

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

December 1, 2015  
Report No.: 101885

<b>Operation Name</b>	First Inclusive Growth Development Policy Operation
<b>Region</b>	East Asia and Pacific
<b>Country</b>	Tonga
<b>Sector</b>	Central government administration (70%); General public administration (20%); General finance sector (10%);
<b>Operation ID</b>	P155133
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	Kingdom of Tonga
<b>Implementing Agency</b>	Ministry of Finance and National Planning
<b>Date PID Prepared</b>	December 1, 2015
<b>Estimated Date of Appraisal</b>	January 25, 2016
<b>Estimated Date of Board Approval</b>	March 16, 2016
<b>Concept Review Decision</b>	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**

In December 2014, general elections brought a change of government, the first in which the majority of the representatives are democratically elected rather than appointed as nobles. This operation marks the commencement of a new programmatic engagement which reflects a strong reform program under the new Government, and a continuation of the reform partnership. This program builds on two previous two-year 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) Strengthen revenue mobilization and introduce strategic fiscal and debt policies in order to build fiscal resilience; ii) improve compliance with public procurement regulations, improve budgetary classifications, improve the adequacy of responses to external audit, and introduce new regulatory frameworks into selected sectors in order to support an inclusive, modern and more accountable state; and iii) adopt investor-friendly foreign investment legislation, extend coverage of the credit bureau, and improve oversight and increase private participation in

public enterprises and introduce basic labor laws in order to support a more dynamic and inclusive economy.

### **III. Preliminary Description**

The policy areas under consideration for the proposed operation include: i) Tax policy and risk-based compliance reforms to support progressive revenue mobilization while further tackling the problem of NCDs; ii) a strategic medium-term debt management framework and fiscal anchoring system; iii) implementation of a new public sector remuneration framework to ensure adequate pay and fiscal sustainability; iv) procurement and financial management reform; v) reforms to enhance external audit effectiveness; vi) regulatory reform in telecoms and utilities to support competitive practices and pricing; labor market regulatory reform; vii) reform to support foreign investment; viii) launch of a new program of Public Enterprise reform.

The proposed new programmatic DPO series is designed to set the foundations for achievement of key outcomes under the Government's TSDF 2015-2025. The series as a whole will target selected national outcomes from the TSDF. Governance and economic management reforms under pillar one will support the government's inclusive development priority, improve the responsiveness and effectiveness of government and improve key public service delivery via improved resourcing. Under pillar two, a series of key steps to set the preconditions for more dynamic, inclusive and sustainable growth will be taken. Pillar three will directly target improved governance and delivery of key utility and infrastructure services for all of Tonga.

### **IV. Poverty and Social Impacts and Environment Aspects**

#### *Poverty and Social Impact*

Reforms supported by 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 house 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. NCDs are a major cause of mortality, morbidity and economic inactivity in Tonga, all of which are drivers of poverty. Although some households may pay more in the short-term for the three goods being taxed, offsetting reductions in duty for more healthy foods should minimize any short-term increase in costs, while substitution towards readily-available alternatives will provide much greater health and financial benefits over their lifetime. Reforms will also focus 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 and introduce new bankruptcy law 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 operation aims to increase improve household budgets by minimizing the cost of basic goods and services through ensuring effective regulation and private sector competition.

### *Environment Aspects*

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)	2.0
Australia Department of Foreign Affairs	2.2
Total	4.2

## **VI. Contact point**

### **World Bank**

Contact: Mr David Knight

Title: Economist

Tel: +61-2-9235-6563

Email: [dknight1@worldbank.org](mailto:dknight1@worldbank.org)

Location: Sydney, Australia

### **Borrower**

Contact: Mr Tatafu Moeaki

Title: Chief Executive Officer, Ministry of Finance and National Planning

Tel: +676-23066

Email: [secretary@finance.gov.to](mailto:secretary@finance.gov.to)

### **For more information contact:**

The InfoShop

The World Bank

1818 H Street, NW

Washington, D.C. 20433

Telephone: (202) 458-4500

Fax: (202) 522-1500

Web: <http://www.worldbank.org/infoshop>