disbursements should start immediately after. This schedule is in line with the forecasts presented in the CSP and in the 2001 Joint Annual Report.

4.1.2 8<sup>th</sup> EDF – Vava'u Development Programme III

The 8<sup>th</sup> EDF's NIP envisaged interventions aimed at increasing the production of goods and services, in particular in the sectors of agriculture, fisheries and tourism.

a) Results

The actual implementation of the project started in the year 2002. Main interventions are still under implementation. There are not yet firm results.

b) Progress in activities

The tender for the infrastructural component of the project was opened on 21/12/2001. Unfortunately no contract could be signed following this tender, since there was no bid within the available budget.

The PMU, in charge of the management of the project, was selected after a restricted tender procedure, and it was fielded in August 2002.

In the mean time the tender dossier for the works was revised, in order to take into account some modification of the project that in the meantime were identified. At the end of 2002 negotiations were still ongoing with the selected contractor, in order to be able to sign the contract for the infrastructural component of the project.

The tourism road component of the project started, under a Work Plan and Cost Estimate signed with the Ministry of Works. The works are well advanced.

Other actions undertaken by the project in 2002 include the preparation and approval of a Work Plan for the PMU, actions in the field of extension (agriculture), liaison with the different line Ministries, recruitment of staff.

The key figures for the project are as follows (31/12/2002):

Primary Commitment:	5,200,000
Secondary Commitment:	1,268,000
Disbursed:	246,038

It is evident that the delay caused by the unsuccessful tender for works had a profound impact on the commitment and disbursement rates. It is envisaged that the project will be able to start the infrastructural component in May 2003.

#### 4.2 Projects and programmes outside focal sectors

The main project outside focal sector is a Microprojects programme, the implementation of which was completed at the end of 2002. The project is supported by a microproject unit, based in Vava'u, and finances microprojects not only in the geographical area of concentration in Vava'u, but also in other part of the country. A final evaluation has to be undertaken.

There were 18 microprojects completed at 31/12/2002, in different sectors like education, water supply, village roads and health.

The key figures of the project are:

Primary Commitment:	1,000,000
Secondary Commitment:	1,000,000
Disbursement:	576,055

To be noted that the figure on disbursement is somehow misleading, since many payments were still to be effected at the end of 2002.

Another project, which was initiated during the year 2002 (financed by 7th EDF reliquat), is the co-financing of a World Bank project, for the construction of cyclone proof housing.

The EDF component of the project is €532,169. Implementation of the whole project started in 2002 and the EDF component is envisaged to be used for activities during the year 2003.

Finally, a prefeasibility study concerning the upgrade of the Vava'u Lupepau'u airport has been delivered in April 2002 (commitment of € 80 000). This study was commissioned after the VDP III identification report established that the effectiveness of any proposed intervention on the island would be constrained due to the lack of international flights to and from Vava'u. There might be some follow-up concerning this project, as the consultant recommends carrying out a feasibility study.

## 5. Programming perspectives for the following years

### 5.1 National Indicative Programme

Vava'u Social Sector Support	2004	2005	2006	2007	2008	Total 2004/08
Second.Commitments (in € million)	1.00	1.00	1.00	0.70	-	3.70
Disbursements (in € million)	0.75	0.75	0.75	0.75	0.70	3.70

## **5.2 Regional co-operation**

Fisheries, tourism, trade and disaster preparedness are areas of particular relevance in the context of Tonga-EU cooperation. All received or will receive support under the 8<sup>th</sup> and 9<sup>th</sup> EDF regional programme.

Of particular relevance for Tonga is the link between the NIP and the HRD programme under the 9<sup>th</sup> EDF RIP. It is expected that Tonga will benefit from the regional programme to strengthen its education planning capacity and strategy for the sector. The timing of the regional programmes fits in well with the country's on-going reform of the Education sector. Tonga can also benefit from regional funding for implementation of some aspects of the strategy and, most importantly, will benefit from the building of a pool of knowledge on Pacific Education reforms, allowing for the sharing of good practices and for learning from other countries' experiences.

## **6. 2003 Annual Operational Reviews – specific themes**

### **6.1 The speeding up of the use of old EDF Resources**

The financial overview at the end of 2002 (annex 1) provides the necessary information about completed and ongoing projects. 2 programmes are still open under the 7<sup>th</sup> EDF. All the 8<sup>th</sup> EDF programmes are classified as ongoing at the end of 2002. One of them is about to be closed: the Microproject programme under Lome IV bis will undergo a final evaluation early 2003. The feasibility study for the Lupepau'u airport should also close in 2003. The other 8<sup>th</sup> EDF programmes are just starting.

### **6.2 Setting indicators and targets for measuring poverty reduction and results in focal sectors**

#### **6.2.1 Indicators for measuring poverty reduction**

In March 2003, the government of Tonga has attended a Pacific Regional Workshop on Millennium Development Goals. During that meeting, two issues were addressed:

- To assess how the country has achieved the targets specified in the MDG.
- To develop a draft National Action Plan for the Millennium Development Goals.

For this occasion, ADB compiled a document explaining that Tonga has already achieved several of the targets specified in the MDG. It has a very high literacy rate and high primary and secondary enrolment ratios. Health indicators have been steadily improving, but there is a rapid increase in non-communicable diseases. Available data suggest that access to safe water and sanitation is widespread. There are, however, signs of rising unemployment and a rural-urban drift towards main islands. Efforts need to be strengthened to ensure that all parts of the population have access to essential basic social services and quality education (ADB, 2003).

The main activities the government is planning to undertake by the end of 2004 are (see annex 2):

- Aligning the MDG with National Development Strategies
- Tailoring the targets and indicators
- Creating a MDG taskforce that is going to organize data collection, data analysis and eventually publication of the MDG report.
- Finally create national awareness about the MDG.

At this occasion, it is important to note that the Commission has also worked jointly with Member States and international organizations to define a short set of indicators (see annex 3) drawn from the MDG, that should be monitored across all countries to give a comparable overview of progress towards poverty reduction. It will be interesting that the MDG taskforce of Tonga integrates these indicators before June 2003, deadline for the Tongan “tailoring of indicators”.

#### 6.2.2 Indicators for measuring results in focal sectors

The identification of indicators and their source of verification is part of the work currently under way and will be integrated in the financing proposal. In the meantime we have elaborated on the indicators presented in the CSP and in the 2001 joint annual report as follows:

##### a) Impact indicators

These long-term indicators are based on the objectives of the Tonga sector strategies for education and health. They shall be measured at the end of the programme as part of the final evaluation.

For education, two impact indicators have been identified. For all the source of verification will be MoE statistics (collected annually):

- Reduce the rate of repeaters for class 6 – in 2000 this was 1024 (182 in Vava’u) out of a total 15337 students (rate: 6.677%) and in 2001 it was 1016 (no data available for Vava’u) out of 15467 (rate: 6.567%). MoE aims to reduce the rate of class 6 repeaters by 10% up to the end of this programme, bringing it close to 6%.
- Increased achievement rate at the end of secondary school – in 2001 the national average for the “Pacific Senior Secondary Certificate Examination” was 60%. MoE aims to improve this by nearly 10% and bring the national average close to 65% by the end of the programme.

For health, two impact indicators have been identified. For all the source of verification will be MoH statistics (collected on a regular basis and compiled annually):

- Greater accessibility of primary health service, bringing health care closer to the people – up to the end of the programme all the 4 health outposts in Vava’u (2 in the main island – Taanea and Tefisi - and 2 in small islands – Farevai and Hunga) will be renewed, equipped and staffed.

- Decrease by 5% in the number of non-communicable diseases in the Vava'u health district, through improved health services and public awareness campaigns.

b) Short-term indicators

These indicators will be identified annually as part of the AWP and will stem directly from the activities identified (eg. Number of schools/clinics refurbished and equipped, number of houses for education/health staff built, etc.).

**6.3 Dialogue in country with the NAO and Non-State Actors**

There has been a constant dialogue between the NAO and the Delegation during the year 2002. Nevertheless it has to be taken into account that the Commission closed his office in Tonga, and that the last Resident Adviser left his posting in July of last year.

In what concerns the 9<sup>th</sup> EDF and the involvement of the NSA, the system has been working satisfactorily. A Civil Society Forum of Tonga was constituted to bring the NSA into the Cotonou process and the "Friendly Islands Teachers' Association" provides its secretariat. The NSA have been invited to participate in all relevant discussions and decision points and on the occasion of missions. They are currently finalising their proposals for inclusion in the 1<sup>st</sup> Annual Work Programme, to be financed under the Vava'u Social Sector Support Programme, in which 10% has been allocated for the NSA.

## **7. Conclusions**

The Polynesian Kingdom of Tonga, just west of the international dateline, is the only constitutional monarchy in the Pacific, with a population of 101,000 people. Nearly 80,000 ethnic Tongans are also estimated to be residing overseas, the majority in New Zealand, Australia and the USA. The Kingdom covers nearly a thousand times more sea than land. The recent high population growth rates in urban centres and the rural-urban drift towards main islands have put considerable pressure on the country's natural resources and created environmental problems.

Tonga differs from other Pacific countries in that, as a protectorate, it was never really colonised. The country is fully independent since 6 June 1970 and a member of the United Nations. Tonga is a politically stable country, dominated by a hierarchical structure and a rather homogenous population. The potential for violent conflicts is minimal at present. Traditional values and indigenous culture are largely maintained in the society. The relationships are based on a community-oriented lifestyle and on strong extended family ties.

Despite a relatively high GDP per capita (1,352 USD), macroeconomic performance has deteriorated in Tonga in recent years. In 2001/02, the economy stagnated, accusing an inflation rate of 10%; the exchange rate of the Pa'anga depreciated 6.8% against the Euro, and the external balance of payments accused large trade deficits, in average 5-6% of the GDP. At the same time, unemployment has become an area of increasing concern, particularly among youths, who represent an important percentage of unskilled and untrained labour force.

To improve the economic performance, Tonga's government has set up a Strategic Development Plan 2001-2003, which objectives are to accomplish a stable economic and financial environment with less public and more private sector involvement and reduced reliance on official foreign assistance. A comprehensive and integrated economic and public service reform programme was launched in 2001 and implementation commenced in mid 2002, with major funding being provided through a loan from the ADB. Six major pieces of legislation form the foundation of the reform that was passed during the 2002 Parliamentary Session. The improvement of the economic situation will take time. Government has many challenges, which have to be addressed, including the rationalisation of the civil service, the review of the level and composition of public expenditure and revenues, as well as the observation of more budgetary discipline.

Other indicators are nonetheless positive for Tonga: According to a report recently compiled by ADB the country has already achieved (or almost achieved) several of the targets specified in the MDG; it has a very high literacy rate and high primary and secondary enrolment ratios; health indicators have been steadily improving, although there is a rapid increase in non-communicable diseases.

Available data suggest that access to safe water and sanitation is widespread. Efforts need to be strengthened to ensure that all parts of the population have access to basic social services and quality education.

Development co-operation continues to be crucial to the development of the Tongan economy. The Kingdom is almost completely relying on donor funds for infrastructure and provision of technical assistance for human resource development. Since 1975 (first Lome Convention), Tonga has been signatory to all of the Lome Conventions covering a twenty-five year period. Through the various instruments of the Conventions, it has received a sizeable amount of grant and (concessionary) loan funding. The total allocation to Tonga's National Indicative Programmes (NIP) under the successive Lome Conventions alone amounts to € 26.8 million.

Since Lome III, the European Union has focused, as core donor, on the development of the Vava'u Group of islands. Under a three-phase programme, funds were spent especially for infrastructure, energy and agricultural projects, but no activities in the social sectors of the Group. The 8<sup>th</sup> EDF NIP envisaged solutions aimed at increasing the production of goods and services in the sectors of agriculture, fisheries and tourism. The actual implementation of the projects is proceeding, with the fielding of a Project Management Unit, the negotiation of the contract on the infrastructure works, the construction of a tourism road and the implementation of several project activities by the PMU under a work programme. Overall, the disbursements in 2002 have been low, mainly due to the delay caused by the unsuccessful tender for works. Outside the focal sector, the Microprojects Programme, involving projects in areas like education, water supply, village roads and health, was completed at the end of 2002.

Presently the 9<sup>th</sup> EDF co-operation between Tonga and the European Union is shifting from infrastructure development to improvement in the delivery of social services in Vava'u, including the participation of Non State Actors (NSA). The NIP foresees the allocation of € 3.0 million for the Vava'u Social Sector Support Programme and € 0.7 million for a new Microproject Programme (+ € 0.3 million from balances). This programme is in line with the outcomes of the Education and Health sectors reforms that are being elaborated by the government of Tonga with support from several other donors. The programme will directly help to ensure that the population has better access to essential social services and quality education, and will work towards improving the targets set in the MDG.

Initial meetings with the NSA have been well attended. NSA have been accepted by government as a full partner in the context of Cotonou.

**ANNEX 1: Financial Overview 2002, Situation as of 31.12.2002**  
(€ million)

<b>A</b>	<b>Avaiable Funds</b>	<b>1975-1980</b>	<b>1980-1985</b>	<b>1985-1990</b>	<b>1990-1995</b>	<b>1995-2000</b>	<b>2002-2007</b>	<b>Total</b>
		<b>(Lomé I)</b>	<b>(Lomé II)</b>	<b>(Lomé III)</b>	<b>(Lomé IV)</b>	<b>(Lomé IV bis)</b>	<b>Cotonou</b>	
	NIP	3,20	4,1	6,5	6,0	7,0	3,7	30,5
	Stabex	1,20	4,0	4,0	2,0	0,37		11,6
	NGO's, Cyclone aid	0,10	1,4			0,14		1,6
	EIB		2,3	3,8	5,7			11,8
	<b>total</b>	<b>4,5</b>	<b>11,8</b>	<b>14,3</b>	<b>13,7</b>	<b>7,5</b>	<b>3,7</b>	<b>55,5</b>

<b>B</b>	<b>Disbursed Funds</b>	<b>1975-1980</b>	<b>1980-1985</b>	<b>1985-1990</b>	<b>1990-1995</b>	<b>1995-2000</b>	<b>2002-2007</b>	<b>Total</b>
		<b>(Lomé I)</b>	<b>(Lomé II)</b>	<b>(Lomé III)</b>	<b>(Lomé IV)</b>	<b>(Lomé IV bis)</b>	<b>Cotonou</b>	
	NIP	3,2	4,1	6,4	5,05	1,0		19,8
	Stabex	1,2	4,0	4,0	1,9	0,4		11,5
	NGO's, Cyclone aid	0,1	1,4					1,5
	EIB		2,3	3,8	5,7			11,8
	<b>total</b>	<b>4,5</b>	<b>11,8</b>	<b>14,2</b>	<b>12,7</b>	<b>1,4</b>	<b>0,0</b>	<b>44,6</b>

**C Projects under 1990-1995 (Lomé IV) NIP**

<b>Project title</b>	<b>Allocated</b>	<b>Disbursed</b>	<b>Status</b>
Training in PCM	0,01	0,01	Completed
Multannual Microproject Prog - Vava U	0,50	0,31	Ongoing
TA to NAO	0,10	0,10	Completed
Neiafu Harbour Improvement - design	0,06	0,06	Completed
Neiafu Water Supply - Survey	0,04	0,04	Completed
Fua'amotu Airport Project	0,27	0,27	Completed
Vava'U Development Programme Phase II	5,00	4,23	Ongoing
<b>TOTAL</b>	<b>6,0</b>	<b>5,0</b>	

**D Projects under 1995-2000 (Lomé IV bis)**

<b>Project title</b>	<b>Allocated</b>	<b>Disbursed</b>	<b>Status</b>
Vava'U Development Programme Phase III	0,30	0,27	Completed
Microproject Prog	1,00	0,58	Ongoing
Vava'U Development Programme Phase III	5,20	0,10	Ongoing
Feasibility study – Lupepau'u Airport	0,08	0,05	Ongoing
<b>TOTAL</b>	<b>6,6</b>	<b>1,0</b>	

**ANNEX 2: Proposed National Action Plan TONGA  
(March 2003-December 2004)**

<b>Strategies</b>	<b>Activities</b>	<b>Timeline</b>	<b>Lead Agency (Ministry/Department)</b>	<b>Comments (incl. resource requirements)</b>
1. Achieving MDGs	Aligning the MDGs with National Development Strategies/Plans  Tailoring the targets & indicators  ➤ <i>Obtaining Government approval</i>	June 2003	Ministry of Foreign Affairs (Central Planning Dept, National Statistics Office, Ministry of Finance and NGOs)	
2. Monitoring and Reporting	➤ MDG Taskforce  ➤ Data Collection/Collating  ➤ Data Analysis	July 2003  August 2003 through to November 2004	Central Planning Dept  National Statistics Office	Need:  ➤ Technical Assistance ➤ Grants ➤ Domestic budget allocation
3. Campaign/Advocacy	National awareness  ➤ Public ➤ Private ➤ Others	March 2003 through to December 2004	MDG Taskforce	Need:  ➤ Financial resources

### ANNEX 3: MDG indicators selected by the EU

Indicators	2000	2001	2002	2003	2004
<b>Impact indicators</b>					
1. Proportion of population below \$1 per day					
2. Prevalence of underweight children (under 5 years of age)					
3. Under-five mortality rate					
<b>Outcome indicators</b>					
4. Net enrolment ratio in primary education					
5. Primary Completion Rate					
6. Ratio of girls to boys in primary, secondary and tertiary education					
7. Proportion of births attended by skilled health personnel					
8. Proportion of 1 year old children immunised against measles					
9. HIV prevalence among 15-24 year old pregnant women					
10. Proportion of population with sustainable access to an improved water source					