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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT FOR

TWO PROPOSED DEVELOPMENT POLICY GRANTS

IN THE AMOUNT OF SDR 13.6 MILLION (EQUIVALENT TO US$19.0 MILLION)

COMPRISING

A DEVELOPMENT POLICY GRANT OF SDR 7.9 MILLION (EQUIVALENT TO US$11.0 MILLION)

AND

A DISASTER RISK MANAGEMENT DEVELOPMENT POLICY GRANT WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION (CAT-DDO) OF SDR 5.7 MILLION (EQUIVALENT TO US$8.0 MILLION)

TO

THE KINGDOM OF TONGA
FOR THE

SECOND RESILIENCE DEVELOPMENT POLICY OPERATION WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

OCTOBER 28, 2021

Macroeconomics, Trade And Investment Global Practice
Urban, Disaster Risk Management, Resilience and Land Global Practice
East Asia And Pacific Region

Kingdom of Tonga
GOVERNMENT FISCAL YEAR
July 1—June 30

CURRENCY EQUIVALENTS
(Exchange Rate Effective as of September 30, 2021)

Currency Unit	Tongan Pa'anga
US$ 1.00	TOP$ 2.27
SDR 1.00	US$ 1.40887

ABBREVIATIONS AND ACRONYMS

ADB	Asian Development Bank
ASP	Adaptive social protection
ANZ	Australia and New Zealand
BSMC	Budget Support Management Committee
Cat-DDO	Disaster Risk Management Catastrophe-Deferred Drawdown Option
CBD	Central Business District
CCPA	Climate Change Policy Assessment
CEO	Chief Executive Officer
CERC	Contingent Emergency Response Component
COVAX	COVID-19 Vaccines Global Access
DFAT	Australia's Department of Foreign Affairs and Trade
DPO	Development Policy Operation
DRFS	Disaster risk financing strategy
DRM	Disaster Risk Management
DRR	Disaster Risk Reduction
DSA	Debt Sustainability Analysis
DSSI	Debt Service Suspension Initiative
EIA	Environmental Impact Assessment
FY	Fiscal Year
GBV	Gender-based violence
GDP	Gross Domestic Product
GoT	Government of Tonga
GRS	Grievance Redress Service
GRM	Grievance Redress Mechanism
HRM	Human resource management
HSRO	Housing Sector Resilience Office
IDA	International Development Association
IMF	International Monetary Fund
IPCG	MoH Infection Prevention and Control Guidelines
JNAP	Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management 2018–2028
JPRM	Joint Policy Reform Matrix
LMOM	Labour Mobility Operations Manual
LSU	MIA's Labour Sending Unit
MIA	Ministry of Internal Affairs
MoF	Ministry of Finance
MoH	Ministry of Health
MoRC	Ministry of Revenue & Customs
MTDS	Medium-Term Debt Management Strategy
MTED	Ministry of Trade and Economic Development
NBFIs	Non-bank financial institutions
NCDs	Non-communicable diseases National Disaster Risk
NDRMO	Management Office
NDVP	National Deployment and Vaccination Plan for COVID-19 Vaccines 2021–2023
NEF	National Emergency Fund
NEMO	National Emergency Management Office
NRBT	National Reserve Bank of Tonga
NZ	New Zealand
OHS	Occupational health and safety
PA	Prior Action
PCRIC	Pacific Catastrophe Risk Insurance Company
PDO	Program Development Objective
PEFA	Public Expenditure and Financial Accountability
PFM	Public Financial Management
PFTAC	IMF Pacific Technical Assistance Center
PIC	Pacific Island Country
PIC8 SCD	Systematic Country Diagnostic for 8 small PICs
PPA	Performance and Policy Actions
PREP	WB Pacific Resilience Project
PSC	Public Service Commission
PV	Present Value
RCF	Rapid Credit Facility
RPF	Regional Partnership Framework
SDFP	Sustainable Development Finance Policy
SDR	Special Drawing Rights
SET	Skills and Employment for Tongans Project
SFDRR	Sendai Framework for Disaster Risk Reduction 2015–2030
SORT	Standardized Operational Risk-Rating Tool
SWP	Australia's Seasonal Worker Programme
TC	Tropical Cyclone
TOP	Tongan Pa'anga
TSDF II	Tonga Strategic Development Framework 2015-2025
TVET	Technical and vocational education and training
UHC	universal health coverage
UNICEF	United Nations Children's Emergency Fund
WB	World Bank
WBG	World Bank Group
WHM	Working holiday makers
WHO	World Health Organization

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KINGDOM OF TONGA

SECOND RESILIENCE DEVELOPMENT POLICY OPERATION WITH A CATASTROPHE-DEFERRED DRAWDOWN OPTION

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P172742	Yes	2nd in a series of 2

Proposed Development Objective(s)

The proposed Development Policy Operation supports the Government of Tonga to: (i) strengthen public finances; (ii) enhance resilience to climate change, natural disasters, and health-related risks; and (iii) support economic recovery and improved labor market outcomes.

Organizations

Borrower:	KINGDOM OF TONGA
Implementing Agency:	MINISTRY OF FINANCE

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**19.00**

DETAILS

International Development Association (IDA)	19.00
IDA Grant	19.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

Moderate

Results

Indicator Name	Baseline	Current Value	Target
1. Domestic revenue as a share of GDP	24 percent (average FY16-FY18)	23 percent (average FY20-FY21)	25 percent or higher (FY24)
2. Cash balance as a share of recurrent expenditure (months)	3.5 months (average during FY19)	2.2 months (FY21)	1 – 2 months (average FY22-FY24)
3. Percent of new external debt that is concessional	100 percent (FY16-FY18)	100 percent (FY20-FY21)	100 percent (FY21-FY24)
4. Public-sector wage bill as a share of domestic revenue	54 percent (average of FY16-FY18)	58 percent (average FY20-FY21)	53 percent or lower (average FY23-FY24)
5. The Housing Sector Resilience Office (HSRO) is established, and its work plan is submitted to the National Emergency Management Committee on an annual basis	No dedicated unit for housing-sector recovery and risk reduction exists (FY19)	The HSRO is established. Its annual work plan for FY22 is under preparation (FY21)	The HSRO is established, and its annual work plan is submitted to the National Emergency Management Committee (FY23)
6. Annual report submitted to the National Disaster Risk Management Committee on the implementation of disaster risk reduction initiatives under the national disaster risk management policy	N/A	No report (FY21)	Report submitted (FY24)
7. Establishment of national registries of public schools and health facilities that include asset vulnerability information, and are used for policy and operational decisions to enhance resilience of public assets	No registries exist (FY19)	No registries exist (FY21)	Registries finalized (FY23)
8. Proportion of the eligible population (aged 15 years and over) that have received the COVID-19 vaccine, disaggregated by sex	N/A	38 percent (female) and 35 percent (male) (August 17, 2021)	75 percent (female) and 75 percent (male) (FY23)
9. Increased number of Tongans in Ministry of Internal Affairs (MIA) worker pools, with increased female participation	511 Tongans in the MIA worker pools, of which 32 percent are female (Dec 2019)	1409 Tongans in the MIA worker pools, of which 34 percent are female (July 2021)	2000 Tongans in the MIA worker pools, of which 37 percent are female (June 2023)
10. Improved reporting on credit union sector regulatory and supervisory activities	N/A	No annual reporting (FY21)	Annual reporting submitted to NRBT Board (FY24)

11. Confidential data is collected and maintained annually on: (i) sexual harassment complaints and how they were dealt with, disaggregated by ministry, procedure followed (formal or informal) and gender; and (ii) officials' experiences of sexual harassment, and knowledge and satisfaction of the policy	N/A	No data available on either indicator (FY21)	Data is collected annually on both indicators (FY23)

IDA PROGRAM DOCUMENT FOR A PROPOSED GRANT TO KINGDOM OF TONGA

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Operation (DPO) supports the Government of Tonga (GoT) to: (i) strengthen public finances; (ii) enhance resilience to climate change, natural disasters, and health-related risks; and (iii) support economic recovery and improved labor market outcomes.** The proposed operation is the second in a programmatic series of two and comprises two instruments with a total amount of SDR 13.6m (US$19.0m equivalent); a DPO of SDR 7.9m (US$11.0m equivalent) and a Disaster Risk Management (DRM) Development Policy Grant with a Catastrophe-Deferred Drawdown Option (Cat-DDO) of SDR 5.7m (US$8.0m equivalent). The Cat-DDO allows for the provision of quick-disbursing financing after a natural disaster or public health emergency. Australia, New Zealand (NZ), and the Asian Development Bank (ADB) are also providing budget support based on actions supported by this operation as part of a Joint Policy Reform Matrix.

2. **In 2020, Tonga suffered dual external shocks of the COVID-19 pandemic and Tropical Cyclone (TC) Harold, causing significant negative effects on the tourism-dependent economy and government finances.**[1] Tonga has not reported any community transmission of COVID-19, due to stringent border closures and quarantine efforts. However, strict international travel restrictions since March 2020 and domestic social-distancing measures have resulted in significant negative impacts on the tourism, retail and construction sectors. These impacts were compounded by TC Harold, a category 5 cyclone that struck Tonga in April 2020. The disaster is estimated to have affected 27 percent of the population and caused damages and losses equivalent to 12 percent of Gross Domestic Product (GDP). Fiscal revenues are declining while additional public expenditure has been required to support health-sector preparedness, roll out the COVID-19 vaccine, mitigate the negative economic impacts on households and businesses, and stimulate the economic recovery. The dual shocks struck while the nation was still recovering from the impact of TC Gita in 2018, the largest natural disaster since 1982, which caused damages and losses of 38 percent of GDP and affected over 80 percent of the population. The economy is projected to contract by 3.2 percent in FY21.

3. **Households have felt the full impact of the dual shocks, with the poorest and vulnerable among the most severely affected.** Extreme poverty was less than 1 percent in FY16 (the latest household income and expenditure survey), among the lowest in the Pacific. However, a quarter of the population suffers from hardship (a lack of cash for basic goods). Many of these people are facing significant additional hardship due to the impacts of the dual shocks. Around 30 percent of households have at least one member working in tourism-linked sectors—the sectors hardest hit by the border closure and strict social distancing measures. Business surveys indicate that over 60 percent of firms have reduced staff and/or reduced workers' hours in response to the economic downturn.

4. **The dual shocks have also exacerbated existing gender inequalities, including in the labor market.** Women's income-generating activities have been disproportionately affected by the ongoing border closures, as a larger share of their pre-pandemic employment was concentrated in contact-intensive sectors, including tourism. This has compounded the existing gender gap in labor force participation, which is 18 percentage points lower for women than men. The dual shocks have also worsened the high pre-existing levels of sexual harassment and gender-based violence (GBV) by displacing households, limiting access to services, and

[1] In December 2020, the World Bank Board approved the US$30m Tonga: Supporting Recovery After Dual Shocks DPO (P174683, the 'Dual Shocks' DPO) to support the immediate response to the dual shocks.

exacerbating economic insecurity. For example, the Tonga Women and Children Crisis Centre recorded a 54 percent increase in the number of cases in 2020. Addressing key constraints and improving labor market opportunities for women are thus critical to close gender gaps and support an inclusive recovery.

5. **Tonga's economic geography makes achieving sustainable economic growth particularly challenging; with these challenges accentuated by the pandemic.** Extreme remoteness, small population size, geographic dispersion, limited natural resources and acute climate and disaster vulnerability are the binding constraints to sustainable and inclusive growth. These characteristics result in very high costs of production for both the private and public sectors. They also limit the range of economic activities in which Tonga can be competitive. Ongoing border closures have highlighted the need to diversify the drivers of economic growth, including by enhancing labor mobility to maximize household incomes and improving financial sector regulation to increase financial stability and inclusion.

6. **Tonga is one of the countries most exposed to climate change and natural disasters in the world.** It is ranked as the second most at-risk nation in the world to natural hazards, due to the country's high exposure and vulnerability to extreme natural events (Bündnis Entwicklung Hilft, 2020). Tonga is also ranked in the bottom third of countries in terms of climate change preparedness (Notre Dame Global Adaptation Initiative, 2020). Catastrophic risk modelling suggests that the nation experiences an average annual loss due to natural disasters of 4.3 percent of GDP (PCRAFI Country Risk Profile, 2017). Climate change is already increasing these losses, and Tonga's key climate challenge is to build resilience and invest in adaptation measures. The reforms supported by this operation will help to improve Tonga's multi-hazard approach to resilience through risk reduction investments and preparing for natural disasters and climate change more proactively.

7. **The proposed Second Resilience DPO with a Cat-DDO (DPO2) builds on reforms supported by the First Resilience DPO (DPO1) and the 'Dual Shocks' standalone DPO.** Pillar 1 supports adoption of a new medium-term debt management strategy (MTDS), a policy on government guarantees, and tighter controls on public-sector wage bill spending. Pillar 2 supports the rollout of the COVID-19 vaccine, national DRM legislation and a national disaster risk financing policy. Pillar 3 supports reforms to strengthen labor mobility and financial sector stability, and the adoption of the nation's first public service sector sexual harassment policy. The reform program builds on and deepens reforms supported by the first DPO in the series (approved on May 12, 2020) and the standalone 'Dual Shocks' DPO (approved on December 16, 2020). The program represents a continuation of reform regarding fiscal sustainability, climate and disaster resilience, employment opportunities, and financial sector development. The hybrid structure of the operation is appropriate for Tonga, given the importance of reforms that increase resilience to shocks, and the need for financing that disburses quickly following a natural disaster or public health emergency.

8. **The macroeconomic policy framework is adequate for the purposes of this operation.** Economic growth is projected to recover in FY22 and FY23 to around 3 percent as tourism and related industries are expected to gradually recover. Growth will also be supported by reconstruction activity related to TC Gita and TC Harold, and a recovery in agriculture. Once the recovery is underway, the government is committed to a high-quality fiscal adjustment to stabilize debt dynamics and strengthen climate resilience. GoT has built credibility for prudent fiscal management through sustained recent efforts to increase domestic revenues, contain spending, and avoid any new non-concessional external borrowing. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue providing a credible nominal anchor. Foreign reserves are projected to remain adequate at around seven months of imports. Public

debt is sustainable, but the risk of debt distress is high. Tonga is participating in the Debt Service Suspension Initiative (DSSI) and has requested the DSSI extension to December 2021.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

9. **The substantial economic impacts of COVID-19 and TC Harold[2] have led to a contraction in economic activity in FY21**. Prior to the dual shocks, the economy was expected to expand by 2.9 percent in FY21 (2.1 percent in per capita terms). COVID-19 has affected economic activity through two transmission channels. On the external side, travel restrictions have reduced tourism exports and disrupted temporary worker programs and goods exports. On the domestic side, COVID-19 prevention measures and restrictions have led to business closures and curtailed construction activity. Additionally, TC Harold caused significant damage to housing, transport infrastructure and crops. This led to supply chain disruptions (particularly to outer islands) and reduced agriculture production. However, net remittances have remained resilient, resulting in a smaller contraction in consumer spending—and overall GDP—than was previously projected. The negative impacts on tourism and commercial activity have also been partially offset by the effects of the government stimulus package (paragraph 13). Combined, these impacts are estimated to have resulted in the economy contracting by 3.2 percent in FY21 (3.9 percent in per capita terms) (Table 1, Table 2).

Table 1: Contributions to Growth (Percentage Point)

Sector	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Agriculture, forestry and fishing	0.1	0.6	0.1	-0.5	0.7	0.5	0.3	0.3
Construction	-2.4	0.8	-0.7	0.3	0.4	0.3	0.2	0.1
Secondary (ex. construction)	0.0	-0.2	0.2	-0.1	0.3	0.3	0.3	0.2
Services	1.6	0.4	0.5	-2.3	1.3	1.6	0.8	0.8
Other	0.9	-0.9	0.5	-0.5	-0.1	0.6	0.4	0.4
Total	**0.3**	**0.7**	**0.7**	**-3.2**	**2.6**	**3.3**	**2.0**	**1.8**

10. **The current account deficit is expected to have widened in FY21.** The expansion in the deficit is due to lower tourism receipts resulting from COVID-19 impacts combined with a widening in the trade deficit. The latter is due to increased imports for the health sector and reconstruction activities related to TC Harold and TC Gita, which are largely financed by capital grants. Goods exports are small as a share of GDP and are predominantly agricultural products. Net remittances have remained resilient despite the deterioration in key sending-country labor markets (United States, Australia and NZ). In fact, the US$ level of remittance rose by 2 percent in FY20 and remained stable in FY21, resulting in an increase from 28.0 percent to 29.8 percent of GDP. However, project-related capital account inflows are expected to have more than offset the current account deficit, leading to a small overall surplus on the balance of payments, increasing foreign reserves to US$246 million (equivalent to 8.6 months of imports cover).

11. **Tonga entered the crisis with sound public finances.** The fiscal balance after grants shifted from an average deficit of 2.5 percent of GDP in FY10–13 to an average surplus of 2.8 percent of GDP in FY16–19. This

[2] On April 9, 2020 TC Harold passed over the islands of Tongatapu, 'Eua and Ha'apai (where 83 percent of the population live). An accompanying storm surge and simultaneous king tide reached 1.3 meters above normal high tide levels, resulting in widespread flooding. The winds and storm surge caused substantial damage to public infrastructure, residential housing, private infrastructure and agriculture.

has reflected a strong multiyear fiscal reform program (supported by World Bank [WB] DPO engagements) to increase domestic revenue, control the wage bill and prioritize public investment.

Table 2: Key Macroeconomic Indicators

	FY18	FY19	Est. FY20	Proj. FY21	FY22	FY23	FY24	FY25
Real Economy	Annual percentage change, unless otherwise indicated							
GDP (nominal Pa'anga m)	1,073.2	1,164.0	1,129.2	1,106.2	1,165.5	1,226.0	1,273.4	1,321.0
Real GDP growth	0.3	0.7	0.7	-3.2	2.6	3.3	2.0	1.8
Per Capita GDP (in current US$)	4,727	4,843	4,605	4,596	4,806	5,018	5,172	5,325
GDP deflator	5.1	7.7	-3.6	1.2	2.7	1.9	1.9	1.9
Inflation (CPI, average)	6.8	3.5	0.4	0.1	3.0	2.0	2.0	2.0
Fiscal Accounts	Percent of GDP, unless otherwise indicated							
Total Revenues and Grants	42.6	41.7	43.6	43.7	44.9	43.8	42.7	42.2
Total Expenditures	39.7	38.5	38.9	45.4	46.1	43.0	41.5	41.1
General Government Balance	2.9	3.2	4.6	-1.7	-1.2	0.8	1.2	1.1
Selected Monetary Accounts	Annual percentage change, unless otherwise indicated							
Money Supply (M2)	9.4	3.5	2.9	..	..	..	..	..
Credit to Private Sector	6.7	7.6	1.1	..	..	..	..	..
Balance of Payments	Percent of GDP, unless otherwise indicated							
Overall Balance	4.7	-0.4	6.0	0.9	-8.0	0.2	0.9	1.4
Current Account Balance	-6.3	-0.9	-2.0	-6.9	-13.3	-6.4	-5.8	-4.8
Trade Balance	-44.5	-42.0	-44.2	-56.9	-57.0	-49.6	-45.0	-43.5
Goods Exports	2.9	3.1	3.8	3.1	3.4	3.5	3.5	3.5
Goods Imports	-44.3	-43.2	-42.7	-43.6	-45.5	-44.4	-42.7	-41.7
Services (net)	-3.1	-1.9	-5.3	-16.5	-14.9	-8.7	-5.9	-5.3
Investment Income (net)	5.5	7.7	8.3	5.0	5.2	6.3	5.7	5.6
Current Transfers (net)	32.7	33.4	34.0	44.9	38.5	36.9	33.5	33.1
Capital and Financial Accounts	11.0	0.5	8.0	7.8	5.2	6.6	6.7	6.2
Foreign Direct Investment	4.9	0.1	0.7	0.9	1.0	1.1	1.2	1.4
Gross Reserves (in US$ m, e.o.p)	214.9	212.8	242.0	246.3	204.9	206.0	211.0	219.0
In months of next year's imports	7.9	8.2	9.6	8.6	7.0	7.0	7.0	7.1
Terms of Trade (annual percent change)	-2.5	0.2	0.1	-0.5	0.6	0.4	0.5	0.5
Other Memo Items								
Nominal public sector debt (% GDP)	45.9	41.3	42.7	46.2	42.7	40.8	36.2	32.1
Exchange rate (TOP per US$, average)	2.2	2.3	2.3	..	..	..	..	..
Net Remittances (% of GDP)	28.1	28.0	29.8	29.6	28.7	28.1	27.8	27.6
Real Per capita GDP growth (Pa'anga)	-0.9	-0.5	-0.5	-3.9	1.8	2.5	1.2	1.0

12. **Prudent fiscal management—combined with substantial additional development partner support—enabled authorities to close the FY20 financing gap created by the dual shocks (Table 3).** The dual shocks led to substantial shortfalls in domestic revenues, combined with additional spending as part of the Economic and Social Stimulus package. In response, the authorities reprogrammed current spending, drew down all available funds in the National Emergency Fund, and issued a modest amount of domestic debt. GoT also received substantial additional grants from the ADB, Australia, and NZ, as well as a payout from the Pacific Catastrophe

Risk Insurance Company (PCRIC)[3]. This additional financial support (some of which was received late in the FY), combined with delays in investment spending, resulted in an unexpected fiscal surplus in FY20.

Table 3: Key Fiscal Indicators

			Est.	Proj.				
	FY18	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**	**FY25**
			Percent of GDP, unless otherwise indicated					
Overall Balance (including grants)	2.9	3.2	4.6	-1.7	-1.2	0.8	1.2	1.1
Overall Balance (excluding grants)	-14.9	-15.1	-14.3	-23.2	-22.8	-18.3	-16.5	-16.2
Primary Balance	3.7	3.8	5.4	-1.1	-0.8	1.5	1.9	2.0
Total Revenues and Grants 1/	**42.6**	**41.7**	**43.6**	**43.7**	**44.9**	**43.8**	**42.7**	**42.2**
Domestic revenues	24.8	23.4	24.7	22.2	23.3	24.7	25.0	25.0
of which: Consumption Tax	14.7	13.3	14.2	13.6	13.9	14.4	14.5	14.5
Taxes on Income and Profits	4.5	4.7	4.6	4.1	4.3	4.7	4.7	4.7
Other Tax Revenue	2.7	2.8	2.2	2.0	2.3	2.7	2.8	2.8
Non-tax Revenues	2.9	2.5	3.6	2.5	2.8	2.9	2.9	2.9
Grants	17.8	18.3	18.9	21.5	21.6	19.1	17.7	17.2
Total Expenditure 1/	**39.7**	**38.5**	**38.9**	**45.4**	**46.1**	**43.0**	**41.5**	**41.1**
Current Expenditure	31.3	30.3	33.8	39.5	38.8	34.6	33.3	33.0
Wages and Compensation 2/	11.9	11.6	13.2	14.0	13.5	13.0	12.7	12.5
Goods and Services	14.2	13.0	15.5	19.6	20.0	16.0	15.2	15.0
Interest Payments	0.8	0.7	0.7	0.6	0.4	0.7	0.7	0.9
Current Transfers	2.7	2.5	2.4	2.7	2.7	2.6	2.6	2.6
Other Expenses	1.8	2.5	2.1	2.5	2.2	2.2	2.1	2.1
Development Expenditure	8.3	8.3	5.1	5.9	7.3	8.4	8.2	8.2
General Government Financing	**-2.9**	**-3.2**	**-4.6**	**1.7**	**1.2**	**-0.8**	**-1.2**	**-1.1**
Domestic (net)	-1.5	-2.0	-3.7	0.3	2.7	0.9	2.6	2.5
External (net)	-1.4	-1.2	-1.0	1.4	-1.5	-1.7	-3.7	-3.6
Memorandum Items								
Cash Reserves (Pa'anga m)	82.9	97.5	97.6	79.3	65.3	74.8	57.1	43.9
In months of current expenditure	3.0	3.3	3.1	2.2	1.7	2.1	1.6	1.2
Wages and Compensation								
as % domestic revenues	47.9	49.3	53.4	63.4	57.9	52.8	50.7	49.9
as % current expenditure	37.9	38.2	38.9	35.6	34.7	37.7	38.0	37.8

1/ Excludes in-kind development grants and expenditure
2/ Includes employer contributions to defined-contribution pension scheme

13. **The GoT has responded with strong public health, social protection and private-sector support measures.** The Economic and Social Stimulus package is worth TOP$60 million (5.3 percent of GDP). The package focuses on enhancing health sector preparedness, social protection payments for poor and vulnerable households, ensuring continuity of key services (such as education, transport and electricity), and providing financial support to firms and workers (Table 4). Several of these measures (supported by the 'Dual Shocks' DPO) also strengthened key institutions and frameworks to enhance crisis response in the future. Actions supported by DPO2 build on these advances. The package was complemented by tax and duty

[3] PCRIC was established under the Pacific Catastrophe Risk Assessment and Financing Initiative to provide parametric risk insurance to Pacific island countries. The US$4.5 million insurance payout to Tonga was the largest ever made by PCRIC, reflecting the scale of the modeled impacts of TC Harold on the economy and assets.

exemptions until December 30, 2020 for food, construction materials and machinery for the fisheries and agriculture sectors. The authorities also allocated TOP$17.1 million (1.5 percent of GDP) for GoT's Pandemic Response Plan to strengthen health-sector preparedness and resilience.

14. **Lower domestic revenues and higher spending to address the dual shocks resulted in a fiscal deficit of 1.7 percent of GDP in FY21.** Domestic revenues are estimated to have fallen by 2.5 percentage points of GDP due to the border closures and economic downturn. Current and capital spending is estimated to have increased by almost 6 percentage points and 1 percentage point of GDP, respectively. This mainly reflects additional health sector spending (including the vaccine rollout, cold chain systems and equipment, and the construction of new quarantine facilities, laboratories and vaccine storage facilities), ongoing Economic and Social Stimulus measures, and repairs and reconstruction of critical public infrastructure (such as wharves, bridges and roads). However, grants from development partners increased, with several partners providing financial assistance through budget support and other modalities. GoT has also demonstrated their commitment to prudent fiscal management by pursuing further spending reprioritization and accessing the G20 DSSI—which has helped to limit the financing needs. The DSSI has freed up TOP14.6 million (1.3 percent of GDP).[4] The deficit was financed by the International Monetary Fund (IMF) Rapid Credit Facility (RCF) loan from February 2021 (see paragraph 32).

Table 4: The Economic & Social Stimulus Package

Component	TOP (m)	% GDP
Economic & Social Recovery	**26.9**	**2.4**
Of which : Financial assistance to firms	16.4	1.5
Employee wage subsidy	5.0	0.4
Food security & livelihoods	4.1	0.4
Social Protection	1.4	0.1
Health	**26.5**	**2.3**
Of which : Preparedness & Protection	15.7	1.4
Medical Supplies	6.0	0.5
Ministry of Health Pandemic Plan	4.8	0.4
Education	**3.8**	**0.3**
Of which : Secondary school fee relief	1.0	0.1
Water tanks and WASH facilities	2.0	0.2
Online learning and other	0.8	0.1
Essential Services	**2.8**	**0.2**
TOTAL	**60.0**	**5.3**

15. **Inflation eased to below 1 percent in FY21.** This is well below the National Reserve Bank of Tonga's (NRBT) reference rate of 5 percent, consistent with a substantial negative output gap. Lower inflation was supported by the lower global food and fuel prices which slowed the increase in import prices. Inflation eased despite the impacts of TC Harold on crop production which flow through to food prices.

16. **The NRBT is maintaining an accommodative monetary stance.** The monetary policy reference interest rate has been zero percent for several years, leaving the statutory reserve deposit ratio (10 percent) and the target minimum loans/deposit ratio (80 percent) as the NRBT's key policy instruments. However, the transmission mechanism for monetary policy is weak due to high excess reserves, a lack of competition in the banking sector, conservative lending practices, and various other structural impediments to finance.

17. **The NRBT is providing additional support to offset the impacts of the dual shocks on the banking system**. The banking system is well capitalized, with sound financial indicators and ample liquidity buffers due to onshore profit retention, continued remittance inflows and rising deposits. However, non-performing loans (NPLs) have ticked up recently due to agricultural losses and non-performing housing loans. NPL ratios now range between 3 and 8 percent across banks. In response to the dual shocks, the NRBT has approved the provision of liquidity support to the banking system and maintains a weekly dialogue with the commercial

[4] A six-month extension of the DSSI would free up another TOP7.3 million (0.6 percent of GDP) in FY21 debt servicing.

banks to track loan performance and liquidity. Only one bank has raised provisions significantly. Banks have deferred loan repayments on up to 30 percent of their loan books. This has kept NPLs low, but they could rise after COVID-19 debt relief packages expire. Capital buffers could then come under pressure if profits decline due to an increase in loan defaults. In recent years, good progress has been made in improving supervision and regulation. However, further improving supervision of non-bank financial institutions (including Prior Action 7 [PA#7] supported by this operation) and strengthening the Anti-Money Laundering/Combating the Financing of Terrorism framework remain priorities. These priorities have become more urgent with the economic impacts of the COVID-19 crisis, which could increase risks to financial stability.

18. **The nominal and real effective exchange rates have remained relatively stable against the currencies of Tonga's major trading partners over the last few years.** However, both have declined modestly during FY21 due to Tonga's lower headline inflation relative to its trading partners. This will support the competitiveness of Tonga's goods exports in the near-term. The 2020 Article IV report and the IMF Assessment Letter for this operation (see Annex 2) note that the external sector position (which includes the real effective exchange rate) is broadly consistent with economic fundamentals.

19. **The GoT has demonstrated a commitment to prudent debt management in recent years and external public debt has declined consistently since FY12**. Public external debt fell from 48 percent of GDP in FY12 to 36.5 percent of GDP in FY20, well below the government's target of 50 percent. GoT has also successfully maintained a stance of avoiding any new non-concessional external borrowing. Nevertheless, total public debt is estimated to have widened by 5 percentage points to 46.2 percent of GDP in FY21, reflecting additional domestic debt, the RCF and lower GDP.

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

20. **The economic impacts of COVID-19 will continue to depress economic activity in FY22, while the economic outlook depends critically on when travel restrictions are able to be relaxed.** The timing and shape of the economic recovery continues to depend on the duration of travel restrictions imposed in response to the pandemic (both in Tonga and in key source countries), and the speed and effectiveness of the vaccine campaign. However, these uncertainties have reduced since the 'Dual Shocks' DPO was approved (December 2020). On March 31, 2021, GoT received its first shipment of AstraZeneca vaccines from the 43,200 allocated under the COVID-19 Vaccines Global Access (COVAX) Advanced Market Commitment facility. On April 15, 2021, GoT commenced the rollout of its COVID-19 National Deployment and Vaccination Plan (PA#5 supported by this operation). As of September 10, 2021, 73 percent of the eligible population[5] had received the first dose of the vaccine and 43 percent were fully vaccinated, with reports of very effective vaccine rollout. COVAX, Australia and NZ have confirmed plans to provide additional vaccine supply in 2021. Contingent upon that supply being provided, GoT is targeting to vaccinate 80 percent of the eligible population by end-December 2021, and to begin relaxing strict border-entry restrictions by March 2022.

21. **Growth is expected to average 2.4 percent (1.6 percent per capita) over the medium term (FY22 to FY25), driven by a recovery in agriculture production, construction and a gradual recovery in the tourism sector.** Underpinning these projections is the assumption that borders remain closed until March 2022, and that an easing of travel restrictions results in only a modest recovery of international arrivals during Q4 FY22 (to around a quarter of pre-crisis levels). Nevertheless, services are expected to make a sizeable contribution

[5] GoT define 'eligible population' as those aged over 15 years old. This is 63,128 people, or around 60 percent of the total population.

to growth in FY22 and FY23, due to base effects following the large contraction in activity in FY21. Following losses in agricultural production in FY21 due to TC Harold, output is expected to rebound in FY22 and make a moderate contribution to growth over the projection period. Construction activity is expected to ramp up in FY22 and FY23 and remain at an elevated level in FY24 and FY25. This reflects TC Gita and TC Harold recovery efforts (particularly for housing, public infrastructure and schools) combined with grant-funded infrastructure investments. Tourism receipts are expected to recover at a gradual pace through the projection period. However, international arrivals are expected to remain below pre-crisis levels reflecting the loss of key private sector tourism infrastructure that was destroyed during TC Harold. Remittances are projected to return to pre-crisis levels of around 28 percent of GDP in FY23 to FY25. This reflects the gradual recovery in key sending-country labor markets (including the United States) and temporary worker programs.

22. **Inflation is expected to increase as the output gap diminishes, but to remain moderate.** Inflation is expected to remain around 2 – 3 percent over the medium term, given current expectations of lower global food and fuel prices, combined with the gradual domestic economic recovery.

23. **The current account deficit is expected to widen in FY22, before narrowing over the medium term.** The large deficit in FY22 is due to the projected slow recovery in tourism receipts, an increase in imports (for the health sector and reconstruction activities), and lower budget support grants compared to the unprecedented levels in FY21. The deficit is projected to narrow back to pre-crisis levels over the projection period. Imports will likely remain elevated through to FY23, reflecting the need for imported machinery and materials in the reconstruction phase. However, the resulting pressure on the current account will be offset by a recovery in agriculture and tourism exports, with remittances projected to remain resilient. Total grants (both capital and current) are expected to remain elevated due to ongoing development partner support for cyclone recovery and to enhance resilience to climate change and natural hazards (Table 5, Table 6).

Table 5: Balance of Payments Sources and Uses

US$		Est.	Proj.				
	FY2019	FY2020	FY2021	FY2022	FY2023	FY2024	FY2025
Total financing needs	**10.4**	**14.4**	**40.9**	**75.7**	**44.2**	**53.9**	**48.9**
Current account deficit	4.6	9.6	33.7	68.4	34.9	32.9	28.1
Scheduled debt amortization	5.8	4.8	7.2	7.3	9.2	21.0	20.9
Total financing sources	**10.4**	**14.4**	**40.9**	**75.7**	**44.2**	**53.9**	**48.9**
FDI inflows	0.5	3.4	4.4	5.2	6.0	6.8	8.2
External debt disbursements	0.0	0.1	14.1	-0.5	0.1	-0.1	-0.2
Other net inflows on capital & financial account	7.8	40.1	26.7	29.6	39.1	52.3	48.9
Use of FX reserves	2.1	-29.2	-4.3	41.4	-1.1	-5.1	-7.9

Note: Change in reserves: "-" denotes an accumulation; "+" denotes a reduction.
Source: NRBT; Ministry of Finance; World Bank staff projections

Table 6: Financing the budget deficit

Percent of GDP	FY21	FY22
Overall Balance (excluding grants)	**-23.2**	**-22.8**
Budget support grants	10.7	4.0
of which: World Bank	6.1	2.1
ADB	0.0	1.0
Australia	2.5	0.5
New Zealand	1.6	0.4
European Union	0.5	0.0
Project grants & In-Kind	10.8	17.6
Other external financing (net) (a)	1.4	-1.5
External grants and financing	**22.9**	**20.1**
Domestic financing (net)	**0.3**	**2.7**
Total grants and financing	**23.2**	**22.8**

(a) FY21 Includes the IMF RCF.
Note: Donor finances are projections only.
Source: World Bank staff estimates.

24. **Reserves are projected to stabilize at around seven months of imports cover, despite the COVID-19-related impacts on the tourism sector and the temporary spike in imports to support reconstruction activities.** Reserves are projected to decline to 7.0 months of imports cover in FY22, driven by the sharp decline and only gradual recovery in tourism receipts combined with higher reconstruction-related imports. Reserves are expected to stabilize from FY23 onwards as external accounts return to surplus following the

completion of reconstruction activities. This level of reserves is consistent with the 2020 Article IV report international reserve adequacy metrics of 4.1 months of imports under a standard shock probability scenario, and 6.6 months of imports under a higher shock probability scenario.

25. **The fiscal balance is projected to register a small deficit of 1.2 percent of GDP in FY22 before returning to a surplus by FY23.** The deficit will be financed by the IMF RCF from February 2021 and a modest drawing down of cash balances. The projections are predicated on tax revenue to GDP rebounding in FY22 in line with the economic recovery and expiration of tax and duty exemptions, with the ratio returning to close to pre-crisis levels over the medium term. Recent legislative and institutional reforms to improve revenue administration and compliance will support the recovery in domestic revenues.[6] Grants are expected to decline in FY23 and FY24 from their extraordinary levels in FY21 and FY22.[7] On the expenditure side, current expenditure is projected to decline as much of the spending related to the GoT's economic support package is unwound. The authorities also remain committed to controlling public sector remuneration and the headcount, consistent with the wage bill fiscal anchors (53 percent of domestic revenues and 45 percent of current expenditure). Ongoing reform efforts to tightly manage the wage bill—including the reform to reduce overtime spending supported by this operation (PA#2)—are expected to lower spending over the projection period. Capital spending is projected to return to pre-crisis levels, reflecting additional health sector spending in FY22 (including cold chain systems and equipment, and vaccine storage facilities), ongoing repairs and reconstruction, and new public infrastructure projects (including roads, wharves and energy infrastructure).

26. **GoT is implementing a fiscal adjustment plan designed to stabilize debt dynamics, safeguard long-run fiscal sustainability and support key development goals.** Participation in the DSSI and the extension of the grace period on two large non-concessional loans from the Export-Import Bank of China has helped to alleviate fiscal pressure in the short term.[8] However, these deferments will necessitate large annual external debt servicing payments over the period FY24–FY29 (projected to be around 3 percent of GDP annually). In response, GoT is implementing a fiscal consolidation plan to deliver higher and better-quality budget surpluses to meet the scheduled repayments, while also financing key development and climate needs. The adjustment comprises: (i) a comprehensive reform program to reduce tax expenditures by limiting the number of tax exemptions and zero-ratings (estimated to be equivalent to around 7 percent of GDP); (ii) ongoing efforts to control wage bill expenditure (a key source of fiscal risk); (iii) continued adherence to the no new non-concessional borrowing policy, and implementation of the new MTDS and policy and criteria regarding loan

[6] These include the Revenue Service Administration Act 2020 and associated regulations supported by DPO1, and establishment of a Large Taxpayer Office designed to improve tax compliance and on-time filing for large taxpayers.

[7] The macroeconomic framework presented here assumes that development partner financing remains on 100 percent grants terms over the projection period. This differs from the DSA, which assumes that future IDA and ADB financing is provided on regular credit terms for all projects for which grant finance has not already been committed (thus leading to fiscal deficits in the long term). This is consistent with the Guidance Note on the Bank-Fund Debt Sustainability Framework for Low-income Countries to ensure that the DSA provides a sound instrument for IDA and ADB's grant allocation mechanisms. In recent years, GoT has demonstrated its commitment to prudently manage spending within the available revenue envelope, and to avoid new external debt. Thus, if grants fell short or terms changed, GoT could be expected to adjust spending to ensure that the deficit does not rise to the extent projected in the DSA.

[8] In FY08 and FY10 the GoT took on two loans totaling over TOP$255 million (36 percent of FY10 GDP) to finance the reconstruction of the Nuku'alofa central business district (CBD) and road rehabilitation following the 2007 riots. Following TC Ian, in 2014 the grace period of both loans was extended by five years. In November 2018, the grace period of the CBD loan was extended by a further five years, in light of the impacts of TC Gita. However, the maturity period of both loans has not been extended. Thus, the amended terms of the CDB loan are for a 15-year grace period and 20-year maturity (for a repayment period of FY24–FY29), while the roads loan has a 10-year grace period and 20-year maturity (for a repayment period of FY19–FY29).

guarantees (PA#1); (iv) establishing a sinking fund to manage the resources set aside over the coming years to meet future debt repayments; and (v) prioritizing capital grants to support key goals to enhance resilience and build human and physical capital.

27. **These debt sustainability measures are also Tonga's FY21 Performance and Policy Actions (PPAs) under the WB's Sustainable Development Finance Policy (SDFP).** The two FY21 PPAs are: (i) To strengthen debt management and medium-term fiscal sustainability, the Cabinet has approved a medium-term debt strategy (covering fiscal years commencing FY21) which includes targets for external and domestic debt and will be published on the MoF website by end-May 2021 (PA#1 for this operation); and (ii) The Kingdom of Tonga has complied with a zero non-concessional borrowing ceiling on contracting new external public and publicly guaranteed (PPG) debt in FY21. In June 2021, IDA Management concluded that both FY21 PPAs were satisfactorily implemented based on the supporting documents and evidence submitted. Debt reporting is adequate for a small country with limited capacity. Tonga is up to date with its reporting to the WB Debtor Reporting System.

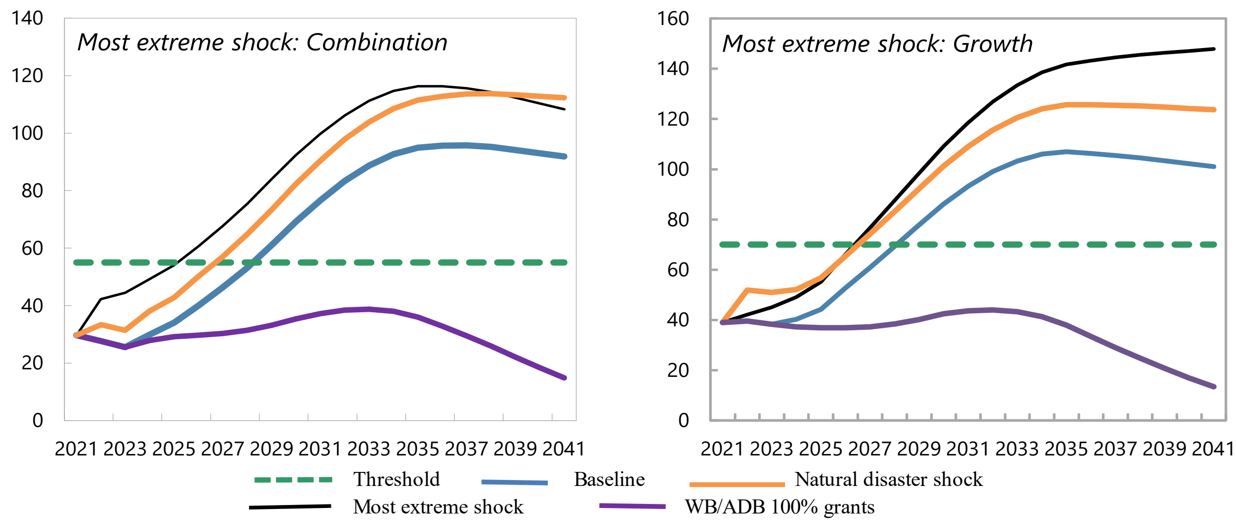
28. **Public debt is sustainable despite the impacts of the dual shocks, reflecting the government's commitment to seek available grant financing and only to consider highly concessional debt as a last resort.** In the Debt Sustainability Analysis (DSA) update prepared by WB staff in consultation with the IMF for the purposes of this operation, Tonga is assessed at high risk of external and overall debt distress. The risk ratings are unchanged from the December 2020 IMF/WB joint DSA. The present value of external debt to GDP and public debt to GDP are projected to breach their respective DSA thresholds in FY29 (Figure 1, Figure 2).[9] A natural disaster shock would lead to an earlier breach.[10] The DSA baseline scenario assumes that all new financing from IDA and the ADB is provided on credit terms, given its role to inform judgment on Tonga's capacity to receive credit financing from these institutions. If Tonga continues to receive 100 percent grant financing from IDA and the ADB, the present value (PV) of external PPG debt to GDP is expected to rise modestly until FY33, but to remain below the threshold. While debt is judged to be sustainable, this assessment hinges in part on the GoT's continued access to grants and highly concessional financing. Continued adherence to the GoT's policy of avoiding new non-concessional external debt is important to protect Tonga's hard-won fiscal sustainability.

29. **Under the 'downside' scenario, the economic contraction is expected to be deeper and the recovery more sluggish, delaying the return to fiscal surplus, reducing international reserves and increasing public debt (Table 7).** In this scenario, a localized cluster of COVID-19 infections in Tonga in early 2022 is assumed to lead to a three-month domestic lockdown, and a delay in the easing of international travel restrictions until early 2023. Business restrictions and physical distancing measures cause a sharp decline in domestic commercial and construction activity and goods exports in late FY22, followed by a weak recovery. International arrivals do not recover substantially until mid-2023, also impacting the recovery in domestic commercial and construction activity. The domestic lockdown and extended border restrictions would see annual output expand by a tepid 0.2 percent in FY22. A slower recovery in tourism, construction and

[9] The PV of external PPG debt-to-exports ratio shows a temporary breach of the threshold in FY21 mainly due to the decline in export earnings triggered by the pandemic. The indicator then breaches and remains above the threshold from FY29. The liquidity indicators (external PPG debt servicing as a ratio of revenues and exports) remain below the respective threshold, except for a temporary breach in the debt service-to-exports ratio in FY24, the first year in which principal repayments are made on both external loans.
[10] This reflects a once-off shock to the debt level of 14 percentage points of GDP in the second year of the projection period.

agriculture production would result in a weaker recovery over the projection period, with GDP growth averaging 1.8 percent over FY22 to FY25. The slower recovery in tourism receipts and goods exports would lead to higher current account deficits. Although this would be offset somewhat by lower imports—both for consumption and as inputs to construction activity. Overall, international reserves would fall to 6 months of imports coverage by FY23. The weaker growth outlook would translate into lower domestic revenues (as a percent of GDP) in FY22 and FY23 and could necessitate additional fiscal stimulus to support livelihoods and businesses, delaying the return to fiscal surpluses until FY24. The debt to GDP ratio could increase by almost 7 percentage points of GDP, as GoT seeks financing to maintain core public goods and services and undertake essential infrastructure maintenance.

Figure 1: PV of External PPG Debt-to-GDP Ratio **Figure 2: PV of Public Debt-to-GDP Ratio**



Source: Updated DSA prepared by WB staff.

Table 7: Downside scenario

	FY21	FY22	FY23	FY24	FY25
Real GDP growth (percent)					
Baseline	-3.2	2.6	3.3	2.0	1.8
Downside	-3.2	0.2	2.0	2.9	2.2
General Government Balance (% GDP)					
Baseline	-1.7	-1.2	0.8	1.2	1.1
Downside	-1.7	-4.2	-0.9	0.3	0.5
Current Account Balance (% GDP)					
Baseline	-6.9	-13.3	-6.4	-5.8	-4.8
Downside	-6.9	-16.8	-8.3	-6.9	-5.8
Nominal public sector debt (% GDP)					
Baseline	46.2	42.7	40.8	36.2	32.1
Downside	46.2	47.1	47.4	43.0	39.0

30. **Risks are weighted to the downside.** Uncertainty regarding the economic outlook remains high. Slower-than-expected vaccine supply, a domestic outbreak of COVID-19, and the risk of new variants globally could delay opening of the borders, delaying the recovery in tourism-related services and putting further pressure on the current account and household incomes. Even if Tonga's borders open, Australia and NZ may keep their borders closed due to domestic outbreaks or delays in the vaccine rollout in those countries. This

would inhibit tourism from two of Tonga's largest markets and inhibit third-country tourists from transiting in those countries and then onwards to Tonga. Tourist hesitancy to travel and limited confidence in local health systems could also lead to a slower-than-expected recovery in tourism receipts. Another natural disaster would put additional pressure on the fiscal and external accounts, as well as businesses and households. On the upside, to the extent that international arrivals recover faster than expected, economic growth could outperform the baseline projections.

31. **The macroeconomic policy framework is adequate for the purposes of this operation.** Economic growth is projected to recover in FY22 and FY23 to around 3 percent as tourism and related industries recover. Growth will also be supported by reconstruction activity related to TC Gita and TC Harold, and a recovery in the agriculture sector. Once the recovery is underway, GoT is committed to a high-quality fiscal adjustment to stabilize debt dynamics and strengthen climate resilience. GoT has built credibility for prudent fiscal management through substantial recent efforts to increase domestic revenues, contain spending, and avoid any new non-concessional external borrowing. Monetary policy has been appropriately accommodative, and the exchange rate peg is expected to continue to provide a credible nominal anchor. Public debt is sustainable, but the risk of debt distress is high. Tonga is participating in the DSSI and has requested the DSSI extension to December 2021.

2.3. IMF RELATIONS

32. **In February 2021, Tonga received a US$9.95 million (2.0 percent of GDP) loan from the IMF under the RCF.** The loan (representing 50 percent of Tonga's quota at the IMF) is based on the urgent fiscal needs arising from the sudden exogenous shocks of COVID-19 and TC Harold. The WB liaised closely with the IMF in its assessment of the macroeconomic policy framework and in the preparation of the December 2020 DSA. More broadly, the WB and IMF collaborate closely, and WB staff have participated in all recent Article IV missions. Based on this cooperation, the WB and IMF share a common view about Tonga's macroeconomic and structural reform priorities.

3. GOVERNMENT PROGRAM

33. **The government has set out the national development strategy in the Tonga Strategic Development Framework 2015—2025 (TSDF II).** This strategy outlines a medium-term vision and directly builds on the preceding TSDF 2011—2014. It is underpinned by an extensive consultation process which involved government, community, civil society groups, and private sector entities. The vision is for "a more progressive Tonga supporting a higher quality of life for all" and includes a heightened emphasis on sustainability, good governance and shared prosperity. It is translated into seven high-level National Outcomes[11] to achieve over a 10-year implementation period via 29 organizational outcomes, emphasizing inclusivity and sustainability.

34. **GoT is committed to strengthening its resilience to climate change and natural hazards**. The TSDF II, Tonga Climate Change Policy 2016–2035, the Joint National Action Plan on Climate Change Adaptation and Disaster Risk Management 2018–2028 (JNAP) and the National Infrastructure Investment Plan 2013–2023 lay out GoT's strategic vision to build resilience including in sectoral and investment planning activities, risk

[11] These comprise: i) a more dynamic, knowledge-based economy; ii) more balanced urban-rural development; iii) more empowering human development and gender equality; iv) responsive and good governance, including law and order; v) successful provision and maintenance of infrastructure and technology; vi) effective land administration, environmental management and resilience to climate and risk; and vii) consistent advancement of Tonga's external interests, security and sovereignty.

financing, and subnational-level DRM governance. The Emergency Management Act 2007 is the country's fundamental legislation for a decentralized approach to emergency management. Under this Act, each Island District and Village is responsible for establishing an emergency management committee, emergency preparedness and planning, and annual monitoring. This "bottom-up" approach is aligned with international good practices to decentralize DRM governance, as outlined in the Sendai Framework for Disaster Risk Reduction 2015–2030 (SFDRR). However, the existing legislation and institutional arrangements focus on responding to events rather than identifying and mitigating the risk before such events occur. There is therefore limited scope to strengthen institutional and policy frameworks to reduce disaster risk proactively. This is being addressed by the DRM Bill (PA#3 supported by this operation) which will repeal and replace the Emergency Management Act 2007 as the fundamental legislation for DRM.[12]

35. **GoT relies on a mix of pre-arranged financing instruments and post-disaster funding sources to finance disaster response and recovery activities**. These are administered by MoF and include: (i) the National Emergency Fund (NEF); (ii) budget reallocations; (iii) supplementary budgets; (iv) post-disaster international assistance; (v) PCRIC sovereign parametric insurance;[13] (vi) Contingent Emergency Response Components (CERCs);[14] and (vii) ADB contingent financing. The NEF is governed by the National Emergency Fund Act 2008 and provides a budget allocation of at least TOP$5 million as GoT's initial mechanism for financing emergency response and recovery. Despite GoT's access to the above instruments, a funding gap exists for modeled losses. This gap is likely to increase due to climate change.[15] Through this operation, GoT will enhance its access to post-disaster funding sources to finance disaster response and recovery activities, and strengthen its financial resilience, through the Cat-DDO. However, the GoT also requires a clearer policy that outlines strategic priorities to manage this range of post-disaster financing tools and maximize their use based on Tonga's disaster and climate risk context. This is being address by PA#4.

36. **While health outcomes in Tonga are among the best in the Pacific, challenges remain.** The Ministry of Health (MoH) is mandated to regulate, administer and deliver preventive and curative public health services under the Health Services Act and associated regulations. Health-care services are decentralized and managed geographically through four health districts which correspond to the main island groups. Sector development is guided by the TSDF II and the Tonga National Health Strategic Plan 2015-2020 (a new plan is under preparation). Despite relatively strong health outcomes, the sector suffers from capacity constraints typical of small island states. Key challenges include addressing the non-communicable diseases (NCDs) crisis, achieving universal health coverage (UHC), improving information collection and management, and strengthening medical waste management. Multisectoral interventions to address the NCDs crisis are guided by the National Strategy for the Prevention and Control of NCDs 2015-2020 (a new strategy is under preparation), supported by the Tonga Health Promotion Foundation and a DFAT-funded project. Measures to expand the quality and range of services under UHC is being supported by WB technical assistance. Implementation of new health information management systems is being supported by ADB and DFAT-funded

[12] The Bill was approved by Parliament on August 25, 2021. It will become effective after it receives the King's assent and is Gazetted.
[13] Insurance premia for PCRIC are financed under the IDA-financed Pacific Resilience Program-Tonga (P154840).
[14] Under the Pacific Resilience Program-Tonga (P154840) and Tonga Climate Resilient Transport Project (P161539).
[15] A funding gap assessment conducted as part of the Disaster Risk Financing Strategy 2021–2025 (PA#4) considered GoT's available instruments and a proposed US$8 million Cat-DDO. The assessment indicated a funding gap of US$11 million when considering the full cost of damages for a 1-in-10 year return period related to cyclones and earthquakes.

projects. Closing key infrastructure gaps for sound medical waste management is being supported by investments financed by the EU and DFAT.

37. **Tonga has strengthened its preparedness for public health emergencies since a measles outbreak in 2019**. An inter-disciplinary Epidemic Task Force managed the outbreak, conducted risk assessments, and deployed a rapid vaccination program. In March 2020, GoT declared a state of emergency for COVID-19 and closed international borders, followed two weeks later by a state of emergency for TC Harold. GoT's National Emergency Management Office (NEMO) adjusted its response to the natural disaster by lifting lockdown notices and curfews temporarily to facilitate preparedness activities, while requiring communities to maintain physical distancing. A COVID-19 Preparedness and Response Plan was endorsed in June 2020 that establishes a framework for health system preparedness, prevention, and response in the event of a confirmed COVID-19 case. GoT also issued revised Infection Prevention and Control Guidelines in October 2020 to set minimum standards for healthcare settings, including a section on COVID-19. In 2020, GoT completed the Vaccine Introduction Readiness Assessment Tool and Framework with WHO and WB support.[16]

38. **Overall, the DRM and health sector frameworks are adequate for the purposes of this operation.** The GoT has demonstrated its strong commitment in establishing a multi-hazard approach to climate and disaster resilience through national-level legislation, policies and strategies, community-driven emergency management plans, risk reduction investments, health preparedness, and post-disaster recovery programs that aim to "build back better." Tonga also supports its international DRM commitments actively. For example, its DRM framework is well aligned with key actions under SFDRR and commitments to climate-sensitive adaptation and mitigation per the SAMOA Pathway.[17] At the same time, Tonga's increasing vulnerability to climate change, natural disasters, and health-related events calls for a more proactive approach to reducing risk, and increased clarity of responsibilities in institutional arrangements, post-disaster financing mechanisms, and policy frameworks, as supported by this operation.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

39. **This DPO is designed to reinforce and strengthen the foundations for the achievement of key national outcomes under the Government's TSDF II.** The operation supports National Outcomes one to six as outlined above. Fiscal and economic management reforms under Pillar 1 support the government's inclusive development priority and improve the resourcing of key public service delivery. Pillar 2 supports key initiatives to enhance resilience to climate change, natural disasters, and health-related risks. Actions under Pillar 3 help lay the foundations for an inclusive, sustainable and resilient economic recovery.

40. **The proposed reform program has been strengthened since DPO1 and builds on the 'Dual Shocks' Standalone DPO (Annex 4).** This DPO has the same broad development objectives as DPO1, although the PDO has been adjusted to explicitly address health emergencies (in Pillar 2) and to support economic recovery (in Pillar 3). Overall, the policy matrix has been strengthened compared to what was envisaged under DPO1. This includes the strengthening of three indicative triggers and the addition of three new PAs to support economic

[16] The assessment identified gaps in the areas of disease surveillance, training and supervision, service delivery, vaccine and cold chain logistics, and monitoring and evaluation.
[17] In 2014 the Small Island Development States (SIDS) committed to the SIDS Accelerated Modalities of Action (SAMOA) Pathway.

recovery. The program represents a deepening of reforms supported by DPO1 and the 'Dual Shocks' DPO regarding fiscal sustainability, DRM, employment opportunities, and financial sector development. One indicative trigger has been dropped and two triggers have been replaced. In Pillar 1, the excise tax indicative trigger has been dropped, as the reform is now expected to be implemented over several phases. In Pillar 2, an indicative trigger related to emergency procurement has been replaced by a disaster risk financing strategy and detailed implementation plan, which will make a more substantive contribution to the achievement of the PDO. Annex 4 provides further information about both changes.

41. **There has been progress towards achieving most results indicators.** Consistent with the inclusion of new PAs, the results framework has been expanded. In addition, the date for measurement of results has been shifted from FY22 to FY23/FY24 in light of COVID-19 impacts, the need for GoT to prioritize the crisis response as supported by the 'Dual Shocks' DPO, and the three-year supervision period of the DPO/Cat-DDO. The results related to cash and debt management, COVID-19 vaccination, housing sector resilience, and labor mobility are on track to be achieved. The domestic revenue and wage bill indicators have temporarily worsened due to the impact of the dual shocks but are expected to be achieved over the medium term.

42. **The DPO2 reflects key lessons learned from previous DPOs in Tonga and other hybrid DPO/Cat-DDOs in the Pacific region.** Past operations have demonstrated that DPOs in Tonga can achieve good results in advancing economic and fiscal reforms in the context of solid government ownership. The close partnership between MoF and WB has facilitated real-time policy advice that has helped GoT to maintain a broadly solid macroeconomic framework, despite numerous shocks. Past operations have highlighted that maintaining a strong policy dialogue is resource intensive but vital, and that close coordination with other development partners is critical to support strong reforms. The hybrid DPO with a Cat-DDO model has been utilized for several operations in the region.[18] It has a demonstrated comparative advantage by providing up-front financing to support budget priorities, coupled with contingent financing to enhance resilience to climate change and natural disasters and support rapid response. A key lesson learned for the Cat-DDO trigger is to include access to contingent financing for public health emergencies as well as natural disasters. This was highlighted by the 2019 measles outbreak in Samoa and the ongoing COVID-19 pandemic.

43. **The GoT has demonstrated a strong track record in implementing an ambitious and consistent reform agenda supported by the DPO modality.** The current operation marks the eleventh DPO delivered in Tonga in the past 12 years. It reflects the GoT's commitment to a consistent reform agenda aligned to the nation's long-term development plan (the TDSF II), and a strong partnership with development partners. This long-term budget support engagement has delivered strong results.

44. **This proposed operation has the following features:** (i) Upfront financing: SDR 7.9 million (US$11.0 million equivalent) would be provided as DPO grant financing, once the operation has been declared effective. (ii) Contingent (Cat-DDO) financing through a DRM Development Policy Grant: Subject to the drawdown trigger conditions for the Cat-DDO being met (see below), a grant of up to SDR 5.7 million (US$8.0 million equivalent) would be available for full or partial disbursement at any time within a three-year drawdown period, which may be renewed once, for a maximum of six years in total. Of the amount requested for the

[18] Including Samoa Second Resilience DPO with a Cat-DDO (P165928), Tuvalu First Resilience DPO with a Cat-DDO (P170558), Samoa First Response, Recovery and Resilience DPO with a Cat-DDO (P171764), and Fiji First Recovery and Resilience DPO with a Cat-DDO (P173558).

Cat-DDO, 50 percent will be funded by the country's concessional core IDA allocation, with the balance financed by IDA's overall resources. The closing date for the proposed operation is November 30, 2024 and is not affected by the timing of any drawdown of the Cat-DDO component.

45. **The proposed drawdown trigger for the Cat-DDO is as follows**: No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied, based on evidence satisfactory to it, that a state of emergency has been declared by the Recipient's Prime Minister or other authorized official, in accordance with the manner prescribed in Part IV Section 32 of the Recipient's Emergency Management Act 2007 or other applicable law which replaces such act, to respond to a "Catastrophic Event".[19] Once enacted into law, the DRM Bill will replace this Act. The drawdown trigger has been designed to be applicable under both the Act and the Bill. For the purpose of this operation, "Catastrophic Event" means an imminent or occurring emergency situation, caused by: (i) a cyclone, flood, drought, storm, storm surge, tsunami, earthquake, volcanic eruption or other similar event; or (ii) an epidemic, pandemic, or other public health emergency, that requires the Recipient to promptly mobilize its capacity and/or financial resources, but excluding an emergency situation caused by human induced hazard.

46. **The Cat-DDO drawdown period and renewal are as follows**: The drawdown period for the Cat-DDO component will be three years. Accordingly, the closing date of the proposed Cat-DDO grant is November 30, 2024. The adequacy of the Recipient's macroeconomic framework is not assessed for drawdown and is only assessed at effectiveness and reconfirmed at renewal. The Cat-DDO component may be renewed once for an additional three years, at the Government's request, if the Association is satisfied with the progress achieved by the Recipient on the Program and with the adequacy of the Recipient's macroeconomic policy framework. Renewal must occur no earlier than one year and no later than six months before the closing date. Renewal would require the approval of the Regional Vice President of the WB subject to satisfactory implementation of the program set out in the Letter of Development Policy (see Annex 3).

47. **Monitoring policy actions and reforms would occur throughout the three-year term of the operation**. Parallel technical assistance activities will support this monitoring. Ongoing engagement with GoT and other development partners through the joint budget support dialogue will also support the monitoring.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

PILLAR I: STRENGTHEN PUBLIC FINANCES

48. **The first development objective of the proposed operation is to strengthen public finances to support a resilient, inclusive recovery.**

PA#1: To support enhanced debt management and fiscal sustainability, the Recipient: (i) through its Cabinet, has approved the Medium-Term Debt Strategy (MTDS) Fiscal Years 2021 – 2025 and a Government Guarantee Policy that establishes the criteria and guidelines for assessing and approving

[19] The Recipient's Emergency Management Act 2007 and the DRM Bill (PA#3) include provisions for the authority that may declare a state of emergency. Under the Emergency Management Act 2007, the relevant authority is the Prime Minister. Under the DRM Bill, the relevant authority is the Prime Minister or an authorized official with acting with the delegated authority of the Prime Minister. In addition, the Minister responsible for disaster risk management may also declare a state of emergency in respect of a natural hazard as provided under section 8(3) of the DRM Bill. The duration of a declaration ends 28 days after the day it is declared, unless the Prime Minister or the delegated authority ends or renews it earlier.

requests for government guarantees; and (ii) through its Ministry of Finance, has made the MTDS and the Government Guarantee Policy publicly accessible on its website.

49. **Strengthening debt management is crucial given Tonga's low capacity to carry debt and high risk of debt distress.** The economy's narrow production base, which limits GoT's capacity to mobilize additional revenues, means GoT has limited capacity to carry even moderate amounts of debt. In 2015, the authorities introduced the first MTDS, which was in force until FY18. That strategy is now out of date. Establishing a credible debt strategy and reviewing the debt management policy framework is critical given the large debt servicing payments scheduled over FY24–FY29. The dual shocks have also led to an increase in requests for government guarantees. Establishing a clear policy framework and criteria for assessing and granting guarantees is thus important for debt management.

50. **In response, GoT is implementing a new and enhanced MTDS 2021–2025.** The MTDS outlines strategies to manage a range of risks (including currency risk, interest rate risk and refinancing risk), and contains guidelines regarding the composition of external and domestic debt. It is guided by two overarching strategic policy goals to be attained by FY25: (i) reduce the share of public debt denominated in foreign currencies; and (ii) extend the average time to maturity of the public debt portfolio. These goals (articulated as quantitative indicators) will be used to monitor the implementation of the strategy, including as part of the annual analysis of the debt portfolio and debt service projections which are published in the Budget Statement. Four alternative borrowing strategies were tested using the MTDS analytical tool. The selected strategy seeks to close any remaining financing gap through the issuance of Treasury bonds focused on 5- and 6-years tenors. GoT has a strong track record of adherence to the first MTDS, with no new non-concessional borrowing occurring since the policy was implemented in 2015.

51. **GoT is also implementing a policy guiding the provision of government guarantees.** By reducing the risk that the lender will not be repaid, a government guarantee can promote investment and spur economic growth. At the same time, it creates a sovereign risk that is similar to the risk that GoT would assume if it borrowed to finance productive investment. Global evidence highlights the risks and potential costs of guarantees, and international good practice regarding the management of guarantees. Despite ad-hoc requests for guarantees from both public and private enterprises in the past, GoT previously did not have a formal policy, criteria or requirements for assessing and approving such requests. Consistent with international good practice, GoT has approved a guarantee policy that sets out detailed provisions regarding the criteria for approval, evaluation guidelines, required information, fees, recipient obligations, and public disclosure. The MTDS and guarantee policy, combined with the cash management rule adopted under DPO1, will support fiscal sustainability by strengthening fiscal buffers and the management of public finances.

52. **Cabinet approval and publication of the MTDS 2021–2025 was one of Tonga's PPAs for FY21.** Implementation of the MTDS and guarantee policy will help to maintain the integrity of debt ratios for long-term sustainability, and to ensure that key risks are adequately managed and aligned with broader fiscal objectives. Implementation will be led by the MoF's debt management team, within the Financial Framework Division. Preparation of both actions was supported by consultations across GoT, with the NRBT, and with key representatives from the financial sector (including the pension funds and selected banks). To support enhanced transparency, both the MTDS and the guarantee policy are published on the MoF website. The

MTDS and government guarantee policy are also contributing to a legislative reform to strengthen the management of government liabilities, which is the PPA1 for FY22.[20]

53. **The results indicator is the avoidance of new non-concessional external borrowings.** This indicator is on track as the government did not contract any new non-concessional external loans during FY20 and FY21. The results indicator for the cash management rule targets the reduction of cash balances to the target band of 1 – 2 months of recurrent expenditure. The indicator is on track, having been reduced from an average of 3.5 percent during FY19 to 2.2 percent at the end of FY21.

PA#2: To strengthen public sector wage bill management, the Recipient, through its Cabinet, has endorsed an amendment to the Public Service Policy and Instructions 2010 that introduces a limit on overtime allowances in the public service sector.

54. **Spending on overtime has more than doubled from FY16 to FY20, putting pressure on the wage bill and leading to risks that essential goods and services spending could be crowded out**. Civil service overtime spending has increased from TOP 5.1 million (0.5 percent of GDP) in FY16 to over TOP 11 million (1.0 percent of GDP) in FY20, accounting for 6 percent of overall compensation. Overtime costs have increased further in response to the dual shocks, creating pressure on the public sector wage bill. A recent study found that almost 6 percent of public servants analyzed are working an average of four hours or more of overtime every workday. Ministry of Revenue & Customs (MoRC) and MoH are the key sources of extended and consistent overtime. The action reflects ongoing GoT efforts to control wage bill expenditure—a key source of fiscal risk, and a key pillar of the GoT's fiscal adjustment plan.

55. **In response, GoT has introduced a limit on the number of hours of overtime that can be worked per fortnight, which is expected to reduce overtime spending by over 24 percent (around TOP$3.0 million per annum, 0.3 percent of GDP).** The reform introduces a limit of 20 hours of paid overtime each fortnight for members of the public service.[21] Introducing limits on paid overtime hours is consistent with global good practice and improved occupational health and safety. The policy recognizes that overtime is an important instrument to provide flexibility for the public sector to address periodic surges in workflow (e.g., budget preparation) and crisis response (e.g., before and immediately after a shock). However, a very high level of overtime—particularly if it is for multiple pay periods—indicates poor human resource management (HRM). In both cases, this undermines the effectiveness and objectives of the new public-sector remuneration system, which has been successful in addressing wage bill sustainability issues in recent years. The Public Service Commission's (PSC) existing HRM record management processes are adequate to implement the policy. PSC conducted extensive consultations and sensitization of the policy across the public service. The action complements the reforms undertaken under DPO1 (introduction of a standardized public service job descriptions template and a revised public service Classification of Positions) by further strengthening wage bill controls and implementation of the GoT's new remuneration system.

56. **The results indicator targets improved wage bill affordability, measured by the wage bill as a percent of domestic revenues.** The dual shocks have resulted in a temporary increase in the ratio to 63

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[20] The PPA is: "To strengthen debt management and fiscal sustainability, Cabinet has approved a Public Financial Management Bill for submission to Parliament that outlines, among other actions, key fiscal responsibility principles to guide fiscal policy and a numerical limit on the stock of government guaranteed debt."

[21] Public servants who accrue over 20 hours of overtime during a fortnight will still be eligible to claim time off in lieu of hours worked.

percent in FY21, due to the need for additional health workers to support health-sector preparedness and the vaccine rollout, combined with the collapse in domestic revenues. However, measures to control the wage bill and the rebound in domestic revenues are expected to see the ratio return to below 53 percent by FY23 compared to 54 percent in the baseline (FY16-18).

PILLAR II: ENHANCE RESILIENCE TO CLIMATE CHANGE, NATURAL DISASTERS, AND HEALTH-RELATED RISKS

57. **The second development objective supports the GoT's efforts to reduce Tonga's vulnerability to the current and long-term threats of climate change, natural hazards, and public health emergencies.**

PA#3: To establish a more comprehensive, proactive and integrated model of disaster risk management, the Recipient, through its Cabinet, has approved a Disaster Risk Management Bill for submission to the Recipient's Parliament.

58. **While Tonga's current legislation provides a sound basis for emergency management, a stronger framework for proactive DRM is needed.** International good practice and the SFDRR recommend that national DRM legislative frameworks comprise disaster risk governance for prevention, mitigation, preparedness, response, recovery, and rehabilitation. In addition, the SFDRR calls for countries to enhance the resilience of communities and assets by prioritizing investments in disaster risk reduction (DRR) and climate change adaptation. The Emergency Management Act 2007 provides for a consultative and decentralized approach for emergency management. However, it contains limited provisions to establish legal, policy, and institutional frameworks for risk mitigation and preparedness, and to guide multi-year economic and social recovery and rehabilitation. The Disaster Risk Management Bill 2021 would shift the paradigm in Tonga from reactive emergency response practices to a more proactive approach to DRM, reducing Tonga's disaster and climate risks more systematically. It thus links closely to the national housing recovery and resilience policy (a PA in DPO1) and establishment of the Housing Sector Resilience Office (HSRO, a PA under the Dual Shocks DPO), which support housing resilience and a "build back better" recovery.

59. **The DRM Bill sets out GoT's vision to establish a national office for DRM and implement a more proactive and comprehensive approach to DRM.** It will strengthen governance between ministries/agencies, sectoral stakeholders, and communities for both resilience-building and post-disaster response and recovery. This is aligned with the Disaster Risk Financing Strategy (PA#4) that seeks to guide investments in risk reduction to reduce future financial losses. The bill also expands the responsibilities and functions of NEMO, converting it into a National Disaster Risk Management Office (NDRMO). This is in line with regional and global trends to establish a singular agency responsible for national-level policy guidance at all stages of the DRM cycle (i.e., more than emergency management) and coordinating DRM activities nationally. The NDRMO would be responsible for developing a national DRM policy framework (which would recognize and propose actions that address increasing climate change impacts on assets, livelihoods, and key sectors), managing emergency and DRM plans, coordinating and overseeing emergency management activities, and coordinating with partners for risk reduction, emergency operations, and climate-resilient recovery.

60. **The DRM Bill also sets out the detailed provisions for the declaration of a state of emergency based on different types of events and was informed by extensive consultation**. These include the declaration of a state of emergency due to a natural hazard (causing a disaster), a state of emergency due to a human-induced hazard, a state of health emergency, a declaration of a state of crisis, and the declaration of a small-scale disaster. This improved clarity on emergency declarations will strengthen preparedness for future shocks and

climate-related events, especially as Tonga continues to experience an increase in extreme weather events and sea level rise due to climate change. Once enacted into law, the DRM Bill will be relevant to the drawdown trigger of the Cat-DDO component under this operation. Preparation of the bill was informed by extensive consultations with government agencies, the private sector, community and NGO representatives (including in Tongatapu, 'Eua, and Ha'apai islands), and development partners. The bill was prepared with technical assistance from NZ's National Emergency Management Agency and technical inputs from WB and ADB. A DFAT-financed long-term adviser is supporting implementation, while technical assistance under the Bank's implementation support of the Cat-DDO will assist with key next steps such as development of policies and standard operating procedures.

61. **The results indicator targets the reporting of increased DRR activities via the implementation of key measures under the DRM Bill.** Following institutionalization of the NDRMO, the DRM Bill requires that the new NDRMO finalize and implement a national DRM policy within two years. The policy will cover DRM and DRR including: (i) national priorities and objectives; (ii) legal and institutional arrangements; (iii) key guiding principles; and (iv) key responsible entities. The policy will be critical to define the coordination responsibilities and ensure strong oversight and prioritization of risk reduction efforts in Tonga. To reflect the downstream implementation of the policy (and hence, the DRM Bill), the results indicator targets the submission of annual reports to the National DRM Committee that include DRR initiatives and operational and implementation costs, per the national DRM policy. The indicator thus reflects the reporting of the outcome of interest (change in practices through increased DRR activities), in a way that is measurable and achievable using existing reporting mechanisms. The housing policy results indicator is on track, with the HSRO established and its annual work plan currently under preparation.

PA#4: To strengthen financial resilience of the Recipient's government, households, and businesses to disasters, the Recipient, through its Cabinet, has approved a national disaster risk financing strategy 2021-2025 that establishes a financial risk-layering policy to maximize disaster and climate risk financing.

62. **A national disaster risk financing strategy (DRFS) and implementation plan that supports integrated solutions to strengthen financial resilience to future shocks is critical given Tonga's high vulnerability to climate and disaster risk**. The IMF/WB 2020 Tonga Climate Change Policy Assessment (CCPA) highlights that a clear policy is needed to establish the country's financial risk-layering strategy for disaster and climate resilience.[22] In response, GoT has finalized and is now implementing the National Disaster Risk Financing Strategy 2021–2025 that outlines key actions to enhance the utilization of disaster risk financing instruments including: (i) identify and quantify disaster-related financial risks, including those exacerbated by climate change; (ii) identify a cost-effective combination of financial instruments to support DRR and preparedness, increasing GoT's capacity to respond quickly and effectively to future shocks; (iii) improve transparency and efficiency of post-disaster spending; (iv) strengthen the nation's adaptive social protection system; and (v) prioritize investments in national risk reduction and climate adaptation actions. Consistent with objectives of the JNAP, the DRFS highlights GoT's commitments to strengthen the evidence base for identifying and prioritizing effective risk reduction interventions, and to mainstream climate risk information into national, sector, and ministry corporate plans. The strategy also includes detailed financial analysis to determine the appropriate size of the NEF.

[22] The literature suggests that a combination of financial instruments for disaster response is cost-effective (Clarke et al. 2016).

63. **The DRFS 2021–2025 will strengthen financial resilience of the government, households, and business to disasters and climate change effects by coordinating ongoing and planned efforts to quantify, reduce, and mitigate disaster-related financial risk**. Aligned with Outcome F of the TSDF II to strengthen climate and disaster resilience, the DRFS outlines six strategic priorities to measure and reduce the economic and financial costs associated with disasters. For example, Strategic Priority 6 emphasizes the need to: (i) adopt a comprehensive DRM legal framework (including the DRM Bill—PA#3—and associated DRM policy and plans); and (ii) invest in DRR and climate adaptation to reduce the cost of disasters by minimizing casualties, direct costs of damage to infrastructure and assets, and disruption to basic services and livelihoods. The latter is aligned with the proactive approach of the DRM Bill to invest in ex-ante resilience-building. The DRFS (in particular, Strategic Priority 1) is also consistent with ongoing GoT efforts to enhance housing sector resilience and recovery, including the institutional and policy reforms supported by DPO1 and the 'Dual Shocks' DPO. Strategic Priority 4 is tightly related to improving financial information, budgeting and damage and loss assessments, reinforcing the Fixed Asset Management Framework and Policy supported in DPO1. Finally, Strategic Priority 5 is tightly aligned with ongoing efforts to enhance GoT's adaptive social protection system, reenforcing reforms supported under the 'Dual Shocks' DPO.

64. **The strategy includes a detailed two-year implementation plan that articulates specific implementation actions under the five strategic priorities.** The plan was developed in close consultation with NEMO to complement implementation of the DRM Bill. Ongoing WB technical assistance for disaster risk financing and insurance, as well as the Pacific Resilience Program (PREP)-Tonga, will support implementation of the strategy. Key priorities include updating exposure data, public asset insurance, adaptive social protection, and risk quantification and assessment. Other dedicated WB technical assistance is also supporting actions under the implementation plan, including: (i) a baseline study of schools and health facilities to inform asset registers; and (ii) housing sector resilience priorities including a baseline of housing conditions. The proposed Tonga Safe and Resilient Schools Project (P174434) and the proposed Tonga Climate Resilient Transport Project II (P176208) would also support a key commitment in the strategy to prioritize DRR activities and invest in climate adaptation measures. The DRFS was prepared by MoF and NEMO with technical inputs from WB and ADB and included consultations across GoT and with development partners. A DRFS Steering Committee has been established to oversee implementation.

65. **The results indicator targets the finalization of national registries of public schools and health facilities that will be used to inform policy and operational decisions to enhance the resilience of public assets.** The indicator is also closely linked to PA#5 from DPO1—the public sector fixed asset management policy. A comprehensive and regularly updated public asset register will help GoT to determine the value of government assets, their adaptability to future climate stressors and natural hazards, and improve maintenance planning and budgeting. The registries will include vulnerability information, which will help GoT to make informed decisions on reducing the vulnerabilities of assets and therefore the cost for maintenance, retrofitting, and recovery, thereby reducing GoT's contingent liabilities following a disaster. It would also support enhanced medium-term budget management and public financial management (PFM) by helping to strengthen the linkages between capital and recurrent spending. As a first step towards a comprehensive public fixed-asset registry, GoT is developing a public schools and health facilities vulnerability assessment and fixed asset registries with WB technical assistance. These assets are being prioritized due to the critical role of public schools as community shelters and health facilities to support emergency response following a natural disaster.

PA#5: To protect the population from a public health emergency and support the economic recovery, the Recipient: (i) through its Cabinet has approved the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023 that provides the guiding policy framework for the vaccine rollout and health system strengthening activities; and (ii) through its Minister for Trade and Economic Development, has approved for implementation the special guidelines for expedited clearance of essential medical goods, including COVID-19 vaccines.

66. **Economic recovery in the Pacific island countries (PICs) hinges on when borders can be safely reopened to international travel, which depends on the effective rollout of COVID-19 vaccines.** Given Tonga's underdeveloped health system and the population's high vulnerability to COVID-19 due to the NCDs crisis, GoT is taking a conservative approach to relaxing border restrictions to help avoid a health catastrophe.

67. **To guide the vaccine rollout, GoT has developed, approved and is implementing the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021–2023 (NDVP).** The NDVP is GoT's guiding policy framework on the vaccine rollout and is consistent with WHO and the United Nations Children's Emergency Fund (UNICEF) guidance on effective COVID-19 vaccine implementation. It outlines a phased rollout strategy, vaccination delivery strategies, supply chain and cold chain management, medical waste management, HRM and training, a communication and outreach strategy, a monitoring system, and detailed costing of implementation. Implementation over 2021–23 is estimated to cost US$9.7 million (2.0 percent of GDP). Implementation support and financing is being provided by ADB, Australia, NZ, UNICEF and WHO. The NDVP was informed by consultations with government, development partners, the private sector, churches and NGOs at the central, district and community levels.

68. **Key parts of the NDVP are also expected to strengthen Tonga's health system to respond to future health emergencies.** These include: (i) investment in cold-chain storage facilities, equipment and transport protocols; (ii) training and capacity building to health workers on vaccine management and administration (which will improve system capacity for non-COVID vaccine activities); and (iii) strengthening of reporting and management systems for vaccine roll out, supply chain logistics and adverse events following immunization.

69. **To support efficient and appropriate clearance and handling of COVID-19 vaccines, GoT has also implemented a special border clearance regime for essential medical goods.** As a trade dependent economy with no pharmaceutical manufacturers, all medical products are imported. Public health considerations demand that medical products must conform to stringent standards and be rigorously monitored. All border management agencies need to be involved in crisis management preparedness and implementation—particularly for vaccines, medication and medical equipment that require specialist or rapid release at the border. Previous procedures and practices regarding the clearance of medical products were largely undocumented and informal. While these practices have generally been adequate, the need to ensure full confidence in the border clearance procedures and supply chain resilience demanded a more structured and systemized approach, particularly regarding the handling of the COVID-19 vaccines. In response, GoT has implemented new guidelines on "Import Procedures for Vaccines, Medicines and Medical Products" (Guidelines). The Guidelines outline the sequencing and responsibilities for border clearance actions, as well as the regulatory and procedural obligations for companies regarding importing medical products.

70. **Although designed for the COVID-19 vaccines, the special regime is also valuable for the importation of essential medicines following a natural disaster and other future public health emergencies.** In this way, the action also contributes to enhanced preparedness to shocks via streamlined government procedures. The special regime can also serve as an example for how improved coordination between border agencies can streamline processes for other goods. The regime was prepared by a special trade facilitation working group consisting of Ministry for Trade and Economic Development (MTED), MORC, MOH, Ministry of Agriculture & Food, Forests and Fisheries, and Ministry of Infrastructure. The design was informed by consultations with Ports Authority Tonga and representatives from the private sector (traders, brokers, suppliers, and importers).

71. **The results indicator targets the effective rollout of the COVID-19 vaccines, measured as the proportion of the eligible population that have been fully vaccinated, disaggregated by sex.** As of August 17, 2021, 58 percent of the eligible population had received the first dose of the vaccine and 37 percent were fully vaccinated. Disaggregated by sex, 38 percent of eligible females and 35 percent of eligible males were fully vaccinated. The results indicator targets full vaccination of 75 percent of eligible females and 75 percent of eligible males by the end of FY23.

PILLAR III: SUPPORT ECONOMIC RECOVERY AND IMPROVED LABOR MARKET OUTCOMES

72. **The third development objective supports the GoT's efforts to lay the foundations for a sustainable and inclusive economic recovery and strengthen labor market outcomes.**

PA#6: To enhance the management of labor mobility supply, the Recipient, through its Cabinet, has established work ready pools, reformed procedures for recruitment, and enhanced pre-departure training.

73. **Labor migration remains one of the most promising employment pathways for many Tongans and is a crucial source of employment and income that can support the economic recovery.** Labor migration and remittances received from diaspora remain critical to the economy. Resilient remittance flows have been a crucial lifeline to mitigate the impacts of the dual shocks on households, and a key source of strength for the balance of payments—supporting macroeconomic stability. In FY20, net remittances were equivalent to 29.8 percent of GDP—one of the highest rates in the world. World Bank (2017) identifies labor mobility as the most important opportunity to drive higher employment and incomes for Tonga over the next 20 years.

74. **The demand for temporary workers from the Pacific has increased due to the pandemic, providing a significant opportunity for migrant workers.** The collapse in tourism-related activity has meant there are now even fewer jobs in Tonga than before the pandemic. At the same time, strict border restrictions have seen the number of foreign working holiday makers in Australia and NZ (ANZ) fall dramatically. This has led to increased demand for Pacific workers, facilitated by the gradual recommencement of Australia's Pacific labor mobility schemes since September 2020. However, Tonga must compete with other PICs for these jobs. The quality of Tongan workers and responsiveness of government-led job matching and mobilization processes is thus crucial to gain access to these opportunities.

75. **The Tonga Labour Mobility Policy (TLMP, a PA under DPO1) highlights the need to improve the matching, mobilization and management of Tonga's migrant workers to maximize the benefits from labor mobility.** In response, GoT has reformed and strengthened several key policies and procedures for the management of labor mobility supply. These reforms have been codified in a Labour Mobility Operations Manual (LMOM) that establishes—for the first time—a set of 12 procedures that cover the full course of

circular labor mobility (planning, recruitment, pre-departure, work engagement, reintegration). Among the most critical reforms supported by the WB are: (i) the establishment of work ready pools; (ii) improved procedures for recruitment and screening; and (iii) enhanced pre-departure training.[23] The LMOM was prepared utilizing inputs from key international partners, including WB, Australia, NZ and the International Labour Organization (ILO).[24] It was developed further via workshops involving GoT stakeholders, TVET providers, and representatives from communities, churches, workers and the private sector.

76. **To facilitate matching of employer demand with Tongan labor supply, GoT has established low-skilled and semi-skilled work ready pools from which approved employers under ANZ labor schemes can select workers.**[25] Work ready pools are a government-organized mechanism to solve the labor market search and matching problem. That is, ANZ firms need trustworthy workers with specific skills. However, it can be costly for them to recruit workers directly. Instead, labor-sending governments organize 'work ready pools' of pre-vetted workers from which the employer can select. Fiji and Timor-Leste, two significant labor sending countries, have run successful work ready pools for many years. The programs provide confidence to employers and improve the chances of employees being selected—reducing search costs and risks for both parties. The reform includes the establishment of a series of work ready tests to ensure that the candidates meet the labor scheme and industry requirements.[26]

77. **The recruitment processes and pre-departure training have also been reformed.** The recruitment processes have been strengthened by establishing a transparent Labour Mobility Selection Criteria and a three-stage screening process. The initial screening is conducted via a new, streamlined registration form that assists with worker placement, verification and qualifications. Second, is an internal assessment regarding Code of Conduct violations and other compliance matters. Third, is an external assessment against criminal records (Ministry of Police), court judgements (Ministry of Justice) and Tongan family law (Family Protection Legal Aid Centre). To enhance pre-departure training, authorities have expanded the curriculum by introducing new modules on budgeting and money management, first aid training, and health and hygiene. Employability training modules have also been made more comprehensive by including core 'soft' skills, planning and organizational skills, and use of technology. Combined, these reforms are designed to enhance the quality and employability of Tongan workers, and to enhance and protect the 'brand' of Tongan labor—thereby seeking to attract greater demand for a higher quality product, vis-a-vie other Pacific workers.

78. **The results indicator targets increased participation and gender equity in the Ministry of Internal Affairs' (MIA) worker pools.** The results indicator has been revised upwards due to a faster increase in worker registrations than was envisaged during DPO1 preparation. The indicator targets an increase in the number of workers registered in the pools from 511 in December 2019 to 2000 in June 2023 (previously 900), and that 37 percent of workers are women. As of July 31, 2021, 1409 workers were registered in the MIA pools (the sum of workers registered, registered and passed work-ready tests, and mobilized), of which 34 percent were

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[23] WB support is limited to those actions specified in PA#6 which have been implemented through approval of the LMOM, rather than all the activities outlined in the LMOM.
[24] This includes lessons learned from the ongoing Skills and Employment for Tongans (SET) project (P161541) and WB analytical work.
[25] Tonga participation in NZ's Recognized Seasonal Employer Scheme (RSE) and Australia's Seasonal Worker Programme (SWP) and Pacific Labor Scheme (PLS).
[26] These include English language, physical fitness and employability and, for semi-skilled programs, specific skills requirements.

women.[27] To improve transparency and clarity, the indicator has been adjusted from a focus on the proportion of 'new workers' that are female to the proportion of all workers that are female.

PA#7: To strengthen financial sector stability, protect customers, and encourage an expansion in financial services, the Recipient, through its Cabinet, has approved a Credit Unions Bill for submission to the Recipient's Parliament.

79. **Effective financial market regulation is a key driver of sustained economic growth.** The financial system helps to efficiently direct the flow of savings and investment in the economy in ways that facilitate the accumulation of capital and the production of goods and services, thereby leading to higher economic growth. However, financial institutions are also a key source of volatility and risk. Financial stability thus requires strong regulations and supervision by government. In Tonga, consecutive IMF Article IV consultations reports (2017 and 2020) have highlighted the need to expand the NRBT's supervision and regulation to non-bank financial institutions (NBFIs), including the credit union sector. While the finance sector is currently stable, it lacks diversity and is relatively underdeveloped. To increase financial stability, the GoT is seeking to improve the NRBT's regulatory, supervisory and legal framework. This has become more urgent with the economic impacts of the COVID-19 crisis, which could increase risks to financial stability. Improved regulation is also crucial to support an expansion in the sector and to improve access to financial services. The reform thus builds on a PA from the 'Dual Shocks' DPO which aimed to facilitate increased access to finance for micro, small and medium-sized enterprises.

80. **A 2015 IMF Pacific Technical Assistance Center (PFTAC) review found that the credit union sector operates under outdated legislation and with inadequate regulation and supervision.** Under the current law, credit unions are registered by the Registrar of Credit Unions—a division within MTED. However, the Registrar lacks sufficient capacity and supervisory powers to oversee the performance and activities of the credit union sector. In practice, this has left the credit union sector largely unregulated and unsupervised. While the sector remains relatively small—with less than 10 credit unions currently in operation—credit unions are an important source of financial services, particularly for citizens outside of Nuku'alofa (the capital city).[28] Legal reform is necessary to shift supervisory authority to the central bank, and to provide the NRBT with sufficient powers to implement the regulatory and supervisory functions. In addition, rules regarding the governance structure and the operations of credit unions require updating.

81. **In response, GoT has approved an enhanced and modernized Credit Unions bill.** The bill is designed to enhance the regulation and supervision of credit unions to strengthen financial stability, protect customers, and encourage an expansion in financial services by streamlining credit union registration to encourage more entrants to the market. The bill was prepared based on an IMF model Credit Unions Act for PICs, contextualized for Tonga's legal tradition, constitutional requirements, institutional frameworks and policy preferences. As such, the law is consistent with international good practice, including the Model Law for Credit Unions developed and recommended by the World Council of Credit Unions. Prepared by the NRBT, the bill has been through several rounds of consultations with key GoT stakeholders, the domestic financial sector, and development partners. Among the key reforms enshrined in the new law are to: (i) provide the legislative

[27] Stock of workers registered from October 2020 (following recommencement of labor mobility programs after COVID-19 suspension).
[28] For example, according to a recent NRBT survey, around 11 percent of those surveyed had used the services of a NBFI, including credit unions, in the past 12 months. NRBT. (2017). *Financial Services Demand Side Survey: Tonga*. NRBT: Nuku'alofa.

framework for the organisation, operation, regulation and supervision of credit unions; (ii) provide the legal basis to regulate the activities and responsibilities of credit unions; (iii) prescribe the powers and duties of the NRBT; (iv) prescribe the penalties, civil sanctions and remedies for unsafe and unsound practices or violations of the law and regulations; (v) clearly articulate the application process and requirements to create a credit union; and (vi) provide for the orderly exit of insolvent credit unions.

82. **The results indicator targets improved reporting on credit union sector regulatory and supervisory activities, as demonstrated by annual reports being submitted to the NRBT Board.** Achievement of the indicator thus demonstrates the active regulation and supervision of the central bank, and its transparent reporting of activities to its Board.

PA#8: To foster an inclusive, respectful and safe work environment for the public service sector, the Recipient, through its Cabinet, has approved a sexual harassment policy.

83. **GBV and sexual harassment are widespread in Tonga.** Nearly 64 percent of women have experienced sexual or physical violence by non-partners, while close to 40 percent have incurred violence by an intimate partner.[29] While sexual harassment in the workplace is also a significant issue in the Pacific, it is not widely discussed, and data are scarce (although 25 percent of women in the public service in Fiji report experiencing sexual harassment). At present, only two PICs (Fiji and Samoa) have comprehensive legislation outlawing sexual harassment in the workplace. Recent evidence indicates that a major issue with the reporting of sexual harassment cases in the Pacific is the lack of awareness on the part of employers and employees as to: (a) what constitutes sexual harassment; and (b) what are the appropriate mechanisms for grievance and resolution.[30] A 2018 gender audit of Tonga's PSC and public service legislative framework recognized gender-based bullying and harassment as offences for the first time. It also noted that Tonga did not have legislation or policy related to workplace sexual harassment. This contributed to limited awareness and reporting of sexual harassment and meant that appropriate reporting and case management procedures were absent.

84. **In response, GoT has approved a Sexual Harassment Policy for the public service sector that—for the first time—sets out formal procedures to prevent sexual harassment and manage cases**. The policy includes the definition of sexual harassment, roles and responsibilities of stakeholders, formal and informal procedures for case management, and data monitoring. Supported by the ILO and the Commonwealth Secretariat, the policy is consistent with internationally accepted practices. For example, the policy provides guidance to those affected by sexual harassment, and those that report or witness incidents. The grievance and resolution process is clear—focused on resolving harassment-related issues through informal consultation and formal conflict resolution. The policy is consistent with the Employment Relations Bill and is aligned with GoT's regulations related to disciplinary and grievance processes. ADB technical assistance is supporting policy implementation, including training and an awareness campaign, and establishment of an independent advisory body to oversee the grievance process. Policy preparation was informed by a baseline study of public servants' awareness of what constitutes sexual harassment and associated procedures, along with several rounds of consultations. Significant care was taken to ensure the Tongan translation of the policy—and future information material—is accurate and culturally sensitive.

[29] Jansen, H. et al. 2012. *National Study on Domestic Violence against Women in Tonga 2009*.
[30] Triennial Conference of Pacific Women dedicated to the ILO's Violence and Harassment Convention (C190).

85. **The results indicator targets closing key gaps in reporting and awareness that undermine efforts to combat GBV and sexual harassment.** Implementation of the policy will include an extensive awareness campaign including workshops, newspaper and radio promotion, dissemination of Frequently Asked Questions and training courses. Increased awareness of sexual harassment and GBV can result in increased reporting of cases, helping to narrow data gaps and develop more targeted policies and interventions.[31] Confidential data collection and monitoring will occur annually, removing identifying information to protect the privacy of individuals. This will include analyzing data collected through formal and informal reporting mechanisms, anonymous staff surveys on knowledge and experiences of sexual harassment, interviews, and regular staff training (particularly for new employees) to better understand workplace culture and improve employee responses to sexual harassment. In accordance with ILO guidelines, the PSC will establish and maintain a confidential database containing: (i) information on the number of complaints that were raised disaggregated by ministry, procedure followed (formal or informal) and gender, along with processing time and resolution reached (to be reviewed annually); and (ii) results of an annual survey (preserving respondent anonymity) of public officials' experiences of sexual harassment, as well as knowledge of and satisfaction with the policy currently in place.[32] Therefore, the results indicators will target the collection of data on complaints received and resolved, as well as employee experiences and knowledge.

86. **The analytical underpinnings of the proposed program are summarized in Annex 5.**

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

87. **The proposed operation addresses all four focus areas articulated in the WBG's Regional Partnership Framework (RPF) for nine Pacific Island Countries (PIC9), including the Kingdom of Tonga.** The WBG recently reviewed the PIC9 RPF to ensure a strong and consistent response to COVID-19. The four themes of the RPF have been retained, though programming is being adjusted to support the region along the three phases outlined in the WBG COVID-19 Crisis Response Approach Paper (relief, restructuring, and resilient recovery). The RPF priorities remain highly relevant to Tonga's restructuring and recovery phase from COVID-19 and TC Harold. The proposed operation contributes to the first theme of the RPF—fully exploiting the available economic opportunities—by supporting the rollout of the COVID-19 vaccine, which is critical to relaxing strict border restrictions and supporting the recovery of the tourism sector. The second focus area—enhancing access to employment opportunities—is addressed through the measures to strengthen labor mobility services and institutions. Resilience actions will protect incomes and livelihoods (the third focus area) from the impacts of climate change, natural hazards, and public health emergencies through proactive DRM legislation, risk financing, and risk reduction and climate adaptation initiatives. Finally, the program supports the fourth focus area—strengthening the enablers of growth and opportunities—by strengthening fiscal policy and liability management to build fiscal buffers and improve fiscal resilience to shocks; and enhancing financial sector stability through legislation for credit unions.

88. **Actions supported by this DPO are also closely linked to the IDA19 special themes and WBG COVID-19 Crisis Response Approach Paper.** The operation supports actions related to the themes of "Climate Change" "Jobs and Economic Transformation" and "Gender and Development" and the cross-cutting issue of

[31] Pacific Community (SPC). 2021. *Beijing+25: Review of progress in implementing the Beijing Platform for Action in Pacific Island countries and territories*. SPC: Suva, Fiji.
[32] This information will be collected via the annual public service engagement survey conducted by the PSC.

"Debt". These actions address the areas of: (i) enhancing resilience to climate change, natural hazards, and public health emergencies; (ii) improving access and inclusivity in overseas employment opportunities; (iii) addressing GBV and sexual harassment in the workplace; and (iv) strengthening debt and liability management. Finally, the operation directly addresses a key priority to close gender gaps by mitigating sexual harassment. This is related to efforts to remove constraints for more and better jobs, a priority area in the Consolidated Country Gender Action Plan for the PIC-9 FY17-FY21 and the Bank's Gender Strategy 2016-2023. The operation supports measures that are critical to the restructuring and relief phases of the crisis response and address all four pillars of the WBG Approach: (i) saving lives through the COVID-19 vaccine rollout; (ii) protecting poor and vulnerable people through improving access to financial services; (iii) ensuring job creation through enhanced labor mobility; and (iv) "Rebuilding Better" through reforms in DRM legislation, disaster risk financing, and PFM.

89. **The proposed operation builds on reforms supports by DPO1 and the 'Dual Shocks' DPO, as well as several investment projects and technical assistance activities.** PAs to strengthen revenue mobilization and wage bill management build on actions supported under DPO1 and technical assistance provided by the WB and DFAT. Preparation of the MTDS 2021–2025 and government guarantee policy were supported by WB technical assistance. Reforms to the DRM legislative framework and disaster risk financing build on and support actions in the DPO1 and 'Dual Shocks' DPO. They are also closely aligned with the PREP-Tonga project (P154840), the proposed Tonga Safe and Resilient Schools Project (P174434), and the proposed Tonga Climate Resilient Transport Project II (P176208). Technical assistance was provided by WB, Australia and NZ. Reforms related to labor mobility complement the WB-financed SET Project (P161541) and DFAT's Tonga Skills project. Technical assistance also supported actions related to trade facilitation (WB), credit unions legislation (PFTAC and WB), and the sexual harassment policy (ILO, Commonwealth Secretariat and ADB).

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

90. **This operation has been developed through an extensive and high-level process of consultation with all relevant authorities and stakeholders, including those in central and sector government ministries.** The program has also been informed by a broader Government-led consultation which engaged non-government stakeholders. Authorities conducted multiple rounds of consultations with relevant stakeholders to inform the design, scope and planned implementation of each PA.

91. **The proposed operation is the product of close collaboration with other development partners and is part of a coordinated budget support framework.** The WB leads development partner representation at the Budget Support Management Committee (BSMC), which is chaired by MoF and includes representation from all budget support donors and government stakeholders. The BSMC is the key mechanism for coordinated dialogue to select actions and monitor progress. The WB, ADB, Australia, NZ and the European Union are supporting the same matrix of reforms. The WB cooperates closely with key development partners in the provision of analytical work and technical assistance to Tonga, including coordinated needs assessment and programming, cross-organization peer review of analytical outputs, and regular discussion in the BSMC framework. WB, ADB, Australia, NZ, WHO, ILO and the Commonwealth Secretariat have all provided assistance to facilitate the achievement of the proposed program of policy reforms.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

92. **Extreme poverty is rare but there are significant levels of hardship, particularly in rural areas.**[33] While traditional family and community-based social safety nets have typically provided some protection to poor and vulnerable households, pressure on these informal risk-sharing mechanisms is exacerbated by economic shocks, urbanization, and social change. Estimates based on the 2015/16 Household Income and Expenditure Survey show that less than 1 percent of Tongans live below the international poverty line of $1.90 a day, but 23 percent of adults and 33 percent of children are considered poor by the national multidimensional definition of poverty. The national poverty rates are much higher outside the main island of Tongatapu (39 percent for adults and 47 percent for children).

93. **Reforms supported by all three pillars are expected to help reduce poverty and boost shared prosperity.** The public sector is a key provider of infrastructure and services that low-income households need to improve their opportunities. By supporting fiscal resilience, the reforms under Pillar 1 will help ensure that the government has the fiscal space to respond to future economic shocks and disasters (which tend to impact the poor disproportionately) while maintaining critical health, education, and community services on which the bottom 40 per cent are particularly dependent. Relatedly, the reforms supported under Pillar 2 are expected to benefit poor and vulnerable households in particular, to the extent that they are more likely to rely on publicly funded post-disaster recovery and social protection programs. Pillar 3 addresses poverty by supporting greater participation in overseas employment opportunities for women, rural households and youths, which will encourage labor market participation and narrow gender disparities. It also supports shared prosperity by fostering a safe workplace environment absent of sexual harassment. Consequently, PAs #1 to #5 and #7 are not expected to have negative poverty and social impacts. Rather, they are expected to have positive poverty and distributional effects. While PAs #6 and #8 are expected to have net positive poverty and social impacts (see paragraphs 98 to 104).

94. **The DRM Bill and DRFS are designed to enhance the resilience of vulnerable households and to ensure that vulnerable groups are supported adequately during and following a disaster.** Poor and vulnerable people tend to live in hazardous areas or housing conditions, lack access to basic services, and have limited financial resources to cope with the aftermath of shocks.[34] The DRM Bill includes provisions to ensure that the specific needs of vulnerable groups (particularly the elderly and people with disabilities) are identified supported adequately, and that diverse groups are represented in DRM Committees. Detailed technical guidance will be prepared on how to support vulnerable groups before and during disasters. To increase the resilience of poor and vulnerable households, the DRFS Implementation Plan includes preparation of an adaptive social protection (ASP) strategy and national policy. These will be complemented by costed studies of program scale up and revised standard operation procedures to support program adaptability (including post-disaster vertical and horizontal expansion). The ASP framework will also support development of a

[33] In several PICs, the label of poverty is considered culturally inappropriate because it is viewed as implying a failure of traditional, community-based safety nets. The term 'hardship' is thus used to refer to the welfare concept commonly termed 'poverty'. That is, the inability to meet one's basic food and non-food needs.
[34] Hallegatte et al. 2017. *Unbreakable: Building the Resilience of the Poor in the Face of Natural Disasters*. WB: Washington, DC.

comprehensive social registry for those who are vulnerable to shocks, including those that are not currently program beneficiaries.

95. **The COVID-19 NDVP outlines several mitigation measures to address potential social risks.** PA#5 is expected to have strongly positive poverty and social impacts by helping to avoid a health disaster and facilitate the opening of borders, catalyzing the economic recovery. The main social risks of the vaccination program are: (i) the occupational health and safety (OHS) issues related to testing and handling of supplies by health professionals and the treatment of COVID-19 patients (if an outbreak were to occur); (ii) community health and safety issues related to the handling, transportation and disposal of hazardous and infectious medical waste; (iii) the potential for inequitable vaccine access; and (iv) risks of sexual harassment. The authorities recognize these risks and are committed to implementing strong mitigation measures, as outlined in the NDVP. These include: (i) upgrading and installation of health facility and waste management equipment; (ii) implementation of applicable waste management protocols, training and on-site activities to protect health workers and the community; (iii) standard operating procedures for the treatment of COVID-19 patients and careful stock management of personal protective equipment; (iv) labor management procedures to ensure safe working conditions and to prevent sexual harassment; (v) GoT commitment to ensuring equitable and non-discriminatory access to vaccines in accordance with the deployment strategy outlined in the NDVP; and (vi) establishment of a grievance redress mechanism for the COVID-19 vaccination program. The design and implementation of these mitigation measures included extensive stakeholder engagement.

96. **Noting that the WB does not support programs that use a forced vaccination approach, the NDVP and Guidelines submitted in support of PA#5 do not refer to any forced vaccination approaches or related sanctions**. Under a Public Health (Amendment) Bill 2021 passed by Parliament in August 2021, authority is provided for the Chief Executive Officer (CEO) of MoH to declare that a person shall be vaccinated against an "emergency notifiable condition" including COVID-19. In the event that the CEO does make such declaration, the Bill subjects persons who fail or refuse to be vaccinated without lawful or reasonable excuse to certain criminal sanctions. However, the Bill provides for the option to make a vaccine compulsory only if specific conditions are met, i.e., in response to a "declared public health emergency" and declaration of an "emergency notifiable condition". The NDVP and Guidelines do not refer to the Public Health (Amendment) Bill 2021 nor any forced vaccination or penalties for non-vaccination, and MoH has not made the COVID-19 vaccine compulsory. Further, the CEO of MoH has publicly stated that COVID-19 vaccines will not be made compulsory[35], and MoH has repeatedly confirmed this position in dialogue with development partners in the health sector (including WB, WHO, UNICEF, Australia, NZ, EU, and Japan). The risk that MoH could change its view is being mitigated by ongoing high-level dialogue between GoT and development partners.

97. **The MoH Infection Prevention and Control Guidelines 2020 (IPCG) and PSC regulations and policies provide strong complementary mitigation measures.** All staff involved in the vaccine roll-out are MOH staff (along with Tonga Police Force officers for security). PSC regulations and policies regarding workplace relations, sexual harassment, engaging with the public, and confidentiality—including the 2020 Code of Ethics and Conduct for the Public Service and the public service sector sexual harassment policy (PA#8)—cover all permanent employees, contractors and daily paid staff endorsed by the PSC. Furthermore, OHS (including medical waste management and vaccine disposal) is extensively covered in the IPCG, along with sections on

[35] Matangi Tonga. (2021). "36,800 COVID-19 doses arriving in Tonga today", published online on August 25, 2021.

standard precautions, additional COVID-19 precautions, measures for special healthcare areas, surveillance, food and water safety, and education and training regarding implementation of the IPCG.[36]

98. **Measures to enhance access to overseas employment opportunities are assessed to have net positive poverty and social impacts.** As outlined in paragraph 73, temporary worker programs provide substantial household benefits that translate into positive poverty and distributional effects. These benefits include higher incomes which can support higher standards of living and human capital investment, as well as a transfer of skills and knowledge, which can help to stimulate innovation and the small-business sector.[37] Furthermore, PA#6 is expected to have positive poverty and distributional impacts given that that the reforms and labor mobility institutions are targeting greater participation by women and workers from outer islands,[38] while also integrating mitigation measures to reduce the negative social impacts of labor mobility (see below).

99. **To support increased labor mobility participation by vulnerable groups, GoT is also implementing several measures to minimize worker pre-departure costs.** Unlike low-skilled migration arrangements in other parts of the world, the ANZ labor mobility schemes do not involve upfront recruitment or labor placement fees for workers, with these upfront costs met by employers or governments. There are nevertheless some costs that are incurred by prospective workers prior to employment, the most significant of which are domestic travel costs to reach Nuku'alofa. These costs are modest when compared to average earnings in ANZ (commonly less than $600 compared to earnings of over $14,000 in six months). They also vary based on the origin of the worker, with the burden highest for workers coming from outer islands. As part of the TLMP and LMOM, GoT is undertaking various actions to reduce these costs borne by workers, including through establishment of government labor mobility offices in outer islands (which process worker documentation); provision of pre-departure and reintegration training facilities in outer islands; arrangements by which authorized doctors travel to outer islands to provide medical clearance for prospective workers; and installation of X-ray equipment in outer islands for these medical checks.

100. **The risks of negative social impacts due to enhanced labor mobility are judged to be limited, due to multi-sectoral mitigation measures to address potential negative household and community impacts and domestic skills shortages.** The absence of migrant workers for extended periods of time can have serious negative consequences for individual, family and community wellbeing (such as family breakdown and social disruption). These vulnerabilities could be exacerbated by greater participation in overseas employment opportunities. To mitigate these potential negative effects, the TLMP calls for: (i) the establishment of a targeted pastoral care strategy to protect and safeguard workers while they are working overseas; (ii) targeted family support programs; (iii) a pre-departure program for workers and their families to prepare them for separation; and (iv) a social reintegration program to facilitate the resolution of issues when workers return.

[36] Prepared as part of the WB's COVID-19 support to Tonga under the Tonga Climate Resilient Transport Project (P161539) CERC.
[37] A 2017 WB report documents that Tongan SWP workers earned over five times what they would have earned had they stayed in Tonga; and that households with a member participating in the SWP had substantially higher per-capita savings and expenditure, improved housing, and higher rates of school enrollment and attendance.
[38] This reflects ongoing activities outlined in the TLMP, such as: information campaigns and community outreach to encourage recruitment of women and workers from outer islands; development of a selection criteria that encourages greater participation by women and vulnerable households; development of work-ready pools that target industries where women represent a higher proportion of workers, such as tourism, hospitality, and health services sectors; and tailored pre-departure and reintegration programs for women and youths that participate in seasonal worker programs to support further training and career development.

101. **The LMOM and associated reforms address these priorities.** In addition to the actions in PA#6, the LMOM also: (i) establishes a worker welfare desk in the Labour Sending Unit (LSU) of MIA; (ii) sets out a Grievance Redress Mechanism (GRM) for workers and procedures to be followed when welfare issues arise; (iii) formalizes the role of GoT liaison officers based in ANZ in providing ongoing support to workers (including pastoral care, mentorship, and to defend the rights of workers); (iv) details the role of pre-departure training and reintegration services in support of worker and household welfare; (v) establishes a pre-departure review and clearance role for the LSU in relation to contracts offered to workers, to ensure these are fair and clearly set out employment conditions; and (vi) extends support to returning workers to access superannuation earned overseas.[39] These reforms address priority areas identified in the TLMP. They are also the most advanced of any PIC in support of migrant worker welfare and are a significant advance on labor mobility policies and operational guidelines developed in other PICs (including with support from international partners such as Australia and ILO). They build on existing protections for workers which form part of the design of the ANZ labor mobility programs, which are globally considered good practice examples of low- and semi-skilled temporary employment programs.[40] A recent Social Assessment prepared on behalf of the Government of Papua New Guinea as part of WB project under preparation found that these ANZ programs are consistent with the WB's Environmental and Social Standards on Labor and Working Conditions (ESS2). In recent years, MIA has developed institutional capacity in leading the GoT's labor mobility agenda. Implementation of these mitigation measures will require ongoing institutional strengthening, which is supported via the WB-financed SET Project and by a full-time adviser under DFAT's Pacific Labour Facility.

102. **GoT is also pursuing mitigation measures to address potential domestic skills shortages due to enhanced labor mobility.** 'Brain drain' due to labor mobility can negatively affect the domestic private sector. To mitigate these impacts, the authorities—with support from the WB and other development partners—are pursuing policy reforms and sectoral interventions to boost the supply of skilled workers (such as through the TVET sector framework policy supported by DPO1, the SET Project, and DFAT's Tonga Skills project). This includes efforts to strengthen the TVET sector and supporting greater access to, and quality of, training opportunities. Furthermore, WB analytical work is planned to assess the impacts of labor mobility on Tongan firms and consider potential mitigation strategies.

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[39] The labor mobility liaison officers, pre-departure briefing & training, and pre-departure review services are established and ongoing. The LSU Superannuation Desk is established and providing services to workers. Worker reintegration services are under development. A Tonga Reintegration Strategy is slated to be developed in 2022. The LSU Worker Welfare Desk is responsible for the administration of the GRM. The Desk and implementation of the GRM are being funded by DFAT and will be established by December 2021. The GRM will bolster existing (and separate) mechanisms in ANZ. In cases of GBV/sexual exploitation, abuse and harassment suffered by workers as part of the schemes, ANZ GRMs established under the respective programs would be utilized by workers, and any illegal activity would be dealt with under ANZ law. The GoT GRM would typically refer serious matters that have occurred overseas to ANZ authorities.

[40] These bilateral labor mobility programs offer equal treatment of foreign workers in ANZ. Employers seeking to participate in the SWP are subject to vetting to meet eligibility requirements and enter into a Deed of Agreement with Australia's Department of Education, Skills and Employment, which requires that seasonal workers receive the same pay and employment conditions that Australian workers would receive for the same work. This means that seasonal workers must be employed under a Fair Work Instrument in accordance with the Fair Work Act 2009 and Australia's workplace laws. The PLS, like the SWP, has approved Offer of Employment templates which ensure that agreements between approved employers and overseas workers are consistent with the requirements of the programs and Australian law. These arrangements are enforced through the Fair Work Ombudsman. NZ maintains a similar model through the RSE, which ensures that pay and work conditions are equivalent to those for NZ citizens. These are enforced through the NZ Labour Inspectorate, which sits under the Ministry of Business, Innovation, and Employment. These programs also provide additional measures (outlined in program operations manuals) to address specific risks for workers.

103. **The sexual harassment policy is expected to help reduce GBV and sexual harassment in the workplace, thus addressing a key constraint that is material to women's economic participation.** Global evidence shows that sexual harassment in the workplace is a major barrier to women's economic advancement.[41] There is a clear gender dimension to unemployment in Tonga, with a substantially lower labor force participation rate for women than men,[42] and sexual harassment is common. Actions to foster a safe work environment can encourage greater workforce participation and reduce the incidence of women leaving—or not accepting—employment due to the actual or perceived threat of harassment. PA#8 is designed to increase awareness of what constitutes sexual harassment, the processes available to address sexual harassment in the workplace, and the appropriate sanctions and support services. The PSC is strongly committed to undertaking regular awareness campaigns and establishing supportive structures for informal case resolution. PSC is also committed to the application of penalties where appropriate. The combination of: (i) regular awareness raising; (ii) ongoing trust-building by strengthening the core institutions for case management and investigations; (iii) measures to ensure confidentiality and deter retaliation; and (iv) the unbiased application of penalties—is expected to increase the reporting of cases and the likelihood that perpetrators suffer consequences. Combined, these effects are expected to contribute to a cultural shift towards a public service (and society) that does not tolerate sexual harassment—contributing to reduced incidence of sexual harassment. Importantly, the public sector sexual harassment policy is consistent with the Employment Relations Bill, which requires that all employers implement policies to prevent sexual harassment in the workplace. Given that the public sector accounts for a large share of formal employment, the policy can serve as a benchmark and vanguard for the private sector to follow.

104. **While the overall welfare impact of the reform is assessed to be strongly positive, GoT recognizes the potential for negative social risks, and is committed to implementing strong mitigation measures.** Key risks include the potential for retaliation against those who report alleged cases of sexual harassment and the leaking of confidential information. The PSC is committed to preventing retaliation against complaints, and to using the full extent of the law to protect persons who file grievances and try those who retaliate. The authorities also recognize that the complaints management and data monitoring processes need to be handled confidentially to build and retain trust in the system and institutions, and to protect the wellbeing—and right to a fair and impartial hearing—of those who file grievances and those accused. ADB technical assistance is supporting: (i) a national awareness campaign about the policy; (ii) establishment of the case review process and conduct case trials; and (iii) training for PSC staff and HRM officers in line ministries on how to handle sexual harassment cases confidentially and with sensitivity.[43]

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

[41] The literature has linked sexual harassment with increased absenteeism, loss of productivity, lower job retention and career choices. i.e., McLaughlin *et al.* (2017). "The economic and career effects of sexual harassment on working women". *Gender & Society* and Folke & Rickne (2020). "Sexual harassment and gender inequality in the labor market". CEPR Discussion Paper No. DP14737.

[42] The labor force participation rate is 56 percent for men versus 38 percent for women (Tonga Labour Force Survey 2018).

[43] Regarding privacy and data protection, all public servants are bound by the Public Service Act 2010 (section 19) Code of Ethics and Conduct for the Public Service 2010—that states that employees shall "use official information for official purposes only", "respect the privacy of individuals when dealing with personal information" and "not knowingly disclose to an unauthorized person, either orally or in writing, any information they have acquired through their official duties unless they have received official permission from the Chief Executive Officer or as provided by law". Furthermore, regarding PA#6, DFAT is providing ongoing staff training on the use of the LSU In-Country Recruitment Database to record, store, manage and protect worker data, and similar training will be provided as part of the establishment of the GRM. Regarding PA#8, ADB is providing specialized staff training.

105. **Policy actions under this operation are not expected to have a significant negative impact on Tonga's environment, forests, and natural resources.** The DRM Bill and DRFS under Pillar 2 would likely have positive impacts through the encouragement of sustainable risk reduction investments that reduce demand on natural resources. Adequate measures would be provided by the regulatory frameworks for environmental and land management in Tonga to mitigate any downstream negative impacts from these investments.

106. **The legal framework and institutional capacity for medical waste management is judged to be adequate.** The main environmental risk of the COVID-19 vaccination program (PA#5) is the management and disposal of medical waste. The authorities recognize this risk and are committed to implementing strong mitigation measures, as outlined in the COVID-19 NDVP and MoH IPCG. These include: (i) upgrading and installation of waste management equipment[44]; and (ii) implementation of applicable medical waste management protocols, training and on-site activities. Furthermore, the IPCG provides clear guidance on medical waste segregation, storage, collection and transport, and final disposal. Health workers have been trained on vaccine safety including segregation of waste, handling of sharps and reverse logistics. MoH immunization standard operating procedures also provide guidance on waste management, the use of proper equipment for waste handling, and monitoring and supervision. Implementation of these protocols and guidelines is judged to be adequate. The Health Services Act and Waste Management Act and associated regulations provide an appropriate legal framework for medical waste management. MoH and Waste Authority Limited (a public enterprise) are managing COVID-19 vaccine waste in outer islands by transporting the packaged waste for incineration and disposal on Tongatapu. The process is overseen by a team of environmental health inspectors.

107. **Tonga has an established environmental impact assessment (EIA) process administered by the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Climate Change, and Communications.** The Tonga Climate Resilient Transport Project (P161539) and the Pacific Resilience Project (P154840) are being implemented with no significant environmental issues identified to date under the Bank's operational policies and with consideration of national legislation. This includes the Environment Management Act 2016, Environmental Impact Assessment Act 2016, and Environmental Impact Assessment Regulations 2010. It is mandatory for the EIA of all new developments to be approved by the Minister and CEO of Environment and Climate Change. While EIA registrations have increased recently, indicating improved oversight of developments, the quality of the EIAs and assessments varies. The IMF/WB 2020 Tonga CCPA notes that further efforts are needed to: (i) review and update legislation (and address disaster vulnerability aspects); (ii) establish a registration scheme for EIA consultants to strengthen accountability; and (iii) increase public awareness and technical training. Further, there are gaps due to insufficient human and financial resources to ensure coordination of environmental management issues. Pipeline transport and school infrastructure projects would be implemented under the Bank's Environmental and Social Framework, likely enhancing the capacity of implementing agencies for compliance with the EIA process.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

108. **Reflecting consistent PFM reform efforts over recent years, Tonga's policy and institutional performance—as assessed by the WB's 2020 Country Policy and Institutional Assessment—is above average**

[44] Including an Ecosteryl unit at Vaiola Hospital (Tongatapu) which does not produce greenhouse gases and toxic emissions like traditional incinerators.

for IDA countries. Reforms were guided by the PFM Reform Roadmap FY15–FY19 and included measures to strengthen: (i) planning and budget formulation; (ii) the financial management information system; (iii) budget comprehensiveness, transparency and execution; (iv) revenue policy, administration, compliance and the revenue management system; (v) cash and debt management; (vi) procurement; and (vii) accounting, financial reporting and oversight. Many of these reform efforts have been supported by past DPOs.

109. **The PFM reform program is guided by the 2020 PFM Action Plan.** The 2020 Public Expenditure and Financial Accountability (PEFA) assessment showed that the legal and regulatory framework for PFM provides a solid basis for budgeting, management of assets and liabilities and accountability. However, the PEFA indicated areas of weaknesses in budget reliability, external scrutiny and audit, some expenditure controls (including payroll controls) and debt management. GoT is committed to strengthening PFM practices and addressing the weaknesses identified in the 2020 PEFA. In response, authorities developed and are implementing the 2020 PFM Action Plan. PAs supported by this operation will help to address some of the weaknesses identified in the PEFA, including measures to enhance debt management (PA#1) and payroll controls (PA#2). Authorities are also working with development partners to enhance the planning and recording of project and in-kind grants, which should improve budget reliability. The GoT's annual budget statement is published on the MoF website.

110. **Procurement legislation and practices have improved in recent years, although areas for improvement remain.** The Public Financial Management Act 2002 and Public Procurement Regulations 2015 (and 2019 amendment) provide the legislative framework for procurement. The PFM Reform Roadmap FY15–FY19 supported the implementation of a Procurement Reform Action Plan and establishment of a Central Procurement Unit within MoF. This has seen improved procurement rules, policies and compliance efforts which are consistent with good practice. The legal and regulatory framework for procurement, bidding opportunities and quarterly procurement statistics are available on the MoF procurement website. The application of the procurement complaints management process meets all criteria in the PEFA framework (rated 'A'). Nevertheless, areas for improvement remain, including regarding compliance with procurement regulations and increased use of competitive methods for procurement.

111. **An IMF Safeguards Assessment of the NRBT is being prepared and should be finalized in FY22.** The NRBT publishes its annual report together with the audited accounts and the report of the independent auditors on those accounts. The FY20 annual report has been published and the audited financial accounts were unqualified. The NRBT has an established Revaluation Reserve Account, which provides an additional buffer for any foreign exchange losses and maintains foreign reserves composed of a basket of currencies reducing the sensitivity to exchange rate risk as movements of these currencies generally offset each other.

112. **There is no indication of substantial issues within the foreign exchange environment.** Until an IMF Safeguards Assessment is concluded, however, there is insufficient information available to draw any substantiated conclusions regarding the Central Bank's foreign currency management environment. The Fiduciary risk for this specific operation is therefore assessed as "Substantial" due to the inadequate knowledge of the foreign exchange control environment. To mitigate this risk, the WB is requiring additional measures for this operation as detailed below.

113. **IDA financing for the DPO will be disbursed according to IDA disbursement procedures for development policy operations.** The full amount of the grant will be disbursed against: (i) satisfactory

completion of the specified policy actions as listed in Annex 1; (ii) an adequate macroeconomic framework and; (iii) the Government agreement, as summarized in the Letter of the Development Policy. It is not tied to any specific purchases. Once the DPO grant is approved by the Board and becomes effective, the proceeds of the grant will be deposited by IDA in one tranche, at the request of the Recipient, into a Foreign Currency Dedicated Account at the NRBT, which will form part of Tonga's foreign exchange reserves. An amount equivalent to the DPO grant proceeds will then be credited promptly to a GoT account to finance budgeted expenditures.

114. **Flow of funds (including foreign exchange) is subject to Tonga's regular Financial Management processes.** While it is not possible to track the ultimate use of the foreign exchange provided by the development policy operation proceeds, grant proceeds will flow from the Foreign Currency Dedicated Account at the NRBT into a local currency bank account of the government used to finance budgeted government expenditures. The GoT will provide confirmation to the Bank when an amount equivalent to the grant amount has been credited promptly to a local account used to finance budgeted expenditures by way of a letter within 30 days of the crediting of the funds into the local account. GoT has provided this confirmation in a timely manner in the past, including for the first DPO in this series that went to the Board in May 2020. The proceeds of the operation would not be used to finance expenditures excluded under the General Conditions for IDA Financing: Development Policy Financing, dated December 14, 2018 (revised on August 1, 2020 and April 1, 2021) (General Conditions). If the proceeds of the DPO grant are used for ineligible purposes after being deposited in a government deposit account, IDA will require the Recipient to refund the amount directly to IDA. Any such amounts refunded to IDA shall be cancelled.

115. **The funds for the partial or full disbursement of the Cat-DDO will be made available after the drawdown trigger conditions are met.** At the request of the Recipient, and with the IDA being satisfied that the GoT has declared an eligible state of emergency, the proceeds of the Cat-DDO will be deposited by IDA into the Foreign Currency Dedicated Account. The Recipient shall ensure that upon the deposit of the Cat-DDO proceeds, an equivalent amount will then be credited promptly to a GoT account to finance budgeted expenditures and provide a certification letter within 30 days of crediting such GoT account. The proceeds will not be tied to any specific purchases but shall not be used for ineligible expenditure, as defined in the General Conditions.

116. **The Bank will retain the right to request the GoT to arrange special audits of the Foreign Currency Dedicated Account established in the NRBT.** The audits should cover the following: (i) the accuracy of the summary of the transactions of this account, including accuracy of exchange rate conversions; (ii) that this account was only used for the purposes of the operation and that no other amounts were deposited into this account, including confirmation from corresponding bank(s) involved in the funds flow; and (iii) that payments from this Foreign Currency Dedicated Account were transferred to a local account available to finance budgeted expenditure in a timely manner, with an equivalent amount in Tonga Pa'anga accounted for in the Recipient's budget management system, in a manner acceptable to the Association. The audit reports, if requested in writing by the Bank, will be provided to the Bank as soon as available, but not later than six months after the date of the Association's request for such audits, and will be made publicly available in a timely fashion.

117. **The closing date for the proposed operation is November 30, 2024.**

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

118. **The existing institutional structure for aid management will be used to implement and monitor the policy actions supported by the operation.** Through the BSMC, the MoF will provide overall guidance for the budget support program, and will assume overall responsibility for coordinating the implementation, monitoring and evaluation of the operation. The MoF will also be ultimately responsible for reporting progress and coordinating actions among other concerned government agencies.

119. **Specific indicators that the Bank will monitor for each of the policy areas supported by the proposed operation are set out in Annex 1.** The Bank will work with the Government to assess the progress of implementation of the policy actions supported by the proposed operation. The Bank will also work with the Government to monitor the specific indicators associated with each of the policy areas supported by the proposed operation. The Bank will play a coordinating role among development partners to ensure that there is a single, agreed assessment of the implementation of the policy actions and a single, agreed evaluation of the monitoring indicators. This will reduce the administrative burden on Government.

120. **Grievance Redress.** Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a WB Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the WB's attention, and WB Management has been given an opportunity to respond. For information on how to submit complaints to the WB's corporate GRS, please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the WB Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

121. **The overall risk rating for the proposed operation is moderate (Table 10) based on extensive mitigation measures related to all key risks to achievement of the PDO.** The risk assessment is based on residual risk. That is, the level of risk to the operation after considering mitigation measures. Nevertheless, GoT's limited institutional capacity and the nation's high vulnerability to external shocks (including the threat of COVID-19, climatic and macroeconomic shocks) mean that some residual risk to the operation remain.

122. **Environmental and social risk is rated as substantial despite mitigation measures, given Tonga's high degree of vulnerability to disasters.** The residual risk rating is due to the potential that the achievement of the PDO could be put at risk by another significant natural disaster. Residual social risks are judged to be moderate after taking into account the mitigation measures outlined in paragraphs 95 to 104. If Tonga experiences another significant disaster over the medium term its macroeconomic stability may be threatened, and significant parts of the bureaucracy may be forced to shift their attention to disaster recovery efforts. This risk is mitigated somewhat by the selection of a limited number of high-priority actions, but in the event of a major disaster, implementation of the reform program may be delayed while disaster response and recovery take precedent. Thus, there remains residual risk to the achievement of the PDO via the potential

diversion of key staff away from the implementation of actions supported in the policy matrix, thereby hampering the achievement of results under this operation. The reforms to strengthen financial resilience for future shocks and encourage a proactive approach to DRM will help minimize the risk.

123. **Fiduciary risk is rated as substantial despite mitigation measures due to the lack of an IMF Safeguards Assessment of the NRBT, although there is no indication of substantial issues within the foreign exchange environment.** Nevertheless, until an IMF assessment is completed, there is insufficient information available to draw substantiated conclusions regarding the NRBT's foreign currency management environment.

Table 10: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	Low
2. Macroeconomic	Moderate
3. Sector Strategies and Policies	Low
4. Technical Design of Project or Program	Low
5. Institutional Capacity for Implementation and Sustainability	Moderate
6. Fiduciary	Substantial
7. Environment and Social	Substantial
8. Stakeholders	Low
9. Other	Moderate
Overall	Moderate

ANNEX 1: POLICY AND RESULTS MATRIX

Prior Actions		Results			
DPO1	**DPO2/Cat-DDO**	**Indicator**	**Baseline**	**Current**	**Target**
Pillar I: Strengthen Public Finances					
Prior Action #1. To improve compliance and the efficiency of revenue collection, the Recipient, through its Cabinet, has approved amendments to the regulations under the Revenue Services Administration Act		**Results Indicator #1:** Domestic revenue as a share of GDP	24 percent (average FY16-FY18)	23 percent (average FY20-FY21)	25 percent or higher (FY24)
Prior Action #2. To support enhanced cash management, the Recipient, through its Cabinet, has approved a policy that establishes a liquidity buffer target band	**Prior Action #1.** To support enhanced debt management and fiscal sustainability, the Recipient: (i) through its Cabinet, has approved the Medium-Term Debt Strategy (MTDS) Fiscal Years 2021 – 2025 and a Government Guarantee Policy that establishes the criteria and guidelines for assessing and approving requests for government guarantees; and (ii) through its Ministry of Finance, has made the MTDS and the Government Guarantee Policy publicly accessible on its website	**Results Indicator #2:** Cash balance as a share of recurrent expenditure (months) **Results Indicator #3:** Percent of new external debt that is concessional	3.5 months (average during FY19) 100 percent (FY16-FY18)	2.2 months (FY21) 100 percent (FY20-FY21)	1 – 2 months (average FY22-FY24) 100 percent (FY21-FY24)
Prior Action #3. To strengthen public sector wage bill and human resource management, the Recipient has adopted and commenced implementation of: (a) a standardized public service job descriptions template; and (b) a revised public service Classification of Positions	**Prior Action #2.** To strengthen public sector wage bill management, the Recipient, through its Cabinet, has endorsed an amendment to the Public Service Policy and Instructions 2010 that introduces a limit on overtime allowances in the public service sector	**Results Indicator #4:** Public-sector wage bill as a share of domestic revenue	54 percent (average of FY16-FY18)	58 percent (average FY20-FY21)	53 percent or lower (average FY23-FY24)

Prior Actions		Results			
Pillar II: Enhance Resilience to Climate Change, Natural Disasters, and Health-related Risks					
Prior Action #4. To improve the resilience and responsiveness of future event-specific housing programs, the Recipient, through its Cabinet, has approved a national housing recovery and resilience policy	**Prior Action #3.** To establish a more comprehensive, proactive and integrated model of disaster risk management, the Recipient, through its Cabinet, has approved a Disaster Risk Management Bill for submission to the Recipient's Parliament	**Results Indicator #5:** The Housing Sector Resilience Office (HSRO) is established, and its work plan is submitted to the National Emergency Management Committee on an annual basis **Results Indicator #6:** Annual report submitted to the National Disaster Risk Management Committee on the implementation of disaster risk reduction initiatives under the national disaster risk management policy	No dedicated unit for housing-sector recovery and risk reduction exists (FY19) N/A	The HSRO is established. Its annual work plan for FY22 is under preparation (FY21) No report (FY21)	The HSRO is established, and its annual work plan is submitted to the National Emergency Management Committee (FY23) Report submitted (FY24)
Prior Action #5. To improve the life-cycle management and resilience of public infrastructure to natural disasters and the accuracy of financial reporting, the Recipient, through its Cabinet, has approved a comprehensive policy framework for the public fixed-asset registry	**Prior Action #4.** To strengthen financial resilience of the Recipient's government, households, and businesses to disasters, the Recipient, through its Cabinet, has approved a national disaster risk financing strategy 2021-2025 that establishes a financial risk-layering policy to maximize disaster and climate risk financing	**Results Indicator #7:** Establishment of national registries of public schools and health facilities that include asset vulnerability information, and are used for policy and operational decisions to enhance resilience of public assets	No registries exist (FY19)	No registries exist (FY21)	Registries finalized (FY23)
	Prior Action #5. To protect the population from a public health emergency and support the economic recovery, the Recipient: (i) through its Cabinet has approved the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023 that provides the guiding policy framework for the vaccine rollout and health system	**Results Indicator #8:** Proportion of the eligible population (aged 15 years and over) that have received the COVID-19 vaccine, disaggregated by sex	N/A	38 percent (female) and 35 percent (male) (August 17, 2021)	75 percent (female) and 75 percent (male) (FY23)

Prior Actions			Results		
	strengthening activities; and (ii) through its Minister for Trade and Economic Development, has approved for implementation the special guidelines for expedited clearance of essential medical goods, including COVID-19 vaccines				
Pillar III: Support Economic Recovery and Improved Labor Market Outcomes					
Prior Action #6. To enhance the quality and relevance of skills training, the Recipient, through its Cabinet, has approved a technical and vocational education and training sector policy framework **Prior Action #7.** To foster greater participation and gender equity in access to overseas employment opportunities, the Recipient, through its Cabinet, has approved a labor mobility policy framework	**Prior Action #6.** To enhance the management of labor mobility supply, the Recipient, through its Cabinet, has established work ready pools, reformed procedures for recruitment, and enhanced pre-departure training	**Results Indicator #9:** Increased number of Tongans in Ministry of Internal Affairs (MIA) worker pools, with increased female participation	511 Tongans in the MIA worker pools, of which 32 percent are female (Dec 2019)	1409 Tongans in the MIA worker pools, of which 34 percent are female (July 2021)	2000 Tongans in the MIA worker pools, of which 37 percent are female (June 2023)
	Prior Action #7. To strengthen financial sector stability, protect customers, and encourage an expansion in financial services, the Recipient, through its Cabinet, has approved a Credit Unions Bill for submission to the Recipient's Parliament	**Results Indicator #10:** Improved reporting on credit union sector regulatory and supervisory activities	N/A	No annual reporting (FY21)	Annual reporting submitted to NRBT Board (FY24)
	Prior Action #8. To foster an inclusive, respectful and safe work environment for the public service sector, the Recipient, through its Cabinet, has approved a sexual harassment policy	**Results Indicator #11:** Confidential data is collected and maintained annually on: (i) sexual harassment complaints and how they were dealt with, disaggregated by ministry,	N/A	No data available on either indicator (FY21)	Data is collected annually on both indicators (FY23)

Prior Actions			Results		
		procedure followed (formal or informal) and gender; and (ii) officials' experiences of sexual harassment, and knowledge and satisfaction of the policy			

ANNEX 2: FUND RELATIONS ANNEX

Tonga—Assessment Letter for the Asian Development Bank and the World Bank July 27, 2021

This letter provides IMF staff's assessment of Tonga's macroeconomic conditions, prospects, and policies. The assessment has been requested in relation to the Asian Development Bank's Economic Recovery Support Program and the World Bank's Second Resilience Development Policy Operation (DPO) with a Catastrophe-Deferred Drawdown Option for Tonga.

Recent Developments, Outlook, and Risks

1. **The government has taken swift and strong actions to contain the COVID-19 pandemic.** The authorities announced a State of Health Emergency in January 2020, followed by the closure of international borders, non-essential businesses, and public facilities. While the national lockdown was lifted in April 2020, some restrictions such as night curfews and bans on mass gathering remain in place as of July 2021. Tonga remains COVID-19-free to date. Tonga has also secured vaccines through the COVAX coalition. Vaccination started in April 2021. As of June 21, 2021, some 28,667 poeple—27 percent of the total population—have received the first round of vaccination. Roll out of second round of vaccines began on June 24, 2021.[1]

2. **The containment measures, while warranted, have strained the economy.** Tonga's modest recovery from the FY2018 Cyclone Gita has been interrupted by the pandemic.[2] GDP growth recorded 0.7 percent in FY2020 (beginning July 2019) due to the dual shocks of Cyclone Harold and the pandemic, and containment measures that particularly hurt private consumption. These effects are expected to persist at least through end-FY2021. Reflecting the full-year effect of the pandemic, GDP growth is estimated to have declined to -2½ percent in FY2021 under the IMF April 2021 *World Economic Outlook* (WEO),[3] due to a sudden stop in tourism, delays in infrastructure investments, and weak private consumption. International reserves remained at record levels in FY2020 and FY2021, mainly due to donor support. Inflation remained subdued in FY2020 and H1:FY2021 due to weak domestic demand and low global food and fuel prices, before picking up to 3.5 percent during January–June 2021 driven by higher imported food prices.

3. **The medium-term outlook is fragile.** GDP growth is projected to recover to 2–4 percent annually in FY2022 and FY2023, led by rebounds in tourism and remittances in line with a global economic recovery, and private consumption. But Tonga's long-term growth potential is low due to

[1] About 41 percent of the eligible population (aged over 15 years old) has already received the first dose. The authorities are targeting to fully vaccinate 80 percent of the eligible population by end-December 2021.

[2] In April 2020, while under lockdown, Tonga was hit by a Category 4 Cyclone Harold, which destroyed infrastructure and tourism structures.

[3] In contrast, GDP growth had been projected at -2.5 percent and -3.5 percent for FY2020 and FY2021, respectively, in the IMF's 2020 Article IV Consultation concluded in January 2021. The stronger-than-expected growth outcome for FY2020 and estimate for FY2021 in the IMF April 2021 WEO primarily reflect better-than-expected growth in Tonga's major trading partners (Australia, New Zealand, and the United States) and remittance inflows from these countries.

its exposure to natural disasters, persistent loss of workers to emigration, narrow production base, and limited economies of scale owing to geographical barriers, and socioeconomic limitations on female labor force participation. Without a concerted effort to boost private sector development, growth is expected to slow down to its long-term potential rate of 1–2 percent. Over the medium term, the current account balance is expected to gradually deteriorate relative to its pre-pandemic levels, reflecting heavy import-dependence, weak competitiveness, and large infrastructure needs. International reserve coverage is expected to trend down to around 4-4.5 months of imports in the medium term given the deteriorating current account deficits and large external debt repayments coming due starting in 2024. Inflation is expected to rise over the medium term due to rising global food and commodity prices, but nevertheless stay below the National Reserve Bank of Tonga's (NRBT) reference rate of 5 percent.

4. **The external position for FY2020 was broadly in line with the level implied by fundamentals and desirable policy settings**. Meanwhile, the current account deficit for FY2021 is estimated to have widened, led by a sharp drop in tourism and higher imports of COVID-19-related health care supplies, which likely had more than offset the stronger-than-anticipated remittances.[4]

5. **Risks remain tilted to the downside.** A weaker global recovery due to additional waves of the pandemic— tempering exports, aid, and remittances—could weigh on the outlook, as could a domestic outbreak of COVID-19 and delays in the vaccination program. Frequent natural disasters are also downside risks and could place additional demands on scarce public resources, thereby increasing Tonga's risk of external debt distress. The ongoing loss of correspondent banking relationships (CBRs) in the Pacific region due to AML/CFT-related weaknesses could disrupt transfers and remittances flows.

Fiscal Policy

6. **After five consecutive years of budget surpluses, the fiscal balance in FY2021 is estimated to have turned to deficit.** The government achieved a much-needed fiscal consolidation during FY2016–FY2020 through improvements in revenue collection, generally effective controls on current spending, and the help of donor support. The shift to a budget deficit in FY2021 primarily reflects reduced revenue and is an appropriate policy response to the pandemic, including emergency spending on healthcare and related to containment measures, and targeted policy support to those affected. The FY2021 budget was financed, besides domestic revenues, by resources disbursed under the IMF's Rapid Credit Facility (RCF), grants from other international financial institutions, and suspension of debt repayments under the G20 Debt Service Suspension Initiative, especially for repayments due to China Exim Bank.[5] The authorities have committed to follow transparent procurement practices under the recent RCF, including by publishing audited

[4] The formal assessment of the external position for FY2021 will be made in the 2022 IMF Article IV consultation.

[5] The extension was until end-June 2021 (or end-FY2021). The authorities have requested for another extension until end-2021.

COVID-19-related spending and public procurement documents, which would help further enhance transparency of government operations.

7. **Tonga's overall risk of public and external debt distress remains high.**[6] Debt repayments are expected to spike starting in FY2024 due to a marked pickup in payments to China Exim Bank coming due from FY2024 onwards. In the absence of new grant commitments and debt relief, as under current policies and financing commitments, most of the external debt service payments coming due from FY2024 onwards will need to be refinanced with new borrowings. In addition, Tonga will need to incur new borrowing to help finance its large spending needs to cover infrastructure gaps and meet its climate resilience and Sustainability Development Goals. As a result, the present value of the public debt-to-GDP ratio is expected to rise above the 70 percent benchmark[7] from FY2029 under current policies and financing commitments. Long-term debt sustainability hinges on continued donor support in the form of grants, debt relief to finance substantial fiscal and external gaps, and sizeable fiscal adjustment.

8. **Post-pandemic, higher and better-quality budget surpluses are needed to stabilize debt dynamics while meeting climate and development goals.** During the pandemic, the critical need to support the economy and complete vaccination will make it difficult to build fiscal buffers. Thereafter, a sizeable fiscal adjustment will be required post-pandemic to build adequate fiscal buffers for debt servicing, emergencies (e.g., for cyclones), and infrastructure maintenance. This could be achieved through better targeted fiscal support, tax base broadening, stricter current spending controls, strengthened capacity, and continued improvements in revenue collection, governance, and public financial management. Spending related to health (including vaccines), infrastructure, and maintenance should be prioritized. More donor grants and debt relief could help the government meet its policy goals faster, provided implementation capacity is improved. The government's medium-term policy agenda is broadly in line with these priorities.

Monetary and Exchange Rate Policies

9. **Monetary policy should stay supportive until recovery is firmly underway.** Monetary policy has been appropriately accommodative thus far, given generally low inflation and the slow recovery. A recent uptick in inflation is largely due to global factors and likely temporary. Therefore, it remains appropriate for the NRBT to stay on hold, maintaining the monetary policy rate and the statutory reserve deposit rate at current levels. Exchange rate stability has been maintained, including after a review of currency basket-weights in 2018.

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[6] The latest published Debt Sustainability Analysis (DSA) can be found in IMF Country Report No. 2021/026.

[7] The benchmarks of total public debt help guide the analysis of risks stemming from public debt and vary with countries' debt-carrying capacity. Based on the latest published DSA, Tonga has a strong debt-carrying capacity (with a composite indicator of 3.12) and has therefore a benchmark of PV of total public debt of 70 percent of GDP.

Financial Stability

10. **Banks remain resilient, but risks have increased**. Though banks are still profitable and well-capitalized, the possible deterioration in asset quality due to the pandemic has yet to be fully reflected in bank balance sheets. Additional provisioning and a capital boost may be required in some banks.

11. **Financial sector vulnerabilities need to be closely monitored and improvements in supervision accelerated.** Financial supervision should continue to be upgraded and deepened to strengthen stress testing, monitor household debt, establish a macroprudential framework, improve supervision of nonbank financial intermediaries, strengthen insolvency and insurance regulations, and enhance the AML/CFT framework and enforcement. Improving financial literacy and awareness and strengthening institutions such as credit bureaus will help improve financial inclusion and reduce credit cost for banks. The reduction in the number of CBRs in the Pacific region could have a significant macroeconomic impact particularly on Tonga given the importance of remittances to its economy.

Private Sector Development

12. **A lasting solution to Tonga's fiscal and development challenges is to grow the small private sector.** Despite important progress, structural constraints continue to impede private sector development. Policies need to go further to address deterrents to private and foreign investment. Reforms are needed to increase access to skilled labor by improving Technical and Vocational Education and Training programs and facilitating the integration of Seasonal Worker Programs workers into higher value-added activities and female workers (who are more skilled) into the labor force. Improving the transparency and predictability of and clarifying ownership rights in, the land-lease market is a priority and can boost investment and expand access to credit. Strengthening climate-resilience, improving regulations such as the insolvency laws, deregulating protected sectors, and boosting official capacity can all help raise productivity, and thereby help attract investors.

Fund Relations

13. The 2020 Article IV consultation was concluded on January 25, 2021 along with the IMF Executive Board's approval of the disbursement of US$9.95 million in emergency financing under the IMF's Rapid Credit Facility to Tonga to help meet its urgent fiscal and balance of payments needs due to the COVID-19 pandemic and Cyclone Harold. Tonga has now shifted to a standard 12-month Article IV consultation cycle with the IMF. Tonga is a major recipient of IMF technical assistance, including from the Pacific Financial Technical Assistance Center (PFTAC).

Table 1. Tonga: Selected Economic Indicators, FY2018–FY2023 1/

Population (2019): 104 thousands
GDP per capita FY2018 (thousands of US$): 4.9
Key export markets: Australia, Japan, New Zealand, and United States
Major exports: root crops, vanilla, squash, fish
Quota: SDR 13.8 million

			Estimates		Projections	
	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Output and prices			(Annual percent change)			
Real GDP[2]	0.3	0.7	0.7	-2.5	2.5	3.5
Consumer prices (period average)[3]	6.8	3.5	0.4	-0.1	3.4	2.3
Consumer prices (end of period)[3]	6.7	-0.1	-1.4	3.4	3.5	1.1
GDP deflator	5.1	7.7	0.2	-0.1	3.4	2.3
Central government finance			(In percent of GDP)			
Total Revenue	42.6	41.7	45.1	42.6	40.9	43.5
Revenue (excluding grants)	24.8	23.4	24.2	23.5	23.4	24.4
Grants	17.8	18.3	20.9	19.1	17.5	19.2
Total Expenditure	39.7	38.5	40.7	44.2	42.1	42.3
Expense	31.4	30.3	34.7	38.2	35.8	33.8
Transactions in Nonfinancial Assets (Net)	8.3	8.3	5.9	6.0	6.3	8.5
Overall balance	2.9	3.2	4.4	-1.7	-1.2	1.2
Net Acquisition of Financial Assets	2.4	2.0	5.1	0.1	0.5	1.2
External financing (net)	-0.6	-1.2	-0.5	1.8	-1.4	-1.6
Domestic financing (net)	0.1	0.0	1.1	0.0	3.1	1.6
Money and credit[2]			(Annual percent change)			
Total liquidity (M3)	7.6	4.3	1.2	-7.2	10.5	8.6
Of which: Broad money (M2)	9.4	3.5	2.9	-7.6	11.0	8.9
Domestic credit	-6.5	6.0	-15.7	-2.0	24.5	10.8
Of which: Private sector credit	6.7	7.6	1.1	0.7	3.4	3.9
Interest rates (end of period)						
Average deposit rate	2.3	2.3	2.3	...	...	...
Average lending rate	8.5	8.2	8.1	...	...	...
Balance of payments			(In percent of GDP)			
Exports, f.o.b.	2.9	3.1	3.6	3.1	3.5	3.5
Imports, f.o.b.	44.3	43.2	41.6	44.7	46.1	47.5
Transfers balance	32.7	33.4	30.1	37.8	38.0	38.5
Current account balance	-6.3	-0.9	-3.8	-18.6	-16.5	-7.3
Overall balance	4.7	-0.4	5.7	-10.7	-10.6	-0.9
Terms of trade (annual percent change)	-2.5	0.2	0.1	-0.5	0.6	0.4
Gross official foreign reserves[2]						
In millions of U.S. dollars	214.9	212.8	242.0	204.3	146.6	141.8
(In months of next year's total imports)	7.8	8.2	9.0	7.0	4.6	4.1
Debt (in percent of GDP)						
Public debt (external and domestic)	45.9	41.3	41.6	43.7	43.2	40.7
Of which: External debt	40.5	36.4	35.5	37.5	34.2	30.6
External debt service ratio	1.2	1.7	1.5	2.0	1.9	1.9
Exchange rates[2]						
Nominal effective exchange rate (2005=100)	93.5	94.8	93.6	...	...	...
Real effective exchange rate (2005=100)	101.8	102.4	99.8	...	...	...

Sources: Tonga authorities; and IMF staff estimates and projections.
[1]Fiscal year beginning July. Estimation and projections as of April 2021 unless otherwise indicated.
[2]As of end-June, 2020.
[3]CPI basket and methodology changed in September 2018.

ANNEX 3: LETTER OF DEVELOPMENT POLICY

OFFICE OF THE
MINISTER FOR FINANCE
HON. TEVITA LAVEMAAU
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GOVERNMENT OF TONGA
MINISTRY OF FINANCE
P. O. Box 87
St. George Government Building
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Nuku'alofa
TONGA

MF. 178/1

24th September, 2021

Mr. David Malpass
President
World Bank Group
Washington, DC, 20433
USA

Dear President Malpass,

Letter of Development Policy

Despite significant challenges in recent years, including the ongoing COVID-19 crisis and several powerful tropical cyclones, the Government of Tonga continues to focus on reforms to achieve inclusive, resilient, and sustainable growth and development. In this we are guided by the *Tonga Strategic Development Framework (TSDF), 2015–2025: A more progressive Tonga: Enhancing Our Inheritance*, which provides an overarching strategic framework for our efforts to support a better quality of life for all Tongans.

Over the last decade, the Kingdom of Tonga has embarked on an ambitious reform program. Reforms implemented to date have strengthened our public financial management systems, increased tax collections, and improved public enterprise performance. As a result of these reforms, our debt position stabilized, and our public resources are allocated more strategically and used more efficiently. Efforts to improve the policy and regulatory environment for the private sector have led to substantial improvements in the ease of doing business. Successive governments have persisted in efforts to implement reforms, which have resulted in substantial achievements in our small country.

In pursuing these efforts, we have very much appreciated the ongoing support from our development partners, including the World Bank. Since 2011, the Government and development partners have been working together through the Joint Policy Reform Matrix (JPRM) process to prioritize, implement and monitor reforms that are critical for Tonga's sustainable, resilient and inclusive development. This year marks the continuation of a reform program that was interrupted last year by the impact of the dual shocks of the COVID-19 pandemic and Tropical Cyclone Harold, during which time we were again very grateful for the quick and substantial response from the World Bank. The current year's budget support operation continues to support us by providing fiscal resources to support

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the economic recovery and public service delivery, along with contingent financing to help us respond to future catastrophic events through the Catastrophe Deferred Drawdown Option. This has been complemented with technical assistance to guide the formulation of sound policies and reforms that help us to achieve our goals.

In the context of the COVID-19 crisis, the reform program supported by the JPRM reflects the Government's efforts to: (i) strengthen public finances; (ii) enhance resilience to climate change, natural disasters and health-related risks; and (iii) support economic recovery, skills and labour mobility.

To strengthen public finances, in the first year of this reform program the regulations to the Revenue Services Administration Act were amended to improve the effectiveness of our domestic revenue collection and boost compliance. To better manage our operating cash balances, a liquidity buffer target band was adopted. On the expenditure side, an upgraded public-sector Classification of Positions and a standardized job description template were adopted. These reforms have strengthened implementation of the new public-service remuneration framework and performance management system.

Building on these reforms, this year the Government has approved a new Medium-Term Debt Strategy (MTDS) for Fiscal Years 2021 – 2025 and a Government Guarantee Policy. These measures are crucial to support prudent debt management and fiscal sustainability. In line with the Government's commitment to transparency, they have been published on the MoF website. Implementation will be led by the Debt Management Section of the Ministry of Finance (MoF). The MTDS reaffirms the Government's commitment to seek debt relief on its two large external loans, to maximize grants from development partners, and to avoid new non-concessional external loans. The public sector wage bill remains a key source of potential fiscal risk. Therefore, this year the Public Service Policy and Instructions 2010 was amended to introduce a limit on the number of hours of paid overtime for civil servants. This will help to reduce wage bill pressure and avoid the crowding out of spending on essential activities. Implementation will be led by the Public Service Commission (PSC) and MoF.

Tonga is regularly struck by natural disasters – Tropical Cyclones Harold and Gita being the most recent examples of our vulnerability to climate change and natural disasters. Such disasters have substantial and long-term costs, especially when they result in damage to homes and public assets. To increase our resilience to such shocks, last year we adopted a National Housing Recovery and Resilience Policy and established the Housing Sector Resilience Office within the Ministry of Infrastructure to implement the policy. To improve the management of public infrastructure, the Cabinet adopted a policy that guides the recording, registration and life-cycle management of public fixed assets.

The actions completed this year reinforce these reforms and the TSDF's vision of ensuring an integrated and comprehensive approach to climate change and disaster risk management (DRM). To that end, the Government has approved new DRM legislation for submission to the Legislative Assembly – the Disaster Risk Management Bill 2021 (DRM Bill) – which is proposed to replace the Emergency Management Act 2007, and the Tonga

Disaster Risk Financing Strategy 2021-2025 (DRFS). The DRM Bill provides for a more comprehensive and proactive approach to disaster risk reduction, mitigation, preparedness, response and recovery. The Bill also establishes the National Disaster Risk Management Office to lead and coordinate DRM activities across the Kingdom. Key implementation steps include the preparation of DRM regulations, a national DRM policy, and national, island and village-level DRM plans. The DRFS includes a two-year implementation plan that will be overseen by a dedicated Steering Committee, chaired by MoF. Implementation of the new legislation and the DRFS will be supported by several development partners, including the World Bank's ongoing Pacific Resilience Program and technical assistance, and proposed support from the Global Facility for Disaster Reduction and Recovery.

COVID-19 has also highlighted our vulnerability to health-related shocks. The Government is committed to protecting the health of all Tongans. We also recognize that safely restoring our economy will depend on the opening of our borders, which in turn depends on the effective rollout of COVID-19 vaccines. To this end, we have adopted the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021–2023 (NDVP) to guide the national COVID-19 vaccination program, and special border clearance guidelines for essential medical goods. Led by the Ministry of Health (MoH), the NDVP was developed with, and implementation is being supported by, several development partners, including the World Health Organization. The Government is committed to ensuring that the investments, policies and training related to the COVID-19 vaccination program also strengthen our health system to respond to future health emergencies, and to improve other vaccination programs. We are also committed to mitigating potential social and environmental issues, including regarding medical waste. We have therefore implemented several mitigation measures, including the MoH Infection Prevention and Control Guidelines 2020 and improvements in waste management equipment and procedures.

The Government is also committed to supporting a recovery in the private sector and the economy more broadly. We recognise that this is the best way to restore jobs and livelihoods to our people, and to emerge stronger from this crisis to achieve our goal of inclusive, sustainable development. To this end, we have introduced new legislation governing Credit Unions, which will strengthen financial sector stability, protect customers, and encourage an expansion in financial services. The law will also shift supervisory and regulatory responsibilities from the Ministry for Trade and Economic Development to the central bank, which is also responsible for regulation and supervision of the banking sector.

This Government also recognizes that there are significant employment opportunities for Tongans beyond our shores, and that taking full advantage of these opportunities is critical to the economic recovery. However, we are also aware of the impacts that increased overseas employment can have on families and communities, and on the domestic private sector. To maximize the benefits of overseas employment schemes while also addressing the potential negative impacts, last year the Government adopted policy frameworks to guide the development of the technical and vocational education and training sector and the public sector's role in promoting labour mobility.

This year, we have implemented a series of reforms to strengthen the policies and procedures for labour mobility, in order to improve the quality and work-readiness of Tongan workers. Key among these reforms is the establishment of work ready pools for prospective workers, along with reforms that have strengthened the recruitment process, and improved and expanded the training provided to workers before they leave Tonga. We have also implemented several measures to mitigate the potential negative impacts of increased labour mobility, including placing liaison officers in Australia and New Zealand to provide pastoral care and protection to workers, and training and support for workers and their family before they leave, while they are away, and when they return. These reforms and mitigation measures have been guided by the Tonga Labour Mobility Policy.

Finally, the Government is committed to gender equality. Yet, gender-based violence in Tonga remains unacceptably high, and sexual harassment in the workplace is a significant issue. In response, the Cabinet has approved Tonga's first sexual harassment policy for the public service sector. Importantly, the policy is consistent with the Employment Relations Bill, and with existing regulations related to disciplinary and grievance processes. Once again, we recognize that there are social risks to this reform. Namely, retaliation against those who report sexual harassment and the leaking of confidential case information. To address these risks, the Government is committed to using the full extent of the law to protect those who file grievances and try those who retaliate. With ADB technical assistance we are also establishing a case review system and training key staff in the PSC and line ministries on how to manage sexual harassment cases and record, store, protect and use confidential information.

Furthermore, we are committed to prudently managing the fiscal risks that stem from the scheduled repayment of two large loans over the coming decade. While we continue to seek debt forgiveness for these loans – considering the large fiscal impacts of the COVID-19 pandemic and the substantial costs of strengthening our resilience to future natural disasters and funding reconstruction from Tropical Cyclones Harold and Gita – we are also committed to implementing responsible fiscal policies to ensure that we can meet our debt servicing needs and avoid a severe fiscal adjustment in the future.

Having now completed such a substantive series of policy reforms, the Government remains firmly committed to implementing this JPRM reform program, which will be instrumental to achieve the country's ambitious development goals. The Government looks forward to the continued active engagement of its major development partners, including the World Bank, in Tonga's reform and development efforts.

Sincerely,

MINISTER FOR FINANCE
TONGA

Tevita Lavemaau
Minister for Finance

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ANNEX 4: INDICATIVE TRIGGERS AND PRIOR ACTIONS

Indicative Trigger as Envisaged in DPO1	Proposed Prior Action	Comment
Pillar 1: Strengthen Public Finances		
IT#1: The Recipient, through its Cabinet, has approved a policy that applies a nutrition profile to determine the application of excise taxes to improve revenue mobilization and strengthen incentives to consume healthy foods.	**Dropped.**	**Dropped**: With WB technical assistance, GoT developed a nutrient profile model (NPM) that provides threshold levels of fat, salt and sugar for items to be considered 'unhealthy'. GoT is preparing a legislative reform that uses the NPM to adjust the excise tax schedule by introducing differentiated tariff levels for products within the same Harmonized System code that are above or below the NPM thresholds. However, the full extent of the reform is now expected to be implemented over several phases. GoT is committed to implementing these future phases, including to introduce excise tax on items that are above the thresholds but currently not subject to excise tax. Consequently, the reform has stopped short of what was envisaged when the IT was set.
IT#2: The Recipient, through its Cabinet, has approved a new medium-term debt strategy to support enhanced debt management and medium-term fiscal sustainability. **IT#3:** The Recipient, through its Cabinet, has approved a policy that establishes the procedures for assessing and approving requests for Government guarantees to support enhanced debt management and medium-term fiscal sustainability.	**PA#1:** To support enhanced debt management and fiscal sustainability, the Recipient: (i) through its Cabinet, has approved the Medium-Term Debt Strategy (MTDS) Fiscal Years 2021 – 2025 and a Government Guarantee Policy that establishes the criteria and guidelines for assessing and approving requests for government guarantees; and (ii) through its Ministry of Finance, has made the MTDS and the Government Guarantee Policy publicly accessible on its website.	**Strengthened**. IT#2 and IT#3 combined into one PA, given their common policy objective.
IT#4: The Recipient, through its Cabinet, has approved a policy that strengthens the guidelines governing overtime allowances in the public sector to support improved wage bill management.	**PA#2:** To strengthen public sector wage bill management, the Recipient, through its Cabinet, has endorsed an amendment to the Public Service Policy and Instructions 2010 that introduces a limit on overtime allowances in the public service sector.	**Converted to PA.** Wording amended to precisely describe the specific reform supported, as was envisaged when the trigger was set.
Pillar 2: Enhance Resilience to Climate Change, Natural Disasters and Health-related Risks		
IT#5: The Recipient, through its Cabinet, has approved for submission to Parliament the National Emergency Management Bill that establishes a new, more decentralized and consultative model of disaster recovery management.	**PA#3:** To establish a more comprehensive, proactive and integrated model of disaster risk management, the Recipient, through its Cabinet, has approved a Disaster Risk Management Bill for submission to the Recipient's Parliament	**Converted to PA.** Slight amendment due to a change in the name of the bill to better reflect the objective of the reform, which reflects GoT's priority to more proactively address all aspects of DRM, including risk reduction (mitigation and preparedness).

IT#6: The Recipient, through its Cabinet, has approved a framework contract for the procurement of one or more specific goods or services required immediately after a natural disaster.	**PA#4:** To strengthen financial resilience of the Recipient's government, households, and businesses to disasters, the Recipient, through its Cabinet, has approved a national disaster risk financing strategy 2021-2025 that establishes a financial risk-layering policy to maximize disaster and climate risk financing	**Replaced and strengthened.** The novel nature of framework agreements called for specialized expert TA to support GoT to complete this action. Delays in mobilizing the TA were compounded by the border closures, significantly delaying progress. Nevertheless, progress has begun, with at least one pilot framework agreement expected to be in place prior to the next cyclone season (October 2021). Given the delays, the IT was replaced with the National Disaster Risk Financing Strategy, that will strengthen more broadly GoT's financial preparedness for future shocks.
	PA#5: To protect the population from a public health emergency and support the economic recovery, the Recipient: (i) through its Cabinet has approved the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023 that provides the guiding policy framework for the vaccine rollout and health system strengthening activities; and (ii) through its Minister for Trade and Economic Development, has approved for implementation the special guidelines for expedited clearance of essential medical goods, including COVID-19 vaccines	**Added.** Action is critical to protect Tongans from COVID-19 health impacts and facilitate the safe reopening of borders to support the economic recovery.
Pillar 3: Support Economic Recovery and Improved Labor Market Outcomes		
IT#7: The Recipient, through its Cabinet, has approved a policy or governance reform that addresses an identified skills gap in secondary education or the TVET sector.	**PA#6:** To enhance the management of labor mobility supply, the Recipient, through its Cabinet, has established work ready pools, reformed procedures for recruitment, and enhanced pre-departure training	**Converted to PA.** IT#7 envisaged a policy reform to support implementation of the labor mobility policy and TVET sector policy framework (PAs under DPO1). PA#6 comprises a series of key reforms identified as priorities in the Tonga Labour Mobility Policy.
	PA#7: To strengthen financial sector stability, protect customers, and encourage an expansion in financial services, the Recipient, through its Cabinet, has approved a Credit Unions Bill for submission to the Recipient's Parliament	**Added.** GoT prioritized the reform due to the potential for increased risks to financial sector stability due to the economic downturn and the desire to support increased access to financial services to micro and informal businesses.
	PA#8: To foster an inclusive, respectful and safe work environment for the public service sector, the Recipient, through its Cabinet, has approved a sexual harassment policy	**Added.** Action added to the program following more rapid progress than had been expected when the triggers were set and the GoT's prioritization of this reform.

ANNEX 5: ANALYTICAL UNDERPINNINGS AND STATUS OF PRIOR ACTIONS

Prior Actions and Status	Analytical Underpinnings
Pillar 1: Strengthen Public Finances	
PA#1: To support enhanced debt management and fiscal sustainability, the Recipient: (i) through its Cabinet, has approved the Medium-Term Debt Strategy (MTDS) Fiscal Years 2021 – 2025 and a Government Guarantee Policy that establishes the criteria and guidelines for assessing and approving requests for government guarantees; and (ii) through its Ministry of Finance, has made the MTDS and the Government Guarantee Policy publicly accessible on its website.	The 2020 PEFA Assessment and the 2020 IMF Article IV Staff Report highlight the need to strengthen debt management frameworks by adopting an enhanced MTDS and government guarantee policy.
PA#2: To strengthen public sector wage bill management, the Recipient, through its Cabinet, has endorsed an amendment to the Public Service Policy and Instructions 2010 that introduces a limit on overtime allowances in the public service sector.	2020 WB analysis, the 2020 PEFA Assessment and the 2020 IMF Article IV Staff Report highlight the need to strengthen wage bill controls, including regarding overtime costs. A DFAT-financed TA report identified they key drivers of wage bill pressure, including overtime spending, and worked with WB and GoT to design the reform. The policy design is consistent with global good practices on overtime management.[45]
Pillar 2: Enhance Resilience to Climate Change, Natural Disasters, and Health-related Risks	
PA#3: To establish a more comprehensive, proactive and integrated model of disaster risk management, the Recipient, through its Cabinet, has approved a Disaster Risk Management Bill for submission to the Recipient's Parliament.	The 2020 IMF/WB CCPA emphasizes the benefits of reforming the Emergency Management Act 2007 (which the DRM Bill will repeal and replace) to establish an overarching framework that would more explicitly define NEMO's role across all elements of DRM, provide clearer guidance on implementation, and enable a more inclusive approach (e.g., involving village, district and regional committees) during DRM planning and delivery to improve effectiveness. Global studies highlight the need for governments to shift towards a more proactive DRM approach that reduces the costs of hazards before disaster events occurs.[46]
PA#4: To strengthen financial resilience of the Recipient's government, households, and businesses to disasters, the Recipient, through its Cabinet, has approved a national disaster risk financing strategy 2021-2025 that establishes a financial risk-layering policy to maximize disaster and climate risk financing.	The 2020 IMF/WB CCPA also highlights the benefits of developing a comprehensive disaster risk financing strategy. It notes the merits of: (i) identify and quantify risks; (ii) outlining measures to strengthen risk retention and transfer instruments; (iii) considering the size of the Emergency Fund; (iv) registering and insuring more government assets; (v) building out the social protection system (including to provide crisis-responsive mechanisms to support vulnerable households after a shock); and (vi) exploring options to develop the private insurance market. Risk layering allows the combination of financial instruments to ensure cost-efficient financing for emergency response and longer-term recovery.

[45] Independent Commission Against Corruption. (2012). *Best Practice Guide on Overtime Management in the Public Sector*. ICAC: Moka, Mauritius.
[46] Jha and Stanton-Geddes (2013). *Strong, Safe, and Resilient: a strategic policy guide for disaster risk management in East Asia and the Pacific*. WB: Washington, DC.

	Budget provisions and reserves are generally used for high frequency and lower severity events while sovereign risk transfers, insurance and contingent lines of credit can be used for lower frequency and higher severity events.[47]
PA#5: To protect the population from a public health emergency and support the economic recovery, the Recipient: (i) through its Cabinet has approved the National Deployment and Vaccination Plan for COVID-19 Vaccines 2021-2023 that provides the guiding policy framework for the vaccine rollout and health system strengthening activities; and (ii) through its Minister for Trade and Economic Development, has approved for implementation the special guidelines for expedited clearance of essential medical goods, including COVID-19 vaccines.	WB, IMF and ADB research and policy notes highlight that the economic recovery in the PICs, including Tonga, hinges on when borders can be safely reopened to international travel.[48] This is dependent upon the effective rollout of COVID-19 vaccines. The NDVP is consistent with WHO and UNICEF guidance on effective COVID-19 vaccine introduction.[49] Separately, WB TA supported GoT to undertake a Time Release Study at the nation's main port. The study highlighted several areas where clearance procedures could be streamlined and made more effective. These findings informed the design of the expedited clearance regime to ensure medical goods (including the COVID-19 vaccine) are efficiently processed to avoid wastage or delay.
Pillar 3: Support Economic Recovery and Improved Labor Market Outcomes	
PA#6: To enhance the management of labor mobility supply, the Recipient, through its Cabinet, has established work ready pools, reformed procedures for recruitment, and enhanced pre-departure training.	*Pacific Possible* highlights Information, Communication and Technology, fisheries, tourism, and labor mobility as four transformative economic opportunities for PICs—including Tonga. Labor mobility is expected to account for 60 percent of the estimated potential increase in per capita national income for Tonga by 2040. To maximize the net welfare gains from labor mobility opportunities, *Pacific Possible* recommends that Pacific governments develop strategies to: (i) enhance the supply of skilled labor; (ii) manage the risk of 'brain drain' as part of a national skills investment strategy; and (iii) mitigate the negative social impacts of family separation. the LMOM and reforms supported by this PA directly address points (i) and (iii). Furthermore, recent WB research notes strong demand for seasonal labor despite the impacts of the pandemic. The report concludes that migrant labor can play an important role in supporting the economy recovery.[50]
PA#7: To strengthen financial sector stability, protect customers, and encourage an expansion in financial services, the Recipient, through its Cabinet, has approved a Credit Unions Bill for submission to the Recipient's Parliament.	The 2017 and 2020 IMF Article IV Staff Reports highlight the need to expand and strengthen supervision and regulation to NBFIs. This has become more urgent with the economic impacts of the COVID-19 crisis, which could increase risks to financial sector stability. PFTAC technical assistance identified the current legislation as being ill-suited to the credit union sector and in need of modernization. The assessment also recommended that regulatory and supervisory responsibilities be transferred to NRBT. WB research shows that effective financial market regulation is a key driver of sustained economic growth.[51]

[47] Mahul, Olivier; Signer, Benedikt; Boudreau, Laura; Yi, Hannah; Atamuratova, Sevara; Clarke, Daniel; White, Emily. 2014. Financial protection against natural disasters: from products to comprehensive strategies - an operational framework for disaster risk financing and insurance (English). WB: Washington, DC

[48] Blackman. (2021). *How Could the Pacific Restore International Travel?* WB: Sydney; World Bank. (2021). *World Bank East Asia and Pacific Economic Update, April 2021: Uneven Recovery*. WB: Washington, DC; 2020 IMF Article IV Staff Report for Tonga; ADB. (2021). *Asian Development Outlook 2021: Financing a Green and Inclusive Recovery, April 2021*. ADB: Manila.

[49] See https://www.who.int/publications/i/item/WHO-2019-nCoV-Vaccine_deployment-2020.1

[50] World Bank. (2020). *Pacific labor mobility, migration and remittances in times of COVID-19: Briefing Note*. WB: Sydney.

[51] Demirgüç-Kunt, A. & Levine, R. (2008). "Finance, Financial Sector Policies, and Long-Run Growth". *Policy Research Working*

PA#8: To foster an inclusive, respectful and safe work environment for the public service sector, the Recipient, through its Cabinet, has approved a sexual harassment policy.	Literature from economics and health sciences highlights the negative economic impacts of sexual harassment on individuals, businesses and at the macroeconomic level.[52] At the individual level, this includes negative effects on mental and physical health, forced job change and unemployment. For firms, the costs include employee turnover, reduce productivity and increase absenteeism. At the macroeconomic level, this leads to lower output and productivity.[53] The government has a key role to play in mitigating these negative effects, both through policy and raising awareness. Pillar 3 of the Bank's Consolidated Country Gender Action Plan for the PIC-9 (FY17 – FY21) priorities activities to address GBV, sexual harassment and improve employment of women. The 2018 PSC Gender Audit Report highlighted the need for a public service sexual harassment policy to clearly articulate what constitutes sexual harassment in the workplace and the process and institutions for managing cases.

Paper #4469. WB: Washington, DC. and Bossone, B. & Promisel, L. (2012). *Strengthening Financial Systems in Developing Countries: The Case for Incentives-Based Financial Sector Reforms*. WB: Washington, DC.

[52] See Shaw et al. (2018). "Sexual Harassment and Assault at Work: Understanding the Costs", *Policy Brief*. Institute for Women's Policy Research: Washington, DC. and references therein.

[53] A recent study in Australia (Deloitte/Access Economics, 2019) estimated that workplace sexual harassment cost the economy US$2 billion in lost productivity and US$0.7 billion in other financial costs, which each case of harassment represents around 4 working days of lost output. Lost wellbeing for victims cost the economy an additional US$194m, or nearly US$4000 per victim on average.

ANNEX 6: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1: Strengthen Public Finances		
PA#1	No significant effects	Could have positive effects to the extent that the reform helps to preserve the fiscal space available to fund public services and respond to future shocks.
PA#2	No significant effects	Could have positive effects to the extent that the reform helps to preserve the fiscal space available to fund public services and respond to future shocks.
Pillar 2: Enhance Resilience to Climate Change, Natural Disasters, and Health-related Risks		
PA#3	Significant positive effects via increased preparedness for natural hazards and climate change.	Significant positive effects through inclusive DRM governance.
PA#4	Significant positive effects via increased investments in risk reduction and climate adaptation.	Potential for significant positive effects longer-term through enhanced and adaptive social protection for vulnerable groups.
PA#5	No significant effects after mitigation measures.	Significant positive effects due to avoidance of health disaster and reactivation of economy via opening of borders.
Pillar 3: Support Economic Recovery and Improved Labor Market Outcomes		
PA#6	No significant effects	Significant net positive effects due to household access to higher incomes and skills transfer.
PA#7	No significant effects	No significant effects
PA#8	No significant effects	Significant net positive effects via reduced sexual harassment, thus addressing a key constraint that is material to women's economic participation.