

ASIAN DEVELOPMENT BANK

**COUNTRY STRATEGY AND PROGRAM UPDATE
(2005–2006)**

TONGA

August 2004

CURRENCY EQUIVALENTS

(as of 30 June 2004)

Currency Unit	–	pa'anga (T\$)
T\$1.00	=	US\$0.4998
US\$1.00	=	T\$2.0008

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
ADTA	–	advisory technical assistance
AusAID	–	Australian Agency for International Development
DOE	–	Department of Environment
EPSRP	–	Economic and Public Sector Reform Program
GDP	–	gross domestic product
MDG	–	Millenium Development Goal
NGO	–	nongovernment organization
NPRS	–	National Poverty Reduction Strategy
NRBT	–	National Reserve Bank of Tonga
NZAID	–	New Zealand Agency for International Development
PBA	–	performance based allocation
PDMC	–	Pacific developing member country
PPTA	–	project preparatory technical assistance
RETA	–	regional technical assistance
RTA	–	Royal Tongan Airlines
SDP7	–	Tonga's Strategic Development Plan 7, 2001–2003
SME	–	small and medium-sized enterprise
TA	–	technical assistance
WDC	–	Women's Development Centre

NOTE

The fiscal year (FY) of the Government ends on 30 June.

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I. COUNTRY STRATEGY

1. In 2004, the Government of Tonga reaffirmed its commitment to achieving the development objective of improving living standards, set out in the Strategic Development Plan 7 (SDP7) for 2001–2003. Throughout that period, the Government focused on implementation of the Economic and Public Sector Reform Program (EPSRP), which aims at maintaining a stable macroeconomic environment and achieving sustainable economic growth, led by private sector development and supported by an efficient and effective public sector. Through SDP7, the Government plans to achieve social and economic objectives of individual fulfillment, gender equity, political stability, and a stable economic and financial environment.

2. The *Pacific Strategy for the New Millennium*¹ of the Asian Development Bank (ADB) focuses on the core objectives of (i) continuing support for economic growth, good governance, and public sector reform; (ii) promoting private sector development as the engine for growth; and (iii) supporting sustainable environmental management and equitable social development. A new regional strategy is being prepared for ADB operations in the Pacific, which will focus on the priority needs of the poor, as defined by an extensive program of qualitative and quantitative poverty assessment, based on listening to the voices of those in hardship or poverty. The new strategy will focus on improving access to basic services and creating employment opportunities. As the Government is beginning preparation of its Strategic Development Plan 8 (SDP8) for 2005–2007, it is timely to review ADB's strategy and program for Tonga.

3. ADB's strategy for Tonga supports the Government's development goals. The focus of assistance in 2005–2006 will be (i) continuing assistance to the Government's reform program to enhance sound economic and public sector management; (ii) addressing the emerging deterioration in some social indicators through targeted interventions that promote inclusive social development; and (iii) improving the enabling environment for private sector development. The key projects for the period under consideration will be (i) assistance to develop a new strategic development plan for Tonga, linked to a multi-year fiscal framework and an annual resource allocation process; (ii) continued support for public enterprise reforms, especially the privatization of selected public enterprises; (iii) addressing youth unemployment and associated social problems; (iv) improving basic infrastructure for drainage and sanitation in selected areas in the capital, Nuku'alofa; and (v) agriculture sector development through an enhanced policy environment and development of small and medium agriculture-based enterprises. The summary statement of strategy is in Appendix 1.

II. CURRENT DEVELOPMENT TRENDS AND ISSUES

A. Recent Political and Social Developments

4. **Political developments.** The Government is pressing ahead with its public sector reform program, following the enactment of several important pieces of legislation. However, there are mixed signals regarding achievements so far. On the positive side, the public service reforms managed to reduce the share of salaries and wages to total current expenditure from just over 50% in FY2002 to 48.8% in FY2003. The share is expected to drop to 46.5% in FY2004, with improved revenue collection over the budgeted estimates for FY2003. On the other hand, decisions concerning Royal Tongan Airlines (RTA) resulted in increased subsidies that were not budgeted in FY2004, and in May 2004 the Government agreed to place RTA into liquidation to prevent serious impairment to the provision of services due to budgetary

¹ ADB. 2000. *A Pacific Strategy for the New Millennium*. Manila.

constraints. A 2003 amendment to the Constitution restricting press freedom was not well received, domestically or internationally.

5. A number of issues requiring solution by Cabinet and the Privy Council emerged during the ADB-assisted² implementation of the Public Enterprise Act 2002. Key issues include the reduction of subsidies and better management of operational and financial risks in relation to a number of public enterprises (e.g., the Shipping Corporation of Polynesia, the International Dateline Hotel, and the Tongan Corporation).

6. **Social developments.** Tonga has made progress toward achieving many of the targets in the Millennium Development Goals (MDGs) (Appendix 2, Table A2.1). Tonga has a high literacy rate and good school enrollment ratios. Health indicators have improved steadily, although lifestyle diseases have increased rapidly. Access to safe water is widespread. The Government has recently expressed concern about a number of social indicators, including unemployed youth, rising petty crime, substance abuse, and increasing incidence of teenage pregnancies. Social services in Nuku'alofa are deteriorating and sanitation, drainage, roads, and waste disposal need attention.

B. Economic Assessment and Outlook

7. The growth rate of the economy in FY2003 was 1.9%, compared with revised estimates of 1.6% in FY2002 and 0.8% in FY2001. The continued slow economic growth worsened the problem of inadequate employment opportunities, especially for young school leavers, and added to the hardship reportedly experienced by 20% of households.

8. The official overall budget deficit for FY2003 was T\$10.5 million or 3.1% of GDP, slightly higher than the original target deficit of T\$8.7million. Shortfalls in external grants and nontax revenue were partly offset by tax revenue above budget estimates. Total expenditures and net lending were below budget at 32.1% of GDP, mainly because of below-budget capital expenditure. Wages and salaries expenditure was less than the budgeted level, rising by 10% above the FY2002 level, but falling slightly to 48.8% of total current expenditure. In contrast, net lending to nonfinancial public enterprises was almost 10 times the budget estimate because of the Privy Council's authorized assistance to RTA outside the budget appropriation process. The budget deficit was financed 28% externally and 72% domestically, through borrowings and drawdowns of government cash balances.

9. Inflation continued at a double-digit rate in 2003, reaching an average rate of 12.6% in the first three quarters of the year because of higher oil prices and further weakening of the currency. The local currency appreciated almost 9% against the falling US dollar in 2003, but depreciated slightly against the Japanese yen and substantially against the main import currencies (Australia, 23%, and New Zealand, 15%). The widening trade deficit (the US dollar value of exports fell slightly, while imports increased by 22%), combined with increased deficits on the services and investment income accounts, more than offset the 11% increase in the surplus on transfers account, creating a current account deficit of 1.4% of GDP. Foreign reserves fell from 2.5 to 2.2 months of import cover during FY2003, but recovered and reached 3.5 months of cover by December 2003 with the release of the second tranche of the EPSRP loan. Debt servicing remains manageable at 25% of GDP, although debt management needs increased attention. Tonga's country economic indicators are in Appendix 2, Table A2.2.

² ADB. 2003. *Technical Assistance to Tonga for the Rationalization of Public Enterprises*. Manila.

C. Implications for Country Strategy and Program

10. Economic growth is projected to accelerate to 2–3% in 2004–2005, assuming that effective EPSRP implementation stimulates private investment and improves productivity; that there are no adverse external shocks; and that private remittances remain at T\$80–90 million/year. This growth is expected to come from modest growth in agriculture and fisheries; from construction of externally funded projects; and possibly, from greater government capacity to fund capital expenditures. The inflation rate is projected to moderate to about 4–5%, assuming that sound macroeconomic policies ensure exchange rate stability.

11. The budget strategy is expected to continue directing public expenditure away from wages and salaries, and toward operations and maintenance, particularly in the social sectors. Reforms in the public enterprise sector are expected to reduce subsidies from the budget through privatization of selected government-owned commercial activities, as well as through more rigorous monitoring of capital investment proposals and of the financial performance of activities that remain owned by the Government. Spending priorities will continue to be for education, health, and basic social infrastructure, in keeping with the national priorities set out in SDP7. The major risk in this scenario is a push for an increase in civil servant wages. Economic growth in the forecast range would create some employment opportunities for young entrants into the labor force, but the high level of youth unemployment and a rise in crime will continue to be major social issues. An effective program of rationalization of the public sector may contribute to the unemployment problem unless foreign investments in the private sector can create jobs. For this to happen, the Government should take urgent and effective actions to remove delays on the issuing of visa and work permits for foreign investors, and to reform the length of land leases and frequency of land rent reviews. This has been discussed for a number of years, but progress has been slow.

III. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Progress in Poverty Reduction

12. Tonga and ADB signed a Poverty Partnership Agreement in November 2002. The agreement commits both parties to the development of a comprehensive strategy for poverty reduction that addresses pro-poor growth, improved and expanded access to social services, and job creation. The scarcity of data on selected indicators makes assessment of progress toward reducing poverty and achieving the MDGs difficult. Poverty analysis of household income and expenditure survey data, supported by a small-scale technical assistance (TA),³ was conducted in 2003. The survey showed that about 23% of households were estimated to have income below the basic needs poverty line of T\$28.18 per person per week (although this does not necessarily mean that those households did not have enough to eat). Through regional TA in 2003,⁴ ADB helped Tonga prepare its National Poverty Reduction Strategy (NPRS), which involved all stakeholders in a participatory process.⁵ The participatory process in 16 communities showed that the population is slowly moving out of the outer islands to Tongatapu or overseas, worsening hardship for those who remain in the outer islands. The Government has agreed to the findings of the survey, and has committed to actions in the 2004 budget to

³ ADB. 2000. *Technical Assistance to Tonga for Poverty Assessment*. Manila.

⁴ ADB. 2000. *Technical Assistance for Poverty Assessment in Pacific Developing Member Countries*. Manila.

⁵ Communities defined poverty as *masiva* or having nothing, while hardship or *tu'utamaki* is living in a difficult situation, dependent on relatives, and unable to meet the family's needs and obligations.

address key issues, especially support for unemployed youth and the rural poor, and urban social services.

13. The Government requested ADB assistance to improve its capacity in strategic and development planning, with an emphasis on linking MDGs and other internationally agreed social targets (for example, the World Summit Sustainable Development targets) that are appropriate to Tonga's circumstances; the medium-term fiscal framework; the annual budget allocation; and departmental operational objectives. An improved process of medium-term strategic planning and public expenditure management will help departmental heads focus on achievement of their MDG-related operational objectives, and performance standards established under the recently implemented chief and senior executive service framework. The Government has also indicated its intention to focus on improving basic social services such as sanitation and drainage infrastructure in some areas of Tongatapu. Health concerns are largely because the urban drift in recent years has forced people from outer islands to settle in areas unsuitable for housing.

B. Progress in the Country Strategy and Program Focus Areas

1. Agriculture Sector Development

14. The economic report released in April 2002, focusing on agriculture, fisheries, and tourism, gave the Government and its development partners relevant information for the formulation of strategies to stimulate economic growth. Parallel implementation of public sector reforms and private sector development initiatives is expected to produce modest growth of around 3%/year, instead of the low historical rate of slightly more than 1%. The Government indicated that agriculture is a natural candidate for ADB assistance to ensure expected economic growth. Small-scale TA in 2003 prepared a partial road map for the sector, but this requires tightening in 2004 to identify concrete milestones. The Government and the private sector are expected to form an agricultural advisory council, which could partner ADB assistance at the policy level. An advisory TA is proposed for 2005, to strengthen institutions within the agriculture sector to support new policy directions and strategies. Given the agriculture sector's poor past performance, a project preparatory technical assistance (PPTA) is planned for 2006, to review the administrative, biosecurity, and marketing arrangements of the sector to eliminate duplication of functions and to encourage a customer service orientation. The key objective of the proposed review is to enhance services to smallholders and facilitate a more cooperative and effective approach to product promotion and market access. The review will also examine the feasibility of value-added processing of agricultural production, and transport issues. Based on this PPTA, an agricultural sector loan of about US\$5 million may be considered in 2007.

2. Economic and Public Sector Reform

15. Some fiscal difficulties in recent years arose from unbudgeted transfers and subsidies to state-owned enterprises. Through implementation of the Public Enterprise Act 2002, and with ADB assistance, the Government initiated a public enterprise reform program in 2003 with a fundamental reexamination of the role of the state and its engagement in activities and businesses that, in normal circumstances, are better left to the private sector. Under TA for the Rationalization of Public Enterprises, the Government has instituted a number of changes to corporate governance of public enterprises, implementation of a financial performance monitoring framework, training of directors and senior officials in the Act's requirements, and building capacity of the Public Enterprise Unit to support the Minister of Finance in providing

policy advice and in analyzing performance of individual enterprises. The New Zealand Agency for International Development (NZAID) has been an active and collaborative partner in the implementation of this reform program. The Government has initiated action to privatize three public enterprises (Sea Star Fishing, Leiola Duty Free Stores, and Tonga Investments Ltd), and is considering privatization of the Government Printer.

16. The Government requested continued ADB assistance in this area, except for matters relating to RTA, for which the International Finance Corporation has given advice. The Government wants to restructure the existing financial arrangements of two public enterprises, the Shipping Corporation of Polynesia and International Dateline Hotel, that continue to impose financial and operational risks to public finances. Privatization of some remaining enterprises (Tongan Timber, Tongan Corporation) will be considered, once the status of their financial and operational viability is determined. Establishment of an independent regulatory and competition authority is also necessary, to ensure the public interest is protected from utilities under monopoly control (Tongan Communication Corporation, Tongan Electric Power Board, Tonga Water Authority, and the Ports Authority). The Government has been pleased with ADB assistance in public enterprise reform and is confident that reform can continue on a self-funded basis by applying the proceeds from each rationalization exercise to fund subsequent rationalizations. The Government no longer requires a loan for this purpose, and has requested a small-scale TA in 2004 to mentor the Public Enterprise Unit staff as they complete the privatization of the first few enterprises. This should develop sufficient confidence and experience to face the range of difficulties in future reforms.

17. Another priority of the reform program is improved tax administration, to increase compliance and enhance collection in the next 3 years. The Government also plans to implement more comprehensive tax reform in late 2004. Implementation of the tax reform agenda will create a level playing field in the area of corporate tax, exclude thousands of low-income earners from personal income tax, and shift the present reliance on import levies toward a broad-based consumption tax. This reform measure will be important in creating an environment that is more conducive to economic development. The Pacific Financial Technical Assistance Centre is helping the Government draft legislation, and will help in its implementation in late FY2005.

3. Governance

18. In late 2001, the Government initiated a comprehensive reform program addressing many of the issues raised in the governance assessment undertaken in June 2001. Progress has been mixed, with disappointing decisions on RTA and curtailing press freedom balanced by increasing openness on the economic reform program and the participatory poverty assessments.

19. The participation of civil society in political debates and actions is another aspect of good governance. The Government has taken steps to involve nongovernment organizations (NGOs) in the reform program, and to improve its communication with the community on important economic and social issues. Tonga plans to participate in a regional TA (RETA)⁶ to train NGOs to improve their understanding of the budget process and to develop their financial advocacy skills from a pro-poor perspective.

⁶ ADB. 2003. *Technical Assistance for Civil Society Participation in Budget Formulation in the Pacific*. Manila.

4. Private Sector Development

20. A key economic goal of SDP7 was to build a dynamic and competitive economy, driven mainly by the private sector and supported by an efficient public sector. The Government remains committed to this objective, and is working to reduce barriers to foreign investors and to facilitate investment in agriculture, fisheries, and tourism. But actions on removing practical barriers to foreign investors, such as the issuing of immigration and visa permits, have been delayed considerably since a review was initiated in 2002. Another obstacle to foreign direct investment is the short land leases and the frequency of land rent reviews. The Government may need to undertake a study relating to land use to determine options to facilitate foreign investments if it wants to further develop tourism.

21. Like many Pacific island countries, Tonga has only a small private sector, with the vast majority of its enterprises of small or micro size, and many economic activities carried out in the informal sector. The Central Planning Department is surveying the informal sector, to better understand it. Although the reform program will remove some of the barriers, the continuation of a large public enterprise sector, inadequate business regulations to ensure fair competition, and scarce management skills, will all need to be addressed before a viable small and medium-size enterprise (SME) sector becomes a reality. The Government has taken important steps to reduce the size of the public enterprise sector and to remove barriers to private investment under the reform program. These initiatives should be reinforced in the next few years as the reform program progresses.

5. Gender and Development

22. The SDP7 presents a vision that includes gender equity: that all men, women, and children should have equal access to economic, social, political, and religious opportunities and benefits. Policy objectives and actions to address gender inequalities in access to productive resources, health, education, and employment are presented in the national policy on gender and development. The gender and development policy and programs are mainstreamed through integration into the strategic development planning process. The Women's Development Centre (WDC) in the Prime Minister's department works with line ministries and other agencies to identify and formulate projects and programs that are submitted by the Gender and Development Committee to the Central Planning Department to identify financing. WDC monitors the implementation of gender-related projects and programs by line ministries and other agencies.

23. The public service reform TA,⁷ supported by ADB, provides indirect support for gender mainstreaming by ensuring greater consistency between policy priorities and resource allocation, and by building a merit-based public service. The EPSRP, recognizing the likely uneven impact of any rightsizing actions on women and youth, has established a unit in the Prime Minister's department to monitor such impact, and has earmarked funding for mitigation measures. The Government has also recognized the impact of lack of training and employment opportunities for rural poor and urban youth, and a TA project is being considered for later in 2004 to provide income-generating opportunities through the development of microenterprises.

⁷ ADB. 2001. *Technical Assistance to Tonga for Advising on the Economic and Public Sector Reform Program*. Manila.

6. Environmental Protection

24. Tonga's limited land resources, combined with a growing urban population, are increasing pressure on the country's natural resources and worsening its environmental problems. Under-regulated fishing, as well as the introduction of more efficient fishing technology, has resulted in over-exploitation of coastal and near-coastal fisheries, and gradual depletion of some traditional marine species and much of the near-shore fisheries. Tonga's environmental concerns were well documented in the National Assessment Report presented at the Rio+10 Earth Summit in Johannesburg, South Africa, in 2002.

25. SDP7 gave special emphasis to environmental conservation and careful management of natural resources for sustainable economic development and the continued welfare of all Tongans. The Environmental Impact Assessment bill was enacted in late 2003, with related regulations expected to be approved by Cabinet in late 2004. This will enhance the capacity of the Department of Environment to ensure effective monitoring of compliance with environmental requirements under related legislation. The Department of Environment raised environmental and health concerns relating to some recent urban settlements in Tongatapu in low-lying locations unsuited for housing. These settlements result from the urban drift from outer islands. Issues such as land availability and tenure probably contributed to the situation. A PPTA is proposed in 2005 to determine the extent of the challenge, and examine options and associated costs of improving basic infrastructure in those areas to address the environmental and health concerns of the people living there. A loan to implement some of the PPTA recommendations in accordance with a sector roadmap is proposed for consideration in 2006. An ADTA for an Integrated Urban Social Services Review is proposed for 2006 to identify solutions that ensure basic social services that are adequate and accessible to local communities.

C. Highlights in Coordination of External Funding and Partnership Arrangements

26. ADB continues to strengthen its ties with other bilateral and multilateral assistance agencies, particularly the Australian Agency for International Development (AusAID), NZAID, and the World Bank. NZAID has provided assistance to support certain activities under the TA on *Rationalization of Public Enterprises* to ensure availability of more resources to the Government. AusAID has also provided training in corporate governance for both private businesses and public enterprises.

27. One feature of aid coordination in Tonga since the mid-1980s has been the arrangement whereby the major development partners concentrate their efforts in geographical areas: the European Union on Va'vau, Australia on Ha'apai, and New Zealand on Eua and the Niuas. This arrangement does not preclude such partners from participating in sector assistance such as AusAID's current assistance in health, and NZAID's in education. However, with the continuing urban drift, the Government is considering whether or not this arrangement results in a misallocation of external resources. Aid coordination has been an issue in many developing countries, and Tonga is no different. The Government recognizes the need to review aid coordination arrangements to avoid overlapping and to ensure complementarity of assistance.

IV. PORTFOLIO MANAGEMENT ISSUES

A. Portfolio Performance

28. By 31 December 2001, cumulative lending by ADB to Tonga since it joined ADB in 1972 totaled 13 loans (excluding the terminated Loan 1497-TON) with a value of US\$42.9 million, all from the Asian Development Fund (ADF). Project completion reports have been prepared for all 13 projects. Seven of the projects were postevaluated; six were rated generally successful and one project, in the finance sector, was rated partly successful. This record is excellent, compared to ADB-wide performance. Since 1972, US\$11.4 million in TA grants has been provided for 44 activities (excluding 1 supplementary TA and 1 canceled TA).

29. ADB changed its operational emphasis in 1992 when TAs began to focus on the macroeconomic policy environment, the investment climate, and public sector performance. Progress has been relatively slow in implementing the reform activities emanating from these TAs. Lessons learned from them include the need for (i) integration of existing disparate reform measures in the various areas related to the EPSRP, from both the Government and aid agencies; (ii) greater emphasis on aid coordination; (iii) greater involvement of the Government in the design of TAs and projects, to ensure government ownership; and (iv) a less externally driven reform agenda. These lessons were incorporated in the preparation of this Country Strategy and Program Update.

B. Performance Monitoring and Evaluation

30. EPSRP includes a number of measures to monitor timely reporting on the implementation of reform activities. The Government has also committed to continuing such reporting to ADB after loan closures, given that the reform program will be implemented over a time frame longer than the loan period.

V. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

A. Proposed Lending Level

31. Allocation of ADF resources will depend on the revised performance based allocation (PBA) policy, expected to be finalized later in 2004. For planning purposes, the 3-year allocation for 2005–2007 has been set at US\$10 million, subject to change based on the revised PBA policy. As Tonga is classified as a B1 country, it also has limited access to ADB's ordinary capital resources; US\$2 million is available for the 3-year period.

32. For 2005–2006, an urban sector basic social infrastructure loan (US\$5 million) has been included in the program for Tonga.

B. Nonlending Program

33. Nonlending assistance focuses on (i) continuing the economic and public sector reform agenda through ADTAs on Public Enterprise Reform-Privatization of Selected Enterprises, and Integrated Strategic Planning, Medium Term Fiscal Framework and Budgeting in 2004, a PPTA for an Integrated Urban Development Project in 2005, and ADTAs on Institutional Strengthening of the Agriculture Sector in 2005, and an Integrated Urban Social Services Review in 2006; and (ii) facilitating economic growth through an ADTA on Youth Micro-enterprise Development in 2004, and a PPTA on Implementation of the Agriculture Sector Roadmap in 2006. A small-scale

TA for a Population Study is proposed for 2006 to assist in the design of the 2006 census, and in analysis of population patterns and trends. A PPTA on inter-island transportation is being considered for 2007.

C. Summary of Changes to Lending and Nonlending Program

34. The ADB program of assistance to Tonga continues the strategy of promoting fiscal and public sector reform, supported by private sector-led growth. Assistance to the Government in implementing the EPSRP will continue to be a major part of ADB's program for the next 3 years, but attention is gradually shifting toward social sector issues and promoting pro-poor economic growth in the productive sectors. The proposed public enterprise sector rationalization loan has been dropped. The proposed agriculture sector development loan has been postponed from 2005 for consideration in 2007. A loan to support urban sector basic social infrastructure is proposed for 2006. Associated TAs have been adjusted accordingly in the non-lending program.

35. For reference, the 2004 Assistance Program for Nonlending Products and Services is shown in Table A4.1. No loan was provided in 2004.

SUMMARY STATEMENT OF STRATEGY

Objectives	Sound economic and public sector management	Inclusive social development	Enabling environment for private sector development
Strategic Focus/Key Result Areas	<ul style="list-style-type: none"> Rationalize and strengthen public sector management Improve public expenditure management Enhance management of public sector enterprises Improve governance 	<ul style="list-style-type: none"> Improve quality and accessibility of essential services Provide sustainable social security Improve the environment 	<ul style="list-style-type: none"> Establish sound policy frameworks and support services Ensure adequate physical infrastructure to support private sector growth
Ongoing/Proposed Loans	<ul style="list-style-type: none"> Economic and Public Sector Reform Program (2002) 	<ul style="list-style-type: none"> Urban Sector Basic Social Infrastructure (2006) 	<ul style="list-style-type: none"> Agriculture Sector Development (2007)
Ongoing/Proposed TAs	<ul style="list-style-type: none"> Building a Performance-Oriented Public Service (2002) Public Enterprise Reform-Privatization of Selected Enterprises (2004) Integrated Strategic Planning, Medium Term Fiscal Framework and Budgeting (2004) Public Sector Reform Stage 2 (2007) 	<ul style="list-style-type: none"> Analysis of household income and expenditure surveys data for socioeconomic equity assessment (2002) Youth Microenterprise Development (2004) Urban Sector Planning/Basic Social Infrastructure (2005) Population Study (2006) Integrated Urban Social Services Review (2006) 	<ul style="list-style-type: none"> Public Enterprise Sector Rationalization (2003) Business Development Services (2003) Institutional Strengthening of the Agriculture Sector (2005) Implementation of Agriculture Sector Road Map (2006) Inter-islands Aviation/Shipping Transport Study (2007)
Other Assistance	<ul style="list-style-type: none"> Participation in regional technical assistance (RETA) on Gender-Sensitive Public Expenditure Management Participation in RETA on Pacific Governance Strategy 	<ul style="list-style-type: none"> Participation in RETA on Pacific Environmental Strategy 	<ul style="list-style-type: none"> Participation under Private Sector Group RETA for Private Sector Development Strategy Staff consultant for Agriculture Sector Road Map (2004)
Target Outcomes	<ul style="list-style-type: none"> Enhanced capacity of central agencies for better economic and financial management Strategic Development Plan No 8 reflects government priorities and drives operations of government agencies More efficient public enterprise sector Reduction in number of SOEs A performance-oriented public service with budgets linked to service delivery Medium-Term Fiscal Framework in place 	<ul style="list-style-type: none"> Improved living conditions for poor in Tongatapu with access to clean water and sanitation facilities Effective institutional and legislative framework for urban planning and management in place Increased number of youth micro-enterprises and jobs for young people 	<ul style="list-style-type: none"> Removal of barriers to domestic and direct foreign investment Reduction of number of public enterprises Enhanced corporate governance, efficiency and profitability of public enterprises Micro and Small enterprises created in the agriculture sector Increased agricultural exports

COUNTRY AND PORTFOLIO INDICATORS, AND ASSISTANCE PIPELINE
Table A2.1: Progress Toward the Millennium Development Goals and Targets

Goals and Targets	1990	1995	Latest Year	
Goal 1. Eradicate Extreme Poverty and Hunger				
Target 1: Reduce incidence of extreme poverty by half from 1990 to 2015				
1. Proportion of population below US\$1 per day (PPP-values) (%)				
National	—	—	4.0	(2000–01)
Outer Islands	—	—	3.8	(2000–01)
2. Poverty gap ratio				
National	—	—	0.077	(2000–01)
Outer Islands	—	—	0.074	(2000–01)
3. Share of poorest one fifth of population in national consumption (%)	—	—	6.1	(2000–01)
Target 2: Reduce the proportion of people who suffer from hunger by half from 1990 to 2015				
4. Prevalence of child malnutrition (% of children under 5)	—	—	2.0 ^a	(1997)
5. Proportion of population below minimum level of dietary energy consumption (%)	—	—	Nil	
Goal 2. Achieve Universal Primary Education				
Target 3: Attain 100% primary school enrollment by 2015				
6. Enrollment in primary education (%)				
Total	—	95.0 ^b	92.0 ^c	91.5 ^c
Male	—	98.0 ^b	91.8 ^c	92.4 ^c
Female	—	93.0 ^b	92.3 ^c	90.4 ^c
7. Proportion of pupils starting grade 1 that reach grade 5	89.6 ^d	92.0 ^b	95.0	(2000)
8. Literacy rate of 15–24 year olds (%)				
Total	—	—	99.2 ^c	(1996)
Male	—	—	99.2 ^c	(1996)
Female	—	—	99.1 ^c	(1996)
Goal 3. Promote Gender Equality and Empower Women				
Target 4: Eliminate gender disparities in primary and secondary education by 2005, and to all levels of education no later than 2015				
9. Ratio of girls to boys (%)				
Primary education	92.0 ^d	86.7	87.7	(2000)
Secondary education	—	102.9	95.5	(2000)
10. Ratio of young literate females to males (% of age group 15–24)	99.0	99.0	99.0	(2000)
11. Share of women in wage employment in the nonagricultural sector (%)	46.6	59.6	56.0	(1996)
12. Seats held by women in national parliament (%)	0.0 ^d	0.0 ^d	0.0 ^d	(2002)
Goal 4. Reduce Child Mortality				
Target 5: Reduce infant and child mortality by two thirds from 1990 to 2015				
13. Under age 5 mortality rate (per '000 live births)	27.0 ^d	24.0 ^d	16.6	20.0 ^d
			(2001)	(2002)

Continued on next page

Table A2.1—Continued

Goals and Targets	1990	1995	Latest Year	
14. Infant mortality rate (per '000 live births)	23.0 ^d	19.0 (1996)	13.0 (2001)	16.0 ^d (2002)
15. Proportion of 1-year-old children immunized against measles	81.0	93.4	93.0 (2001)	90.0 ^d (2002)
Goal 5. Improve Maternal Health				
Target 6: Reduce maternal mortality rate by three fourths between 1990 and 2015				
16. Maternal mortality ratio (per 100,000 live births) ^e	118.3 (1994-96)	81.0 ^f (1996-2000)	0.0	(2001)
17. Births attended by skilled health staff (% of live births)	—	93.0	95.3	(2001)
Goal 6. Combat HIV/AIDS, Malaria and Other Diseases				
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS				
18. HIV prevalence rate among 15–24 year old pregnant women	—	—	—	
19. Contraceptive prevalence rate (% of women ages 15–49)	—	30.8	32.8 (2000)	33.6 (2001)
20. Number of children orphaned by HIV/AIDS	0	0	0	
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases				
21. Malaria:				
Prevalence rate (per 100,000 people)	—	—	—	
Death rate (per 100,000 people)	—	—	9.0 ^d	(2000)
22. Proportion of population in malaria-risk areas using effective malaria prevention and treatment measures	—	—	—	
23. Tuberculosis (TB):				
Prevalence rate (per 100,000 people)	—	—	21.0 ^d	(2000)
Death rate (per 100,000 people)	—	—	3.0 ^d	(2000)
24. TB cases, DOTS:				
Detection rate (%)	—	53.0 ^d	98.0 ^d (2000)	53.0 ^d (2001)
Treatment success rate (%)	89.0 ^d (1994)	75.0 ^d	93.0 ^d (2000)	—
Goal 7. Ensure Environmental Sustainability				
Target 9: Integrate the principles of sustainable development into country policies and programs, and reverse the loss of environmental resources				
25. Forest area (% of total land area)	5.5 ^d	—	5.6 ^g	(2000)
26. Nationally protected areas (% of total land area)	—	6.0 ^d (1997)	5.1 ^g	(2002)
27. GDP per unit of energy use (PPPUS\$ per kg oil equivalent)	—	—	—	
28. Carbon dioxide emissions (tons/person)	0.8 ^d	1.1 ^d	1.2 ^{d,g}	(1999)
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water				
29. Access to an improved water source (% households)				
Total	—	100.0 ^h (1994)	100.0 ^h	(2000)
Urban	92.0 ^h	100.0 ^h (1994)	100.0 ^h	(2000)
Rural	98.0 ^h	100.0 ^h (1994)	100.0 ^h	(2000)

Continued on next page

Table A2.1—Continued

Goals and Targets	1990	1995	Latest Year
Target 11: By 2010, to have significantly improved the lives of at least 100 million slum dwellers			
30. Access to improved sanitation (% households)			
Total	—	100.0 ^h (1994)	93.7 ^{f,i} (2000)
Urban	88.0 ^h	100.0 ^h (1994)	—
Rural	78.0 ^h	100.0 ^h (1994)	—
31. Access to secure tenure (% households, owned or rented)	—	—	—

— = no data available; AIDS = acquired immunodeficiency syndrome, DOTS = directly observed treatment, short course; GDP = gross domestic product; HIV = human immunodeficiency virus; kg = kilogram; PPPUS\$ = purchasing power parity in United States dollar.

^a United Nations Development Programme (UNDP). 1999. *Pacific Human Development Report*. Suva.

^b United Nations Children's Fund (UNICEF). 2003. *The Progress of Nations 2000*; UNICEF. 2003. *The State of the World's Children*.

^c United Nations Educational, Scientific and Cultural Organization (UNESCO), Institute for Statistics. Available: <http://www.uis.unesco.org>.

^d United Nations Statistics Division (UNSD). 2003. *Millennium Indicator Database*. Available: <http://millenniumindicators.un.org>.

^e The relatively small number of actual deaths in any single year distorts the indicator.

^f World Health Organization (WHO), Regional Office for the Western Pacific. 2001. *Country Health Profiles 2001 Revision*. Available: <http://wpro.who.int>.

^g World Bank. 2003. *The Little Green Data Book 2003*. Washington, D.C.

^h WHO/UNICEF. Sep. 2001. Joint Monitoring Programme for Water Supply and Sanitation, Coverage Estimates 1980–2000; WHO/UNICEF, Water Supply and Sanitation Collaborative Council. 2000. *Global Water Supply and Sanitation Assessment 2000 Report*.

ⁱ Ministry of Health, Annual Report 2000; Ministry of Health, Corporate Plan 2001/02-2003/04.

Sources: Unless otherwise specified, data are from the: (i) ADB. Nov. 2003. *Discussion Paper on Assessment of Hardship and Poverty*. Manila (undertaken under regional technical assistance (RETA) 6047 (ADB. *Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries (PDMCs)*. Manila; and (ii) Secretariat of the Pacific Community (SPC). *Pacific Regional Information System (PRISM)*. Available: <http://www.spc.int/PRISM>. Figures have been computed primarily from the 2000–01 Household Income and Expenditure Survey (HIES), the 1996 census, and various labor force surveys (1990, 1993).

Table A2.2: Country Economic Indicators

Item	Fiscal Year ^a						
	1995	1996	1999	2000	2001	2002	2003
A. Income and Growth							
1. GDP per Capita (US\$, current)	1,599	1,733	1,502	1,529	1,359	1,348	1,505
2. GDP Growth (% , in constant prices)	2.7	(0.4)	2.9	6.5	0.8	1.6	1.9
Agriculture	1.9	(9.3)	(3.2)	10.6	(1.1)	2.1	1.4
Industry	10.4	11.3	12.3	3.7	2.3	5.5	4.0
Services	2.2	1.8	4.0	5.2	3.4	0.6	2.4
B. Saving and Investment (current market prices)							
	% of GDP						
1. Gross Domestic Investment	13.7	—	22.0	22.6	21.7	—	—
2. Gross Domestic Saving	—	—	(18.4)	(14.9)	(28.6)	—	—
Annual Change							
(%)							
C. Money and Inflation							
1. Consumer Price Index ^b	0.4	2.8	3.9	5.3	6.9	10.4	11.1
2. Total Liquidity (M2)	17.1	2.8	15.0	8.4	26.5	7.9	13.4
D. Government Finance							
1. Total Revenue and Grants	31.8	31.7	26.7	28.7	30.0	32.1	28.9
2. Total Expenditure and Onlending	35.9	30.8	26.9	27.9	30.9	33.7	32.1
3. Overall Fiscal Surplus/Deficit (-)	(4.1)	0.9	(0.3)	0.8	(0.9)	(1.6)	(3.1)
E. Balance of Payments							
1. Merchandise Trade Balance (% of GDP)	(36.7)	(31.7)	(29.0)	(33.7)	(36.3)	(32.0)	(37.1)
2. Current Account Balance (% of GDP)	(11.7)	(6.3)	(0.6)	(6.4)	(9.8)	5.3	(3.1)
3. Merchandise Export (\$) growth (annual % change)	(12.0)	(26.4)	1.5	(9.6)	9.5	49.0	(0.3)
4. Merchandise Import (US\$) growth (annual % change)	2.4	(10.8)	(28.9)	12.7	(1.6)	(0.3)	21.1
F. External Payments Indicators							
1. Gross Official Reserves (US\$ million, end of period)	23.5	24.2	21.6	16.0	13.2	18.2	16.8
– in months of imports	3.3	3.4	3.9	2.6	2.3	2.5	2.4
2. External Debt Service (% of exports of goods & services)	8.3	12.8	3.9	12.0	21.8	8.2	...
3. External Debt (% of GDP)	41.2	36.7	42.5	41.9	42.8	49.8	49.1
G. Memorandum Items:							
1. GDP (current prices, T\$ million)	198.5	209.2	237.3	251.4	266.6	296.5	334.6
2. Exchange Rate (T\$/ US dollar, at end of period)	1.2698	1.2346	1.6	1.6	1.9	2.2	2.2
3. Population (million)	0.09775	0.09778	0.100	0.100	0.101	0.101	0.101

— = not available, GDP = gross domestic product, M2 = broad money supply.

^a Fiscal year ends 30 June.

^b Period average.

Sources: Ministry of Finance, Tonga; National Reserve Bank of Tonga; International Monetary Fund; staff estimates.

Table A2.3: Country Poverty Indicators

Item	1990	1995	Latest Year
1. Development Progress Indexes			
Human Development Index (HDI)	—	0.723 (1994)	0.647 1998
PDMC Rank out of 14 PDMC)	—	2	5
Human Poverty Index (HPI)	—	—	5.9 (1998)
PDMC Rank (out of 12 PDMC)	—	—	1
Composite Vulnerability Index	—	—	10.439 (1998)
PDMC Rank (out of 7 PDMC)	—	—	2
Gender-Related Development Index	—	—	—
Global Rank	—	—	—
2. Poverty Indicators			
Headcount Index (% poor of total households)			
Total	—	—	23.0 (2000–01)
Urban (Nuku'alofa)	—	—	19.1 (2000–01)
Rest of Tongatapu	—	—	28.0 (2000–01)
Outer Islands	—	—	22.8 (2000–01)
Poverty Severity Index (%)	—	—	—
3. Inequality Indicators			
Gini Coefficient			
Household Income	—	—	0.42 (2000–01)
Household Expenditure	—	—	0.36 ((2000–01)
Household Income (% of total)			
H20	—	—	47.5 (2000–01)
L20	—	—	4.9 (2000–01)
Income Ratio (H20: L20)			
Total	—	—	9.7 (2000–01)
Urban (Nuku'alofa)	—	—	8.4 (2000–01)
Rest of Tongatapu	—	—	11.0 (2000–01)
Outer Islands	—	—	7.8 (2000–01)

— = no data available, H20 = highest 20% income group, H20: L20 = ratio of share in total income of the highest 20% income group: lowest 20% income group, L20 = lowest 20% income group, PDMC = Pacific developing member country.

Sources: ADB Nov. 2003. *Discussion Paper on Assessment of Hardship and Poverty*. Manila (Dec 2003), undertaken under regional technical assistance (RETA) 6047: *Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries PDMC*; United Nations Development Programme (1994, 1999). *Pacific Human Development Report*. (1994,1999).

Table A2.4: Country Social Indicators

Item	1990	1995	Latest Year
1. Demographic Indicators			
Total Population ('000)	97.0	97.7	101.4 2003 (est.)
Annual Population Growth Rate (% change)	0.6	0.3	0.4
Dependency Ratio (% of dependents to working age)	70.0 ^a	79.5 (1996)	74.0 ^a (2002)
Total Fertility Rate (births per woman)	4.8 ^a	4.1 (1996)	3.4 (2001)
Ave. Household Size	6.3 (1986)	6.0 (1996)	—
Urban	6.6 (1986)	6.2 (1996)	—
Rural	—	6.0 (1996)	—
2. Health			
Life Expectancy at Birth (years)	—	68.0 (1996)	70.7 ^a (2002)
Male	—	66.0 (1996)	70.0 ^a (2002)
Female	—	70.0 (1996)	71.4 ^a (2002)
Population with Access to Health Services (%)	—	100.0 ^b (1998)	100.0 ^b (2000)
Population per Doctor	—	—	2,175 (2000–02)
Government Expenditure on Health			
As % of Total Government Spending	—	12.0 ^a	11.5 (2002–03)
As % of GDP	—	3.2 ^a	3.5 (2001–02)
3. Education			
Adult Literacy Rate (%)	—	98.8 ^c (1996)	99.0 ^d (2001)
Male	—	98.8 ^c (1996)	—
Female	—	98.9 ^c (1996)	—
Combined Gross School Enrollment Ratio (% of ages 5–19 years)	—	101.8 ^c (1998/99)	106.2 ^c (2000–01)
Male	—	100.6 ^c (1998/99)	105.2 ^c (2000–01)
Female	—	103.2 ^c (1998/99)	107.3 ^c (2000–01)
Gross Primary Enrollment (% of ages 5–14 years)	—	110.8 ^c (1998/99)	112.7 ^c (2000–01)
Male	—	112.1 ^c (1998/99)	113.5 ^c (2000–01)
Female	—	109.4 ^c (1998/99)	111.8 ^c (2000–01)
Gross Secondary Enrollment (% of ages 15–19 years)	—	92.8 ^c (1998/99)	99.6 ^c (2000–01)
Male	—	88.6 ^c (1998/99)	96.6 ^c (2000–01)
Female	—	97.2 ^c (1998/99)	102.9 ^c (2000–01)

Continued on next page

Table A2.4—Continued

Item	1990	1995	Latest Year
Student: Teacher Ratio (no. of students: teacher)			
Primary	24.0 ^e	21.0 (1996)	22.0 (2000)
Secondary	18.0 ^e	15.0 (1996)	15.0 (2000)
Government Expenditure on Education			
As % of Total Government Spending	17.3 ^e	17.8 ^c (1998/99)	17.1 (2002–03)
As % of GDP	—	5.4 ^c (1998/99)	5.2 (2001–02)

— = no data available, GDP = gross domestic product.

^a World Health Organization (WHO), *The World Health Report* (2001, 2002, 2003).

^b Ministry of Health, Annual Report 2000; Ministry of Health, Corporate Plan 2001/02-2003/04.

^c United Nations Educational, Scientific and Cultural Organization (UNESCO), Institute for Statistics (<http://www.uis.unesco.org>).

^d United Nations Development Programme (UNDP), *Human Development Report 2003*.

^e UNESCO, World Education Indicators (Country Tables as shown in Appendix III of *World Education Report 2000*) (<http://www.unesco.org/education>).

Sources: Unless otherwise specified, data are from the: (i) Asian Development Bank (ADB), Discussion Paper on Assessment of Hardship and Poverty (Nov-03), undertaken under regional technical assistance (RETA) 6047: *Preparation of National Poverty Reduction Strategies in Pacific Developing Member Countries (PDMCs)*; and (ii) Secretariat of the Pacific Community (SPC), Pacific Regional Information System (PRISM) (<http://www.spc.int/PRISM>). Figures have been computed primarily from the 2000/01 Household Income and Expenditure Survey (HIES) and various censuses (1986, 1996). Population and growth figures were taken from the Asian Development Outlook (ADO) 2004 Pacific population database based on estimates by Tonga's Statistics Department.

Table A2.5: Country Environment Indicators

Item	1990	Latest Year	
1. Energy Efficiency of Emissions			
Traditional Fuel Use (% of total energy use)	—	—	
2. Water Pollution			
Water Bodies Exceeding Contact Recreation Standards			
Biological Oxygen Demand (BOD)	—	—	
Chemical Oxygen Demand (COD)	—	—	
3. Air Pollution			
Carbon Dioxide (CO ₂) Emissions			
Total ('000 metric tons)	77.0	121.0	(1999)
Per unit of GDP (kg/PPPUS\$ GDP)	—	0.2	(2000)
Sulfur Dioxide (SO ₂) Emissions			
Total ('000 metric tons)	—	0	(1995)
4. Land Use and Deforestation			
Total Land Area (km ²)	650.6	650.6	
Average Annual Deforestation			
Area (remaining km ²)	—	41.8	(2000)
% change	—	0.0	(1990-2000)
Arable Land (% of total land)	24.0		
	(1993)		
Cropland, Permanent (% of total land)	43.0	72.0	(2001)
	(1993)		
Pastures, Permanent (% of total land)	6.0		
	(1993)		
Population Density, Rural (people/km ² arable land)	367	398	(2002)
	(1998)		
5. Biodiversity and Protected Areas			
Nationally Protected Area(s)			
Area (km ²)	—	38.1	(2002)
No.	—	4	(2003)
Mammals (no. of threatened species)	0	2	(2003)
	(1996)		
Birds (no. of threatened species)	2	3	(2003)
	(1996)		
Higher Plants (no. of threatened species)	—	3	(2003)
Reptiles (no.) of threatened species)	3	2	(2003)
	(1996)		
Amphibians (no. of threatened species)	0	0	(2003)
	(1996)		
6. Urban Areas			
Urban Population			
Total ('000)	31.3	33.2	(2001)
% of total population	32.0	33.2	(2002)
	(1996)		
Per Capita Water Use (liters/day)	—	—	
Wastewater Treated (%)	—	—	
Solid Waste Generated per Capita (kg/day)	—	—	

— = no data available, GDP = gross domestic product, kg = kilogram, km² = square kilometer, PPP = purchasing power parity.

Sources: Central Intelligence Agency (CIA), The World Factbook (2001–2003) (<http://cia.gov>); International Union for Conservation of Nature and Natural Resources (IUCN), The IUCN Red List of Threatened Species (1996, 2003) (<http://www.iucnredlist.org>); Secretariat of the Pacific Community (SPC), *Oceania Population 2000 & 2003*; SPC, Pacific Regional Information System (PRISM) (<http://www.spc.int/PRISM>); United Nations Statistics Division (UNSD), Millennium Indicator Database (2003) (<http://millenniumindicators.un.org>); World Bank, *The Little Green Data Book* (2000-2004); World Resources Institute (WRI), Earth Trends 2003 (<http://earthtrends.wri.org>).

Table A2.6: Development Coordination Matrix

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
Agriculture and Natural Resources	<p>Programmed:</p> <ul style="list-style-type: none"> • Agriculture Sector Development • Institutional Strengthening of the Agriculture Sector • Implementation of Agriculture Sector Roadmap 	<ul style="list-style-type: none"> • Ha'apai Fisheries Development Program (AusAID) • Vava'u Fisheries Wharf (EU) • Vava'u Fisheries Market (EU) • Forestry Project (NZAIID) • Kava Nursery Development Project (STABEX) • Organic Certification systems for Tonga (FAO) • Development of Food and Agribusiness Industry (Japan) • Vava'u Integrated Agricultural Development Project (EU) • Tonga Fisheries Project (AusAID)
Education		<ul style="list-style-type: none"> • Strengthening Capacity of National Youth Groups Toward Food Security and Prosperity (FAO) • Programs for Upgrading Ha'apai Primary and Secondary School (AusAID and Japan) • Programs for Upgrading Niua's Primary and Secondary School (NZAIID) • Vava'u Education Projects (EU)
Energy		<ul style="list-style-type: none"> • Ha'apai Outer Islands Electrification Project (AusAID) • Niua's Electrification Program (NZAIID)
Health, Nutrition, and Social Protection	<p>Programmed:</p> <ul style="list-style-type: none"> • Population Study • Integrated Urban Social Services Review 	<ul style="list-style-type: none"> • Rural Sanitation Program (AusAID/Japan) • Vava'u Health Projects (EU) • Health Sector Support Project (WB)
Industry and Trade		<ul style="list-style-type: none"> • Cyclone Emergency Recovery and Management Project (WB) • 'Eau and Vava'u Tourism Project (NZAIID) • Tonga Tourism Project (AusAID)
Law, Economic Management, and Public Policy	<p>Ongoing:</p> <ul style="list-style-type: none"> • Economic and Public Sector Reform Program • Reforming public service to improve accountability and performance • Public financial management improvement <p>Programmed:</p> <ul style="list-style-type: none"> • Public Enterprise Reform-Privatization of Selected Enterprises 	<ul style="list-style-type: none"> • 'Eau Community Development Fund (NZAIID) • Ha'apai Strengthening of Ministries and Departments (AusAID) • Ha'apai Development Fund (AusAID) • Vava'u Civil Society Projects (EU) • VDP III Project Management Unit (EU) • Community Development Fund (NZAIID)

Continued on next page.

Table A2.6—Continued

Sector/Thematic Area	ADB Strategy/Activities	Other Development Partners' Strategy/Activities
	<ul style="list-style-type: none"> • Integrated Strategic Planning, Medium Term Fiscal Framework and Budgeting • Population Study 	<ul style="list-style-type: none"> • Community Development Scheme (AusAID) • Evaluation of Microproject Programme III (EU)
Multisector	<p>Programmed:</p> <ul style="list-style-type: none"> • Integrated Urban Development Project • Integrated Urban Social Services Review • Urban Sector Basic Social Infrastructure • Youth Micro-enterprise Development 	
Transportation and Communications	Inter-Island Aviation/Shipping Transport Study	Upgrading of Key Infrastructure: Jetties, Wharves, and Roads (AusAID)
Water Supply, Sanitation, and Waste Management		<ul style="list-style-type: none"> • 'Eau Water Supply (NZ Aid) • Rural Water Supply (AusAID/Japan) • Program for Improving Water Access in Niuaus (NZ Aid) • Self Sustainable Village Water Metering Program (AusAID, NZ Aid, Japan) • Household Water, Cement Water Tank (AusAID, NZ Aid, Germany, EU) • Renovation of Pilelevu Airport (AusAID) • Vava'u Tourism Roads Phase II (EU) • Vava'u Agricultural Roads Program (EU) • Rehabilitation of MV Olavaha (EU) • Nafanua Harbor (EU) • Vava'u Refuse Initiatives (EU)

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, EU = European Union, FAO = Food and Agriculture Organization of the United Nations, NZ Aid = New Zealand Agency for International Development, STABEX = Stabilization of Export Earnings Scheme, WB = World Bank.

Table A2.7: Portfolio Indicators—Amounts and Ratings
(public sector loans, as of 31 December 2003)

Sector	Net Loan Amount		Total		Rating ^a									
	(US\$ million)	(%)	(no.)	(%)	Highly Satisfactory	Satisfactory	Partly Satisfactory	Unsatisfactory	Potential Problem ^b	At Risk ^c				
					(no.)	(%)	(no.)	(%)	(no.)	(%)	(no.)	(%)	(no.)	(%)
Agriculture and Natural Resources														
Energy														
Finance														
Industry and Trade														
Multisector														
Law, Economic Management, and Public Policy	11.1	100.0	1	100.0			1	100.0						
Health, Nutrition and Social Protection														
Transport and Communications														
Total	11.1	100.0	1	100.0			1	100.0						

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank estimates.

Table A2.8: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2003)

Disbursements and Transfers	OCR	ADF	Total
Disbursements			
Total Funds Available for Withdrawal (US\$ million)		11.1	11.1
Disbursed Amount (US\$ million, cumulative)		11.1	11.1
Percentage Disbursed (disbursed amt/total available)		100.0	100.0
Disbursements (US\$ million, latest year)		6.1	6.1
Disbursement Ratio (%) ^a		108.2	108.2
Net Transfer of Resources (US\$ million)			
1999		1.5	1.5
2000		2.2	2.2
2001		(0.6)	(0.6)
2002		4.1	4.1
2003		5.0	5.0

ADF = Asian Development Fund, amt = amount, OCR = ordinary capital resources.

^a Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the Year, less cancellations during the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

Source: Asian Development Bank estimates.

Table A2.9: Portfolio Indicators–Evaluation Rating by Sector
(As of 31 January 2004)

Item	GS, HS, S		PS		US		Total	
	(no.)	(%)	(no.)	(%)	(no.)	(%)	(no.)	(%)
Agriculture & Natural Resources	0	0.0	0	0.0	0	0.0	0	0.0
Energy	0	0.0	0	0.0	0	0.0	0	0.0
Industry & Trade	1	100.0	0	0.0	0	0.0	1	100.0
Transport & Communications	1	100.0	0	0.0	0	0.0	1	100.0
Health, Nutrition and Social Protection	0	0.0	0	0.0	0	0.0	0	0.0
Finance	2	66.7	1	33.3	0	0.0	3	100.0
Multisector	3	100.0	0	0.0	0	0.0	3	100.0
Law and Public Sector Management	0	0.0	0	0.0	0	0.0	0	0.0
Total	7	87.5	1	12.5	0	0.0	8	100.0

GS = generally successful, HS = highly successful, PS = partly successful, S = successful, US = unsuccessful

Source: Asian Development Bank project (program) audit reports.

Table A2.10: Portfolio Implementation Status
(public sector loans, as of 31 December 2003)

Sector	Loan No.	Seg	Title	Net Loan Amount		Approval Date (dd/mm/yy)	Effective Date (dd/mm/yy)	Closing Date		Progress (% complete)
				OCR (US\$ million)	ADF (US\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
LW	1904	SF	Economic and Public Sector Reform Program	0.00	11.1	28 May 02	11 Jun 02	30 Jun 04		Program loan
			Total	0.00	11.1					

Table A2.10—Continued

Sector	Loan No.	Seg	Title	Cumulative Contracts/Commitments (US\$ million)	Cumulative Disbursements (US\$ million)	Rating		Potential Problem ^a	At Risk ^b
						IP	DO		
LW	1904	SF	Economic and Public Sector Reform Program	11.1	11.1	S	S	No	No
			Total	11.1	11.1				

ADF = Asian Development Fund, DO = development objectives; HS = highly satisfactory; IP = implementation progress, LW = Law and Public Sector Management, no. = number; OCR = ordinary capital resources, Seg = segment (pertaining to loans with more than one withdrawal authority), PS = partly satisfactory, S = satisfactory, U = unsatisfactory.

^a "Yes" for loans with four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^b A loan is considered "at risk" if it is rated as "PS" or "U" in either implementation progress or development objectives, or if it is a potential problem loan.
Source: Asian Development Bank staff estimates.

Table A2.11: Assistance Pipeline for Lending Products, 2005–2006

Sector Project/Program Name	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (US\$ million)				
					ADB			Gov't	Cofi- nancing
					OCR	ADF	Total		
2005 Firm Loans									
2006 Firm Loans									
Multisector									
Urban Sector Basic Social Infrastructure	ENV	PAHQ	2005	5.0		5.0	5.0	0.0	0.0

ADB = Asian Development Bank, ADF = Asian Development Fund, ENV = environmental sustainability, Gov't = government, OCR = ordinary capital resources, PAHQ = Pacific Operations Division
 Source: Asian Development Bank staff estimates.

Table A2.12: Assistance Pipeline for Nonlending Products and Services, 2005–2006

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (US\$'000)
			ADB		Others		
			Source	Amount (US\$'000)	Source	Amount (US\$'000)	
2005							
Agriculture and Natural Resources							
Institutional Strengthening of the Agriculture Sector	PAHQ	ID	JSF	200.00		0.00	200.00
Multisector							
Integrated Urban Development Project	PAHQ	PP		500.00		0.00	500.00
Total				700.00		0.00	700.00
2006							
Agriculture and Natural Resources							
Implementation of Agriculture Sector Roadmap	PAHQ	PP		400.00		0.00	400.00
Law, Economic Management and Public Policy							
Population Study	PAHQ	ID		100.00		0.00	100.00
Multisector							
Integrated Urban Social Services Review	PAHQ	ID		200.00		0.00	200.00
Total				700.00		0.00	700.00

ADB = Asian Development Bank, ID = institutional development, JSF = Japan special fund, PAHQ = Pacific Operations Division, PP = project/program preparatory technical assistance.

Source: Asian Development Bank staff estimates.

CONCEPT PAPERS FOR NONLENDING PRODUCTS AND SERVICES, 2005

This appendix contains the concept papers for projected nonlending products and services for 2005:

- (i) Table A3.1 Institutional Strengthening of the Agriculture Sector
- (ii) Table A3.2 Integrated Urban Development Project

**Table A3.1: Institutional Strengthening of the Agriculture Sector
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance</p> <p><input type="checkbox"/> Lending</p> <p> <input type="checkbox"/> Project loan</p> <p> <input type="checkbox"/> Program loan</p> <p> <input type="checkbox"/> Sector loan</p> <p> <input type="checkbox"/> Sector development program loan</p> <p> <input type="checkbox"/> Other:</p> <p><input checked="" type="checkbox"/> Nonlending</p> <p> <input type="checkbox"/> Project preparatory</p> <p> Other than project preparatory</p> <p> <input type="checkbox"/> Economic, thematic, and sector work</p> <p> <input checked="" type="checkbox"/> Institutional development</p> <p> Other</p> <p><input type="checkbox"/> Activities financed by Japan Fund for Information and Communication Technology (JFICT) or Japan Fund for Poverty Reduction (JFPR)</p>
<p>2. Assistance Focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the Sector: Agriculture and Natural Resources Subsector: Agriculture Sector Development</p> <p>b. For project preparatory and lending, classification</p> <p> <input type="checkbox"/> Core poverty intervention</p> <p> <input type="checkbox"/> Poverty intervention</p> <p> <input type="checkbox"/> Other</p> <p>c. Key thematic area(s)</p> <p> <input checked="" type="checkbox"/> Sustainable Economic growth</p> <p> <input type="checkbox"/> Inclusive social development</p> <p> <input type="checkbox"/> Governance</p> <p> <input type="checkbox"/> Gender and Development</p> <p> <input type="checkbox"/> Environmental sustainability</p> <p> <input type="checkbox"/> Regional cooperation</p> <p> <input checked="" type="checkbox"/> Private sector development</p>
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>
<p>4. Responsible division/department: PAHQ/PARD</p>
<p>5. Responsible ADB officer(s): Thomas Gloerfelt-Tarp</p>
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy: Past assistance in this sector has focused on strengthening the capacity of the Ministry of Agriculture to drive growth in agricultural production and increase export earnings. But there is a perception of duplication of work between the Ministry and other agencies, and of poor performance by the Ministry in developing market access, diversifying export products, and identifying value-adding opportunities. The public service reform program in 2003 was to restructure and provide the Ministry with a clear mission and objectives. During the CPM in April 2004, the Government requested assistance to refocus the Ministry, to ensure that agriculture will fuel future economic growth.</p> <p>b. Goal and purpose: Effective and efficient institutions that promote growth and economic opportunities in the agriculture sector, and reduce poverty.</p> <p>c. Components and outputs: The technical assistance (TA) will review the capability of the Ministry of Agriculture and the administrative, marketing, and policy arrangements of the agriculture sector to identify duplication of functions and to encourage orientation of customer services. The TA output will be to (i) identify institutional capabilities required for an effective and efficient agriculture sector; (ii) conduct an institutional capabilities assessment, and identify its gaps; (iii) develop a capacity-building program; and (iv) implement a preliminary capacity-building program as a first-stage initiative.</p>

<p>d. Expected results and deliverables: The TA will provide recommendations and an action plan for developing the agriculture sector to provide needed economic growth and employment to compensate for the reduced future role of the public sector.</p> <p>e. Social or environmental issues or concerns: Consideration should be given to ensure sustainable long-term development within the constraints caused by the absence of environmental impact assessment legislation.</p> <p>f. Plans for disseminating results/deliverables: Not applicable</p>																				
<p>7. Proposed executing/implementing agencies: Ministry of Agriculture</p>																				
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The TA will seek input from smallholders and agricultural businesses involved in import and export of agricultural products and foodstuffs.</p>																				
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP update: 2004</p> <p>b. Expected date of submission for approval Lending: Nonlending (project preparatory): Nonlending (other than project preparatory): April 2005 Activities financed by JFICT or JFPR:</p> <p>c. Period and duration of assistance Lending: Nonlending: 8 months Activities financed by JFICT or JFPR:</p>																				
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources</p> <p><input type="checkbox"/> Asian Development Fund</p> <p><input type="checkbox"/> Other</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements.</p> <table border="1"> <thead> <tr> <th>Source</th> <th>Amount (US\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> </tr> </tbody> </table> <p>Source:</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget</p> <p><input type="checkbox"/> Grant TA funds</p> <p><input checked="" type="checkbox"/> Other: Japan Special Funds</p> <p>If cofinancing is required indicate amount, and sources sought: US\$200,000, from the Japan Special Fund If known, provide cost estimates and financing arrangements.</p> <table border="1"> <thead> <tr> <th>Source</th> <th>Amount (US\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td>200,000</td> </tr> <tr> <td>Total Cost</td> <td>200,000</td> </tr> </tbody> </table>	Source	Amount (US\$)	ADB Financing		Government Financing		Other Financing		Total Cost		Source	Amount (US\$)	ADB Financing		Government Financing		Other Financing	200,000	Total Cost	200,000
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Government Financing																				
Other Financing	200,000																			
Total Cost	200,000																			

ADB = Asian Development Bank, CPM = country programming mission, CSP = country strategy and program, PAHQ = Pacific Operations Division, PARD = Pacific Department.

**Table A3.2: Integrated Urban Development Project
Concept Paper**

Date: July 2004

<p>1. Type/modality of assistance (check)</p> <p><input type="checkbox"/> Lending</p> <p><input type="checkbox"/> Project loan</p> <p><input type="checkbox"/> Program loan</p> <p><input type="checkbox"/> Sector loan</p> <p><input type="checkbox"/> Sector development program loan</p> <p><input type="checkbox"/> Other: (specify, e.g., loan-financed project preparatory, project implementation, or advisory activities)</p> <p><input type="checkbox"/> Nonlending</p> <p><input checked="" type="checkbox"/> Project preparatory</p> <p><input type="checkbox"/> Other than project preparatory</p> <p><input type="checkbox"/> Economic, thematic, and sector work</p> <p><input type="checkbox"/> Institutional development</p> <p><input type="checkbox"/> Other: Sector Structuring Intermediation</p> <p><input type="checkbox"/> Activities financed by JFICT or JFPR</p> <p>JFPR = Japan Fund for Poverty Reduction, JFICT = Japan Fund for Information and Communication Technology</p>								
<p>2. Assistance focus</p> <p>a. If assistance focuses on a particular sector or subsector, specify the</p> <p>Sector: Multisector</p> <p>Subsector: Water supply and sanitation, Waste management, Public finance and expenditure management</p> <p>b. For project preparatory and lending, classification (check one)</p> <p><input type="checkbox"/> Core poverty intervention</p> <p><input checked="" type="checkbox"/> Poverty intervention</p> <p><input type="checkbox"/> Other</p> <p>c. Key thematic area(s)</p> <table border="0"> <tr> <td><input type="checkbox"/> Sustainable Economic growth</td> <td><input checked="" type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input checked="" type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and Development</td> <td></td> </tr> </table>	<input type="checkbox"/> Sustainable Economic growth	<input checked="" type="checkbox"/> Environmental sustainability	<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and Development	
<input type="checkbox"/> Sustainable Economic growth	<input checked="" type="checkbox"/> Environmental sustainability							
<input checked="" type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and Development								
<p>3. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Subregional <input type="checkbox"/> Interregional</p> <p><input type="checkbox"/> Internal policy development</p>								
<p>4. Responsible division/department: PAHQ/PARD</p>								
<p>5. Responsible ADB officer(s): Nancy S. Convard</p>								
<p>6. Description of assistance(s)</p> <p>a. Background/linkage to country/regional strategy</p> <p>The project is directly linked to ADB's key strategy for support of the Government's policy reform program to enhance the efficiency and effectiveness of the public sector, and to address the deteriorating conditions in some social indicators through targeted interventions. The TA and investment project prepared under the TA directly support ADB's strategy for improved access to basic social services and for poverty reduction.</p> <p>b. Goal and purpose: The overall goal of the TA, and the project prepared under the TA, is to improve urban planning and management, including expanded basic social services such as water, wastewater, and drainage. The focus will be on improvement of delivery of urban services to the poor and vulnerable in the new urban and peri-urban areas (informal settlements).</p> <p>c. Components and outputs: The key overall outcomes will be (i) improved living conditions in informal settlements and peri-urban areas and (ii) improved and better-coordinated urban planning and</p>								

<p>management. Specific components and outputs include:</p> <ul style="list-style-type: none"> • a detailed urban planning and management strategy, • a diagnostic analysis of institutions providing urban planning and urban services, • location-specific scoping of priority actions for improving basic services. • A feasibility study for a project for urban development that will provide sufficient information to process an investment project suitable for ADB financing. <p>With a focus on low-income areas, the proposed project will have substantial poverty reduction effects through improved living conditions, creation of bankable assets for the poor, and on-the-job training through employment opportunities related to project construction.</p> <p>These components will be further developed through continued dialogue with the Government and other stakeholders.</p> <p>d. Expected results and deliverables: The TA is expected to produce (i) a specific and time-bound urban planning and management strategy, and (ii) a project design that will promote urban management and the provision of basic social services that is suitable for ADB funding, with the support of all stakeholders.</p> <p>e. Social or environmental issues or concerns: Environmental quality improvements are an intended outcome of the project. Participatory planning and community dialogue will ensure that social development needs are addressed. The project will consider the implications of land acquisition and resettlement.</p> <p>f. Plans for disseminating results/deliverables: Project Reports (Inception/Interim/Final) In-country media programs</p>										
<p>7. Proposed executing/implementing agencies: Central Planning Department</p>										
<p>8. Nature/extent of government/beneficiary involvement in identifying or conceptualizing the assistance: The project concept has resulted the country programming mission involving discussions with numerous local and national government officials, representatives of the private sector, NGOs representatives, and residents of the affected communities.</p>										
<p>9. Timetable for assistance design, processing, and implementation</p> <p>a. Year included in CSP, CSP update, SCSP, SCSP update, or interregional work plan: 2003</p> <p>b. Expected date of submission for approval Lending: 2006 Nonlending (project preparatory): 2005 Nonlending (other than project preparatory): Activities financed by JFICT or JFPR</p> <p>c. Period and duration of assistance Lending: Nonlending: 12 months March 2005 – March 2006 Activities financed by JFICT or JFPR:</p>										
<p>10. Financing Plan (Indicate possible financing sources and amount of assistance, cost estimates, and financing arrangements)</p> <p>a. For lending</p> <p><input type="checkbox"/> Ordinary capital resources</p> <p><input type="checkbox"/> Asian Development Fund</p> <p><input type="checkbox"/> Other</p> <p>If cofinancing is required indicate sources, and amount sought: If known, provide cost estimates and financing arrangements.</p> <table border="1"> <thead> <tr> <th>Source</th> <th>Amount (US\$)</th> </tr> </thead> <tbody> <tr> <td>ADB Financing</td> <td></td> </tr> <tr> <td>Government Financing</td> <td></td> </tr> <tr> <td>Other Financing</td> <td></td> </tr> <tr> <td>Total Cost</td> <td></td> </tr> </tbody> </table> <p>Source:</p> <p>b. For nonlending</p> <p><input type="checkbox"/> No resources required, other than ADB staff</p> <p><input type="checkbox"/> ADB's administrative budget</p>	Source	Amount (US\$)	ADB Financing		Government Financing		Other Financing		Total Cost	
Source	Amount (US\$)									
ADB Financing										
Government Financing										
Other Financing										
Total Cost										

<input checked="" type="checkbox"/> Grant TA funds	
<input type="checkbox"/> Other:	
If cofinancing is required indicate amount, and sources sought: If known, provide cost estimates and financing arrangements.	
Source	Amount (US\$)
ADB Financing	500,000
Government Financing	
Other Financing	
Total Cost	500,000

ADB = Asian Development Bank, CSP = country strategy and program, SCSP = subregional cooperation strategy and program, TA = technical assistance.

ASSISTANCE PROGRAM FOR 2004

Table A.4.1: Assistance Program for Nonlending Products and Services, 2004

Year/Sector/ Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (US\$'000)
			ADB		Others		
			Source	Amount (US\$'000)	Source	Amount (US\$'000)	
2004							
Industry and Trade							
Youth Micro-enterprise Development	PAHQ	ID			JSF	250.0	250.0
Law and Public Sector Management							
Public Enterprise Reform – Privatization of Selected Enterprises	PAHQ	ID	TASF	150.0			150.0
Integrated Strategic Planning, Medium Term Fiscal Framework and Budgeting	SPSO	ID	TASF	300.0			300.0
Total				450.0		250.0	700.0

ADB = Asian Development Bank, ID = institutional development, Gov't = Government, JSF = Japan special fund, PAHQ = Pacific Operations Division, SPSO = South Pacific Subregional Office, TASF = technical assistance special fund.
Source: Asian Development Bank estimates.