

**PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE**

December 9, 2016
Report No.: 110922

Operation Name	Second Inclusive Growth Development Policy Operation
Region	East Asia and Pacific
Country	Tonga
Sector	Central government administration (70%); General public administration (20%); General finance sector (10%);
Operation ID	P159262
Lending Instrument	Development Policy Lending
Borrower(s)	Kingdom of Tonga
Implementing Agency	Ministry of Finance and National Planning
Date PID Prepared	December 9, 2016
Estimated Date of Appraisal	February 8, 2017
Estimated Date of Board Approval	April 26, 2017
Concept Review Decision	Following the concept review, the decision was taken to proceed with the preparation of the operation

I. Key development issues and rationale for Bank involvement

Tonga is a small Pacific island nation of approximately 106,000 people that has recently undergone major democratic changes. This operation is the second of a planned programmatic series of three which reflects a strong reform program under the new Government, and a continuation of the reform partnership. This program builds on two previous two-operation programs that immediately preceded it over the last four fiscal years. The Bank has worked with the Government of Tonga (GoT) and development partners to elaborate key reform actions via the formulation of a Joint Policy Reform Matrix (JPRM) that outlines shared reform priorities, and is fully aligned with the Government's national development plan – the Tonga Strategic Development Framework 2015 – 2025 (TSDF).

II. Proposed Objectives

The Program Development Objective is to: i) Support fiscal resilience by means of strengthened revenue mobilization and strategic fiscal and debt policies; ii) pursue inclusiveness and government accountability by improving compliance with public procurement regulations, improving the adequacy of responses to external audit, and introducing new regulatory frameworks into selected sectors; and iii) support a more dynamic and inclusive economy by adopting investor-friendly foreign investment

legislation, extending coverage of the credit bureau, and improving oversight and private participation in public enterprises.

III. Preliminary Description

Supported reforms will improve fiscal resilience, support a modern and accountable state and support a more dynamic and inclusive economy. To support fiscal resilience, policy actions in this operation include strengthening of revenue collection through excise tax increases; a new rules-based fiscal strategy; and the implementation of a public sector remuneration review. To support an inclusive, modern and accountable state, this operation supports policy actions that introduce a new procurement tracking system; and a new multi-sector regulator policy. To support a more dynamic and inclusive economy, the operation supports revised foreign investment legislation, regulations to support credit reporting and the commercialization of at least one public enterprise.

The programmatic DPO series is designed to set the foundations for achievement of key national outcomes under the Government's TSDF. The series as a whole will support national outcomes one to five under the TSDF. Fiscal and economic management reforms under pillar one will support the government's inclusive development priority, and improve the identification and resourcing of key public service delivery. Pillar two will support more responsive and effective government systems and delivery of key utility and infrastructure services for all of Tonga. Pillar three will support the preconditions for more dynamic, inclusive and sustainable growth. These supported outcomes are those which are associated with the comparative advantage of development policy programming, while other outcomes are being supported by investment operations and technical assistance by the World Bank and by other development partner programs.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impact

Extreme poverty is rare in Tonga but there are significant levels of material deprivation, particularly in rural areas. While traditional systems of support have typically provided some protection to poor and vulnerable households, economic shocks, urbanization and social change have put pressure on these informal risk-sharing mechanisms. Statistics based on the 2009 Household Income and Expenditure Survey (HIES) show that about one in ten rural households lives below the \$3.10 a day poverty line.

Reforms supported by the program are expected to help reduce poverty and boost shared prosperity via market-based protection and shared proceeds from growth. The public sector is a key provider of infrastructure and services that low-income households need to improve their opportunities. This operation will lay the foundations of a more ample and

efficient public resource through increased resource mobilization and improved procurement and financial systems. The reforms under Pillar 2 of the program are focused on increasing the level of private sector activity which is expected to bring jobs and opportunities to Tonga. But the reforms support inclusive growth by setting standards in the labor market which will make sure that jobs created are good quality and without discrimination, which will particularly benefit women. Financial market reforms to extend the credit bureau will cut the cost and risk of extending credit to small-scale businesses and entrepreneurs, thereby extending access and opportunity to those from lower-income groups. Finally, the third pillar aims to directly address poverty by minimizing the cost of basic goods and services through ensuring effective regulation and private sector competition.

Supported reforms have been designed to not have a negative impact on the poor, and the poverty impacts of the program will be monitored as it proceeds. Public enterprise reforms will address possible short-term negative impacts by using poverty and social impact assessments to identify any groups that might have been affected and include measures to make sure negative impacts are mitigated.

Environment Aspects

67. The policy actions supported under the operation are not expected to have a significant impact on Tonga's environment, natural resources or forests. Based on the expectation that very limited, if any, green field development would result from the Program, it is considered that adequate protection would be provided by the existing legal and administrative frameworks for environmental assessment and land management in Tonga.

V. Tentative financing

Source:	(US\$m.)
Borrower/Recipient	0.0
International Development Association (IDA)	1.8
Australia Department of Foreign Affairs and Trade	3.0
New Zealand Ministry of Foreign Affairs and Trade	1.0
Total	5.8

VI. Contact point

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