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Evaluation of New Zealand's Development Cooperation in Tonga

Final Report

Adam Smith International

Evaluation of New Zealand's Development Cooperation in Tonga

David Carpenter, David Osborne, Taniela Fusimalohi and Joyce Mafi

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Further details about the author

David Carpenter is Principal Adviser in Evaluation and Research at the Asia-Pacific office of Adam Smith International (ASI), David Osborne is Senior Economics Adviser at ASI, Taniela Fusimalohi is a private consultant based in Nuku'Alofa with significant experience advising donors and the Government of Tonga, Joyce Mafi is the former Governor of the Reserve Bank of Tonga. Adam Smith International is an award-winning professional services business that delivers real impact, value and lasting change through projects supporting economic growth and government reform internationally. Our reputation as a global leader has been built on the positive results our projects have achieved in many of the world's most challenging environments. We provide high-quality specialist expertise and intelligent programme management capability at all stages of the project cycle, from policy and strategy development, to design, implementation, monitoring and evaluation.

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Executive Summary

Purpose

The New Zealand Ministry of Foreign Affairs and Trade (MFAT) commissioned Adam Smith International to conduct an evaluation of its country programme in Tonga. The purpose of the evaluation is to deliver an evidence base that can guide decisions regarding improvements to be made to the Tonga Programme, identify lessons to apply to ongoing and future work in Tonga, contribute to informing the future strategic direction, and assess the achievements of the Tonga Programme.

Evaluation Questions

The evaluation was guided by four evaluation questions. Two of these questions focused on the past, i.e. on the performance of the New Zealand aid programme from 2011 to the present; and two focused on the future, i.e. what the Tonga country programme should look like over the medium term.

Evaluation Question 1 is:
To what extent has New Zealand's aid delivery in Tonga over the period 2011-16 been of a high quality?

Evaluation Question 2 is:
To what extent has New Zealand's development cooperation in Tonga over the period 2011-16 been effective, and how sustainable are the results of this cooperation?

Evaluation Question 3 is:
How can New Zealand's overall objective of maximising the impact of engagement to improve the prosperity, stability and resilience of Tonga and its people best be met?

Evaluation Question 4 is:
How can New Zealand's aid programme foster sustainable economic development in Tonga?

Findings

With regard to aid delivery, the evaluation found that while there have been some recent improvements in high-level ownership and aid coordination (as evidenced by the reconvening of the Cabinet Aid Coordination Committee (CACC)) there remain real issues with regard to functional ownership of the development agenda, *i.e.* the ability of Tonga to operationalise its own development agenda. First, Tonga struggles to coordinate its aid in a strategic fashion, and there are significant capacity and systems constraints to this, including limited human resources. Second, poor reporting by donors, including New Zealand, on the full suite of their development activities affects development planning, and there exists no system to capture all aid data. Third, there are deficits in planning and budgeting at the sectoral level that limit the capacity of the Government of Tonga (GoT) to spend development funds in a timely and effective fashion.

Effective aid delivery is also constrained by the state of flux that is characteristic of this period of Tonga's national development. Leadership changes at ministerial and chief executive levels affect strategic direction and result in constant policy shifts. Shifts in priorities meant the Joint Commitment for Development (JCFD) became useless as a planning tool shortly after its inception in 2011. There is also a need for New Zealand to demonstrate more fully how its often politically-established priorities align to those of the GoT. As the discussion in Section 4 highlights, New Zealand is investing in relevant and important priorities at the sectoral level, but there is often a lack of certainty on the GoT's behalf with regard to strategic priorities within sectors.

New Zealand's aid programme is quite fragmented for a programme of its size and lacks coherence at a Total Country Aid Flow (TCAF) level. This financial and management fragmentation places strain on staff and leads to a relatively non-strategic approach at the country programme level. Staff at the New Zealand High Commission – Nuku'alofa (hereafter referred to as NZHC), are not fully conversant with the full suite of activities that New Zealand funds and this is frustrating for both them and the GoT. There needs to be a more timely and strategic approach to engaging with staff at NZHC, including Development Programme Coordinators (DPCs), who add significant value in the Tongan context.

The delivery of the New Zealand aid programme has been affected by a period of politicisation in various areas, which has affected the relationship between New Zealand and Tonga. Despite this, relationships at the transactional level remain strong and functional. High-level dialogue was missing for a period of time and has only recently been re-established. This type of strategic dialogue is highly regarded by the GoT and New Zealand, and needs to be a consistent feature of the aid programme. Due the issues with 'equivalence' and the hierarchical nature of Tongan society, the highest-level representation and advocacy from New Zealand should be deployed whenever possible. With regards to policy dialogue, which is primarily values-based dialogue, more effort should be spent on 'surfacing the cultural differences' between New Zealand and Tonga to ensure dialogue is as meaningful as possible. Further attempts should be made to understand the intangible aspects of the Tongan development paradigm to ensure there is a meeting of minds at the level of values, which is significantly important in the Tonga context.

With regard to accountability, New Zealand needs to more transparently and accurately report on its aid flows to Tonga. Tonga, on the other hand, needs to strengthen its decision-making capacity (particularly at Cabinet level) and continue to improve accountability and transparency in a range of areas, particularly regulatory quality. There is a need to strengthen the committee structure below the Cabinet level, Cabinet Committees dealing with policies and priorities, and below them the technical committees to deal with plans and implementation. This gap between the Cabinet level and the public service must be strengthened.

With regard to effectiveness and sustainability, New Zealand's aid programme demonstrates strong performance in some areas and weak performance in others and in almost all sectors there remain challenges to the sustainability of results. New Zealand's most effective investment is in the energy sector; this investment has led to demonstrable improvements in energy security and directly addressed key strategic and development priorities. The strategic vision in this sector is strong, there is a high level of political buy-in and New Zealand's implementation partner in Tonga—Tonga Power Limited—has very high capacity. However, there remain a number of issues to do with strengthening the enabling environment for the energy sector which remain to be addressed. New Zealand's support for education has been relatively ineffective and has not achieved the minimum results expected. There was weak ownership by the Ministry of Education and Training, an over-ambitious design that was not suited to the context, and significant capacity constraints that were not foreseen by New Zealand or addressed in a systematic fashion. Some elements of the programme continue to be financially important, and New Zealand needs to find a way to implement its education support in a fragmented and challenging environment.

New Zealand's support for law and justice has been effective and helps underpin the rule of law in Tonga; this is particularly important considering the difficult context. Its support for the Police is helping build a more professional and accountable force and further improvements to planning and strengthening leadership should assist in addressing sustainability issues. New Zealand's support assists in the provision of a high-quality Supreme Court function that underpins the rule of law and provides an important review function for the lower levels of the judiciary. However, more needs to be done (by New Zealand, the GoT and others) to rebalance support of the justice sector to

ensure that other elements are strengthened in a way that builds quality throughout the system. There also remain significant tensions within the justice sector that remain unresolved and New Zealand is in a position to assist in this area.

New Zealand's support for tourism has been the most ineffective investment of those reviewed, and has been halted. A number of issues conspired to create this problem, including a lack of leadership from the GoT, a lack of clarity with regard to roles and responsibilities, an over-ambitious design, and constant restructuring and change in the sector. New Zealand's support for other economic sectors such as fisheries has been effective and shows clear promise going forward. The agricultural support has been practical but is quite limited in scope and remains important from an economic and trade perspective.

New Zealand's investments in skills development have been effective but there remain challenges within that area that undermine long-term sustainability. One element of the system has been strengthened (qualifications and accreditation) ahead of other elements, and as such the capacity to improve the entire sector is challenging. New Zealand provides very important and well-regarded support for emergency management, but more needs to be done to harmonise donor support in this sector and strengthen the National Emergency Management Office. This is very important from a resilience perspective.

New Zealand plays a very important and effective role in the area of transport and safety. Without New Zealand's support, maritime and aviation safety in Tonga would not be of the quality it is. To ensure long-term sustainable improvements in maritime safety, there needs to be more clarity on roles and responsibilities in that sector and a stronger enabling environment. New Zealand's bilateral support for health is small but effective. Its support for the Medical Treatment Scheme (MTS) augments the GoT's MTS, expanding the services which are available; services which save lives. Additional support for health is provided through non-bilateral programmes, with a focus on health literacy.

Improving the impact of New Zealand engagement in Tonga will require surfacing the cultural differences between the two countries. This involves developing a greater understanding of Tongan social norms and cultural practices and the priorities that underpin Tongan society that are built on its socio-cultural heritage. This might sound anthropological, but it has profound effects with regard to working effectively in a place like Tonga. More consistent and transparent dialogue on decision-making processes needs to be established between New Zealand and Tonga and this needs to be systematic and ongoing. Understanding the local political, economic and socio-cultural context is vitally important for effective aid delivery, particularly in a highly fragmented aid programme like New Zealand's in Tonga.

New Zealand also needs to find the time to ensure that a 'Tongan' lens is applied to all its development projects (including the non-bilateral ones), and space needs to found throughout the programme management process to ensure this happens and that feedback is incorporated into designs and performance in an iterative fashion. MFAT should also consider adopting a more adaptive and less prescriptive approach to the design of activities in Tonga.

There are two key priorities for the Tonga country programme, which the evaluation suggests should underpin MFATs Country Strategy in Tonga over the medium term; these are fostering stability and supporting economic development. The evaluation team understands that the term 'stability' may connote ideas of maintaining the status quo, immobility or promoting a conservative approach, that is not the conception of stability suggested here, and indeed a better term may be required. What is clearly required in Tonga is some level of institutional, human resource and policy dependability and cohesion alongside the development of higher quality decision-making. High quality decisions need to be made and institutions need to be able to effectively implement

these in a dependable fashion.The development context in Tonga is characterised by flux and instability at multiple levels, and to some extent this is what one would expect of a small island state that has just undergone very recent constitutional reforms and seeks to bed down its systems of governance. Tonga is learning be a democracy, and a priority for New Zealand should be to support it in doing so.

With regards to fostering stability, New Zealand should work closely with the GoT in three key areas over the medium term. These are: strengthening political decision-making and oversight; fostering leadership and strategic direction; and strengthening public sector workforce capability and efficiency. Noting the need for stronger leadership and stronger public service capability more generally, New Zealand could consider working closer with the Public Service Commission (PSC), which is prioritising leadership and, in particular, CEO accountability. A number of reforms in Tonga suggest that now might be a good time to consider such an approach.

NZ is only providing limited direct support to the three main sectors of the productive base—agriculture, tourism and fisheries—but is providing significant support to the enablers, including energy, public administration and support to the development of human capital through education and health activities. It is harder to determine the effectiveness of targeting enablers and not the drivers directly, but this is not to say that this is not a sensible approach. Generally, there doesn't appear to be a growth lens through which activities are either conceived or measured, relying on growth to occur either through hope or reliance on a trickle-down effect seems overly optimistic. Donors, including New Zealand, have prioritised support to the enablers of economic growth but have steered away from directly supporting (in relative terms) the three key sectors that must grow for sustainable and long-term growth to take hold in Tonga. The GoT, supported by donors, should develop comprehensive growth and private sector development strategies to guide direct support in the productive and private sectors. The support to the enablers should encompass the areas of governance, transparency, business climate, access to external markets including marketing, as well as investing in energy, transport, communications, human capital (health and education), all with a line of sight to the productive base: agriculture, fisheries and tourism. New Zealand should have a focus on economic reform and harden up the focus on growth across the whole programme.

Lessons Learned

1. **Effective coordination in Tonga**: there is a need to ensure there is effective coordination between Tongan actors within a sector before providing support to that sector. The regulatory environment and associated policies in Tonga typically describe the structure of a sector and the function of the executive, government actors, state-owned enterprises and other actors- this is a necessary but not sufficient condition for coordination and cooperation. In some sectors these frameworks are weak or in a state of flux (e.g. Maritime and Tourism), in others there are significant political constraints and tensions with regard to the best structure and function (e.g. Law and Justice). For aid at the sectoral level to be effective there needs to be a history of effective coordination between actors in a sector. Can the different actors work together? Have they done so before? What incentives drive the different actors? These are all questions that New Zealand needs to ask before providing support that seeks to have impacts at the sectoral level. In some areas it might make sense to fund simple activities that incentivize actors to coordinate more effectively before moving to more complicated sectoral level programmes.

2. **More strategic and effective coordination within MFAT**: there is also a lack of coordination on the New Zealand side, which has an impact of aid effectiveness. In some sectors MFAT funds up to seven activities, each one has its own results frameworks, activity pipeline, partners and funding mechanisms. This places an administrative burden

on both the GoT and MFAT. These individual activities may be achieving results at the output level (and they are, as the discussions in Law and Justice, Fisheries, and Health attest) but New Zealand needs to consider whether higher order results (i.e. outcome and impact) and sustainability could better be achieved with a more coordinated and strategic approach at the TCAF level. This does not mean the development of complicated sector-level modalities but simply more cohesion between separately funded activities within a sector; it could involve the development of sector delivery strategies with associated results frameworks. This might also reduce the reporting burden on delivery partners. This type of activity would help ensure coordination between the different MFAT and New Zealand Inc. partners in much the same way as sectoral coordination between Tongan actors needs to be fostered.

3. **Simplify activities, reduce the number of priorities**: one of the most significant impediments to effectiveness in Tonga is the lack of prioritisation at all levels of the planning process. This is particularly a problem in sectors that are supported through programmatic modalities as it leads to rudderless and changeable activities. New Zealand has sought to work through GoT systems and has increased its programmatic support but clarifying priorities remains a challenge for the GoT. This has been evidenced in nearly all the sectors New Zealand supports: Education, Tourism, Agriculture, Private Sector Development, Maritime Safety and Energy. New Zealand has shown that it is keen to support GoT priorities and has done so, but these need to be more clearly specified. New Zealand has contributed to the 'prioritisation' problem through the development of ambitious designs that have sought to target too many priorities. This was the case with its two most ineffective interventions, namely Education and Tourism. More context specific approaches need to be adopted that target a small handful of activities that are co-developed with Tonga counterparts and that address clear government priorities.

4. **Systematically strengthen GoT systems**: to be effective New Zealand cannot provide support through GoT systems without also strengthening those systems in the most important areas. It is clear from this evaluation that those activities that have involved medium term technical assistance with appropriate handovers and capacity building have been the most effective. When the objectives of an activity that aligns to GoT priorities are clearly laid out, when local resources are allocated, and when there is strong technical support and clear lines of responsibility then effective activities can be delivered. This was the case for Energy and has been the case for those activities where twinning between New Zealand and Tongan Government agencies has been a feature (e.g. Aviation, TNQAB, Emergency Management and Maritime Safety). In the latter type of programme there are clear goals to do with policy development, regulatory framework design, human resource development etc supported by New Zealand expertise in the relevant areas. While there remain challenges at the enabling environment level in some of these areas at least there are changes occurring on the ground, outputs being generated and systems slowly changing. To ensure sustainability work also needs to be done to improve the enabling environment.

5. **Outcome-focused M&E**: this evaluation has highlighted the need to ensure that the high level outcomes of New Zealand-funded activities are better reported through M&E. The TBEC investment is a case in point. Compared to a number of other MFAT investments, TBEC was performing well, this was confirmed by MFATs own reporting and evaluation processes, and as a result its budget grew over time. The investment grew because it performed well at the output level, while other MFAT investments struggled. But MFAT wanted to see demonstrable outcomes and improvements in private sector development more generally in order to justify the scale of the investment. The key issue was the inability of MFAT and the GoT to adopt a more strategic and joined up approach to PSD

and to situate TBEC at the centre of that with an M&E framework that was robust enough to capture results at the outcome level. This would have required a different type of M&E framework.

Conclusion and Recommendations

The effectiveness and sustainability of New Zealand's development cooperation has been affected by the weak enabling environment for development cooperation in Tonga, by certain characteristics of the New Zealand aid programme and by the political issues that surfaced between the two countries during the evaluation period. New Zealand's development cooperation in Tonga has targeted some important areas but its results have been variable. Its support for Energy and Justice is making a difference but its support for Tourism and Education has been relatively ineffective. A lack of functional ownership by the GoT and an unstable enabling environment for aid delivery in Tonga has affected the sustainability of results. Overambitious designs that haven't taken appropriate account of the implementation context have added to this problem. The lack of cohesion of the aid programme reduces impact and a more strategic and country-focused approach across the programme is required. New Zealand needs to ensure consistent high level and equivalent policy dialogue based on an appreciation of Tongan socio-cultural values is prioritised. Noting the development challenges in Tonga, over the medium-term New Zealand should focus on two key priorities and its whole of government engagement strategy (or Country Strategy) should articulate how it will deliver on these priorities. The priorities are fostering stability and promoting sustainable economic development; the latter should include a focus on supporting economic growth through Tonga's productive sectors. In unstable sectors such as Tourism the focus should be on fostering stability first by strengthening the enabling environment and then, when conditions are right, the focus should shift to directly supporting economic growth.

The evaluation makes the following recommendations:

1. New Zealand should develop a country strategy that guides its whole-of-government engagement in Tonga. This strategy should focus on two priorities over the next 10-15 years: 'fostering stability' and supporting 'sustainable economic development'. The country strategy should be supported by sector level delivery strategies that articulate how New Zealand's TCAF expenditure is supporting these priorities in a complementary way.
2. New Zealand should develop a policy dialogue strategy for Tonga that prioritises ongoing high level (formal and informal) policy dialogue that focuses not just on New Zealand's investment priorities under the JCFD but broader development issues of central importance to the GoT. New Zealand should allocate very senior staff to this dialogue.
3. MFAT should devote more resources to pre-post training for NZHC staff undertaking postings to Tonga that focuses on cultural, historical and politics issues in the country and includes a review of the challenges with delivering effective and sustainable activities in Tonga.
4. New Zealand should fund a medium term Strategic Technical Assistance Facility (4-6 years) that can provide targeted and consistent TA in support of New Zealand and GoT priorities, including activities that strengthen the enabling environment for development cooperation.
5. New Zealand should consider providing more strategic and programmatic support to the Justice sector that assists Tonga in strengthening accountability and transparency, while also building capacity within that sector.
6. New Zealand should ensure that more of a 'Tongan lens' is applied to the development of aid activities in the country. This would involve freeing up NZHC DPC resources for more timely and in-depth design appraisal, fostering more in-depth in-country feedback on

designs and ensuring designs are appraised by consultants with expertise in the Tongan political and institutional context.

1. Background

1.1 The Activity

In February 2016 the New Zealand Ministry of Foreign Affairs and Trade (MFAT) commissioned Adam Smith International (ASI) to conduct an evaluation of its country programme in Tonga. This evaluation is one of a suite of country programme level evaluations that are being undertaken by MFAT between 2015 and 2018. These evaluations are managed by the Evaluation and Research Group (ERG) within MFAT. A steering committee comprised of stakeholders from across MFAT has provided guidance to ERG and ASI on the purpose, objectives and scope of this evaluation, and they also oversee the review process. This evaluation has benefited from significant stakeholder engagement from the outset. The utilisation-focused approach guiding this evaluation is outlined in full in the Evaluation Plan, which should be read in conjunction with this report.

Section 1 of this report explains the purpose and objectives of the evaluation, presents the evaluation questions and provides details of the evaluation design. Section 2 outlines the development context in Tonga. Sections 3 to 6 present the findings of the evaluation and address each of the four evaluation questions. Chapter 7 presents the conclusion and provides a number of recommendations.

1.2 Evaluation Purpose and Design

1.2.1 PURPOSE

In accordance with the evaluation brief, the purpose of the evaluation is to deliver an evidence base that can:

- guide decisions regarding improvements to be made to the Tonga Programme (by MFAT, the GoT, and other key internal and external stakeholders);
- identify lessons to apply to ongoing and future work in Tonga;
- contribute to informing the future strategic direction, and the most appropriate modalities and approach for New Zealand's investment in Tonga; and
- assess the achievements of the Tonga Programme.

As is clear from the above purpose, the evaluation is formative in nature. The aim of formative evaluations is to understand why something is or is not working with a view to fostering continual improvement. At the request of MFAT, this evaluation adopted an utilisation-focused approach that sought to involve priority users and stakeholders in all aspects of the evaluation, including the setting of the objectives and scope of the evaluation. This approach is outlined in full in the Evaluation Plan. A wide-ranging series of consultations were held in New Zealand and Tonga to determine the scope and objectives of the evaluation.

The evaluation objectives articulated by stakeholders included an array of issues, encompassing areas such as effectiveness, aid delivery, capacity building, enhanced governance and accountability, development planning and prioritisation, and strategic operational management.

There was a strong level of convergence between MFAT and Government of Tonga (GoT) stakeholders with regard to the evaluation objectives. Both groups wanted the evaluation to review the recent history of New Zealand's aid programme and to delineate lessons that can be used to improve delivery and effectiveness over the medium term. The issues of relevance to stakeholders were clustered under two categories: aid delivery, and effectiveness and sustainability.

In the area of aid delivery the following evaluation objectives were identified by stakeholders:

- predictability and financial systems alignment;
- ownership;
- coherence and complementarity;
- quality aid delivery;
- mutual accountability;
- coordination; and
- policy dialogue and technical advice.

In the areas of effectiveness and sustainability the following objectives were identified by stakeholders:

- conditions that support effectiveness in Tonga;
- strengthening human and institutional capacity to deliver results;
- impact of exiting and phase-out on results and sustainability;
- sustainable economic/private sector development;
- value-adding in different sectors; and
- prioritisation and sequencing within sectors.

1.2.2 SCOPE

In accordance with the requests of stakeholders, including the evaluation Steering Committee, this evaluation included an assessment of the performance of the New Zealand aid programme over the period of the current Joint Commitment For Development (JCFD) (July 2011 – present), and, drawing on these insights, how New Zealand can better deliver its development assistance to Tonga over the medium term (i.e. up to 10 years). The retrospective assessment considered total country aid flow and all the sectors that New Zealand supported under the JCFD. The prospective analysis focused on how New Zealand can add value in those areas that it seeks to prioritise over the course of the next JCFD, which were confirmed during the high-level consultations between the Governments of Tonga and New Zealand in March 2016. These areas include energy, law and justice, education and budget support.

1.2.3 QUESTIONS

The evaluation was guided by four evaluation questions. Two of these questions focused on the past, i.e. on the performance of the New Zealand aid programme from 2011 to the present, and two focused on the future, i.e. what the Tonga country programme should look like over the medium term. In accordance with the requests of stakeholders we sought to achieve a balance between *ex post* and *ex ante* analysis. Aside from focusing on development cooperation, the prospective questions also examined broader issues associated with New Zealand's whole-of-Government engagement with Tonga.

Evaluation Question 1 is:

To what extent has New Zealand's aid delivery in Tonga over the period 2011-16 been of a high quality?

In accordance with the evaluation objectives and purpose, the investigation of aid delivery involved looking at:

- ownership by the GoT (including coordination);

- alignment with Tongan Government policies and systems (including predictability);
- coherence and complementarity within sectors and across the programme;
- the quality of policy dialogue and technical advice; and
- mutual accountability.

This investigation identified constraints to the more effective management of the country programme, particularly those constraints that may influence the achievement of results. Key evaluation criteria were defined in the Evaluation Plan and are further defined in the relevant 'Findings' chapters.

Evaluation Question 2 is:

To what extent has New Zealand's development cooperation in Tonga over the period 2011-16 been effective, and how sustainable are the results of this cooperation?

This evaluation question focused on identifying the achievements of the New Zealand country programme over the period 2011-16, the sustainability of these achievements and the factors that influence achievement and non-achievement within the Tongan context.

Evaluation Question 3 is:

How can New Zealand's overall objective of maximising the impact of engagement to improve the prosperity, stability and resilience of Tonga and its people best be met?

This question focused on the various ways MFAT can maximise its impact through the delivery of aid, the furtherance of its foreign policy objectives and trade relations. Drawing on the lessons regarding aid delivery, effectiveness and sustainability emerging from the previous two questions and an analysis of New Zealand's whole-of-Government engagement, this question investigated a range of forward-looking issues, including:

- effective modes of aid delivery over the medium term;
- improving coherence and strategy;
- strengthening human and organisational capacity to improve effectiveness and sustainability;
- prioritising and sequencing activities in priority sectors;
- options for exiting or scaling down assistance in sectors that are no longer a priority; and
- deploying whole of government resources to have more impact in Tonga.

Evaluation Question 4 is:

How can New Zealand's aid programme foster sustainable economic development in Tonga?

This final evaluation question explored what sustainable economic development (SED) means within the context of the Tongan economy and environment and how New Zealand can operationalise its strategic commitment within this context. Due to its utilisation-focused nature, this evaluation did not consider these issues from a purely theoretical perspective. New Zealand has an existing aid programme in Tonga that is of a certain size and scope and the evaluation team did not assume there would be a clean slate with regard to what New Zealand can invest in to support sustainable economic development in Tonga. What the evaluation did do was to examine the portfolio of New Zealand's aid programme going forward, and suggest practical ways in which New Zealand's aid programme can support sustainable economic development by fostering sustainability, inclusiveness and resilience in the relevant areas. The question also

examined other ways that New Zealand can foster SED through its broader whole-of-Government engagement.

1.2.4 DESIGN

Empirical information was collected and analysed using a combination of qualitative and quantitative methods in a mixed method approach as outlined in full in the Evaluation Plan. The purpose of such an approach is to "… strengthen the reliability of data, validity of the findings and recommendations, and to broaden and deepen our understanding of the processes through which programme outcomes and impacts are achieved, and how these are affected by the context within which the programme is implemented."[1] These methods were used in a complementary way to interrogate different types of evidence about the context and outcomes of New Zealand's support for Tonga.

Semi-structured interviews were conducted with 127 key informants in Tonga and New Zealand; 88 key informants were interviewed in Tonga in May 2016, including MFAT High Commission staff, GoT officials, Members of Parliament, Government Ministers, local experts, and members of the private sector; and 46 key informants were interviewed in New Zealand in April 2016, including MFAT officials, officials from New Zealand state sector agencies, civil society representatives and sectoral experts. Focus Group Discussions were also held with 76 people in Tonga including representatives from civil society, the TVET sector and beneficiaries from the villages of 'Ahau and Puke outside Nuku a'lofa. The evaluation team also reviewed over 150 documents to better understand the context of New Zealand's support and to assess aid quality and impact. Categories of documents available to the evaluation team included:

- project and country programme-related documentation from the New Zealand Government (including: concept notes, activity design documents, activity monitoring assessments, grant funding agreements, activity completion assessments, annual programme reports, programme results frameworks, Joint Commitment for Development);
- independent and joint evaluations at project, programme and thematic level;
- policy and planning documents from New Zealand and partner governments (e.g. strategic plans, aid priorities, national development plans, development partnership agreements – and the various technical and analytical documents associated with these documents);
- grey literature from development cooperation partners and others on topics germane to the evaluation; and
- academic literature on issues such as: economic development, drivers of poverty reduction, aid effectiveness, and constitutional reforms issues in Tonga.

The qualitative research outlined above was complemented by various types of quantitative analysis. The methods included reviewing New Zealand aid flows over time and assessing the coherence, proliferation and fragmentation of the programme.

1 Bamberger, M (2012) "Introduction to Mixed Methods in Impact Evaluation", Impact Evaluation Notes No.3, August 2013.

2. Development Context

Tonga is an upper-middle income country with a ranking of 100 (of 188) on the Human Development Index (HDI), placing it in the High Human Development category[2]. Between 1980 and 2014 life expectancy increased 5.3 years to 72.8 years, mean years of schooling increased by 3.5 years to 10.7 years, and gross national income (GNI) per capita increased from USD 2,543 to USD 5,069[3]. According to the latest census, Tonga had a population of 103,352 people in 2011[4] dispersed over 36 inhabited islands and five main island groups: Tongatapu, Vava'u, Ha'apai, Niuatoputapu and Niuafo'ou. Due to its low-lying nature and position close to the convergence of the Australian and Pacific tectonic plates, Tonga is one of the most at-risk countries in the world in terms of exposure to natural disasters, including cyclones, tsunamis, earthquakes and volcanic activity. An average of one cyclone hits the Tongan islands every year.[5]

Tonga's economy is characterised by large volumes of subsistence agriculture, and it relies heavily on external finance. Remittances and Official Development Assistance (ODA) remain the largest sources of GDP for the country. In 2013 remittances to Tonga accounted for 24 per cent of GDP, placing it in the top 10 globally,[6] and ODA (including concessional loans) is predicted to account for 53 per cent of the 2015-16 National Budget.[7] Tonga is a net importer of oil products and has benefited from the recent fall in the price of oil. This has put downward pressure on inflation and the budget deficit, providing timely relief at a time of moderately high external debt. One of the largest expenditure items in Tonga's budget forward estimates is for infrastructure spending relating to the South Pacific Games to be held in 2019. This expenditure may be a positive for short-term economic growth but will become a medium to long-term cost for the national budget, as purpose-built sporting infrastructure generally has a lower (or negative) rate of return when compared with investments in priority infrastructure that address identified economic constraints, for example, investment in transport infrastructure, education, and health.

2.1 Economy

Tonga's GDP growth averaged 2.0 per cent annually between 2010 and 2014,[8] which is below both the regional average (2.8 per cent) and global average (3.5 per cent).[9] Tonga's 2014-15 National Budget asserted that growth had recovered from the Global Financial Crisis (GFC) and is expected to average 2 to 3 per cent over the next 5 years; growth reached 3.7 per cent in 2014-15 but GDP

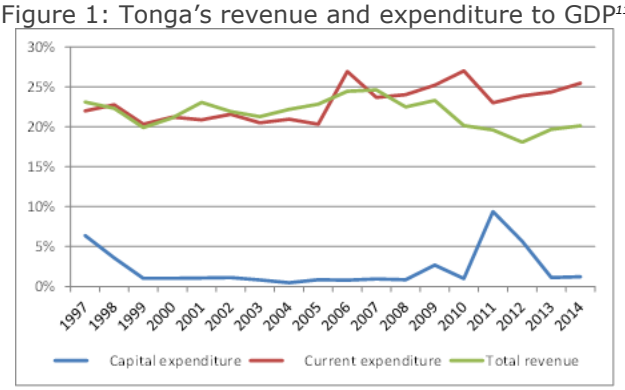
2 UNDP (2015) Human Development Report, Tonga Briefing Note.
3 Three currencies are used throughout this report. United States Dollar (USD) is used when discussing the development context and when comparing Tonga with other countries, in this case the measure is (2011 USD PPP - Source: Statistical Annex of the 2015 HDR). The New Zealand Dollar (NZD) is also used when referring to New Zealand's investments in Tonga. The Tongan Pa'anga (TOP) is used when referring to the Tongan budget and its own domestic resources; in Tonga this is colloquially referred to as a dollar ($). Footnotes are used to describe the currency in use and the exchange rate.
4 See: http://www.spc.int/prism/tonga/#population-statistics-including-administrative-information-and-statistical-tabulation-of-the-2011.
5 See: http://www.unocha.org/pacific/country-profiles/tonga.
6 World Bank (2015): http://www.worldbank.org/en/news/press-release/2015/04/13/remittances-growth-to-slow-sharply-in-2015-as-europe-and-russia-stay-weak-pick-up-expected-next-year.
7 Government of Tonga (2015) Budget Statement 2015/16: A More Progressive Tonga, Ministry of Finance and National Planning, May 2015.
8 Government of Tonga (2016) Budget Statement 2016/17, Ministry of Finance and National Planning, April 2016.
9 ADB (2015) Tonga Factsheet, see: http://www.adb.org/publications/tonga-fact-sheet.

growth is forecast to slow to 2.7 per cent in 2016-17. The Asian Development Bank (ADB)[10] predicted a more modest growth outcome of 2.6 per cent in 2014-15. Growth will continue to be reliant on the Australian, New Zealand and US economies due to the importance of remittances. According to the National Budget, the main drivers of growth over the short term will be the construction activities of donors and the private sector, including the upgrading of Faua wharf, the submarine cable and preparations for the 2019 Pacific Games. Growth drivers in the medium term include construction, tourism and public administration (supported by grants and concessional loans).

There are a number of GoT initiatives that are designed to improve growth potential and macro-economic stability in Tonga. Tonga's Strategic Development Framework II (TSDF II) aims to further develop the primary sector (agriculture, forestry and fisheries) and tourism, while addressing human development challenges. The government is also prioritising expenditure reform in line with recommendations from an ongoing public service remuneration review, and the Tonga Energy Road Map (TERM) 2010-2020 is designed to help reduce exposure to oil price shocks and improve energy efficiency.

With regard to the budget, Tonga is not collecting sufficient revenue to fund recurrent expenditures and to make investments that will support long-term economic growth. Tonga collects approximately 20 per cent revenue to GDP, which is low by international and regional standards. Fiji, for example, collects almost 30 per cent revenue to GDP. Figures 1 and 2 below compare Tonga and Fiji. Tonga's capital expenditure (the blue line) is again well below sufficient levels of investment to stimulate longer-term economic development. The increase in investment around 2011 coincided with the GFC and loans from China's EXIM Bank.

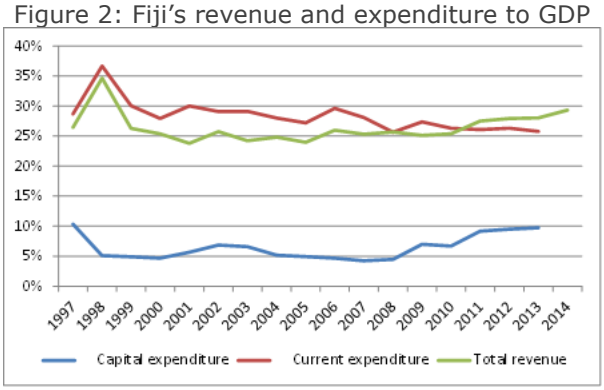
Figure 1: Tonga's revenue and expenditure to GDP[11]



Source: ADB (2015) Tonga Factsheet

10 See: http://www.adb.org/countries/tonga/economy.
11 Note that budget figures are in Tongan financial years, for example 2006=2005/06.

Figure 2: Fiji's revenue and expenditure to GDP

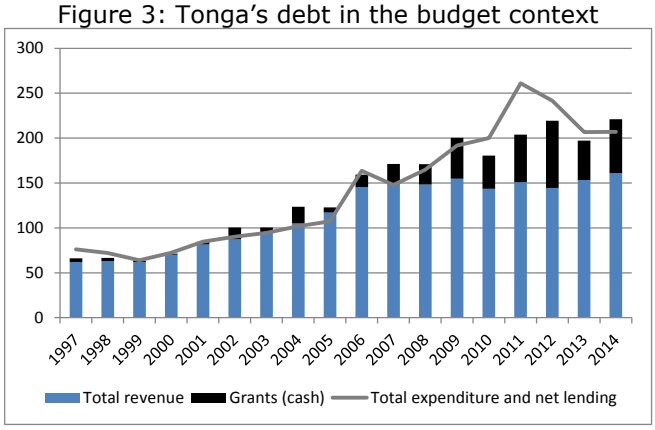


Source: ADB (2015) Tonga Factsheet

The low level of revenue as a percentage of GDP can most likely be explained by the reliance on remittances and grants. Both categories are hard to tax and in the case of remittances may be used predominantly for consumption and not long-term income-producing investments.

Tonga relies on debt to meet the shortfall in revenue (see Figure 3 below) and there remains a moderate level of risk with regard to debt distress. Total public debt at 30th June 2015 was projected to be TOP405.9 million[12] (49.8 per cent of GDP) with external debt making up 90 per cent of total debt.[13] The majority of the debt (almost 65 per cent) is owed to China's EXIM Bank. Following the change in debt status to moderate risk level, the Government has started to borrow on concessional terms for budget support and a few critical infrastructure projects, primarily from the ADB and the World Bank. Domestic borrowing (through bonds) has also recommenced, and provides funding for private sector initiatives, especially low cost loans through the Tongan Development Bank, the aim of which is to support the general improvement in bank lending and private sector investment, focusing on small to medium enterprise and education lending, which is a priority in the budget.[14]

Figure 3: Tonga's debt in the budget context



Source: ADB (2015) Tonga Factsheet

12 $ refers to Tongan Pa'anga (rate of exchange at 7th March 2016 is 1 TOP:0.66 NZD)
13 Government of Tonga (2015) Budget Statement 2015/16: A More Progressive Tonga, Ministry of Finance and National Planning, May 2015.
14 Ibid.

With regard to Public Financial Management (PFM), the 2010 Public Expenditure and Financial Accountability (PEFA) assessment[15] results indicate that overall the Tongan PFM system is mostly operating at average or above average levels when compared to international best practice. Scoring above average in all parts of the PFM system is not necessarily always desirable, appropriate or efficient in every country, depending on the context. That said, the report points to some areas that are worthy of continued attention.

First, while the PFM system enforces aggregate fiscal discipline, budget credibility at the agency level is undermined by the practice of using a contingency fund to adjust agency budgets during the course of the year. The present approach involves bureaucratic inefficiencies in managing the iterations of budget changes and may lead to unintended short falls in the funding of priority expenditures, since unplanned reallocations might allow resources to be captured by lower priority items.

Second, the greater use of the multi-year perspective in budgeting is a positive step, although one caution is that if sector specific plans are not property costed then the recurrent costs of investment decisions will not be properly identified, potentially undermining efficient service delivery.

Third, not presenting the budgetary impacts of policy changes could impinge adversely on the strategic allocation of resources, if costs of new policy initiatives are consistently underestimated.
Fourth, revenue collection and enforcement efforts have improved significantly in recent years, notably with the level of tax arrears being identified and actively pursued using a risk management approach. This has led to arrears dropping sharply. The benefits of this reform include improved efficiency of tax collection and greater faith in the fairness and rigour of the tax system by taxpayers.

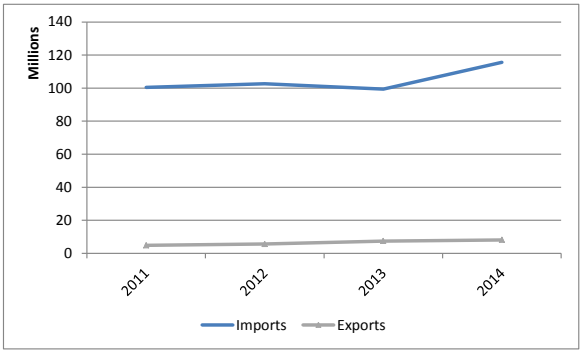
Fifth, the lack of transparency around the financial operations of public enterprises, procurement contracts entered into by the state, and audits performed by the Audit Office risks inefficient practices being bedded down, may waste public resources and may consequently adversely impact on service delivery provision. The lack of follow-up on the steps taken to address findings raised in external audits will also be negatively impacting delivery.

2.1.1 Trade

The trade imbalance continues to widen for Tonga, both at a bilateral level with New Zealand and at a global level. Over the period 2011-2014 total two-way bilateral trade with New Zealand has expanded 17.5 per cent. However, Tonga's bilateral trade deficit continues to expand (increasing 12.4 per cent during the period). Exports to New Zealand grew from TOP4.8 million to TOP8.1 million, while imports from New Zealand grew at a faster rate from TOP105.3 million to TOP123.7 million, increasing Tonga's trade deficit with New Zealand by TOP15.1 million.

15 PEFA (2010) Public Financial Performance Report, Kingdom of Tonga, see: http://www.finance.gov.to/sites/default/files/TONGA_PEFA_2010.pdf.

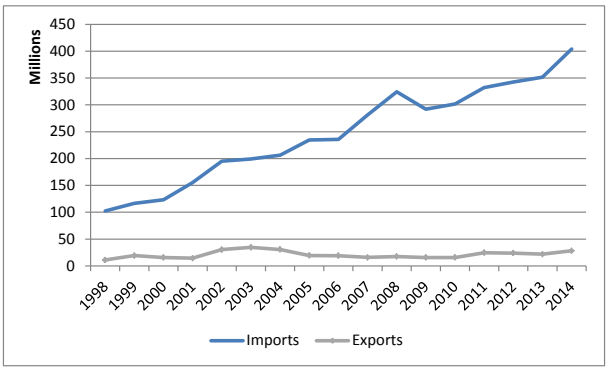
Figure 4: Tonga's trade with New Zealand (TOP millions)



Source: Statistics Department Tonga, 2014

At a global level the trade imbalance is much greater. Tonga's overall trade deficit for the period 2011-2014 has grown by over 31 per cent, on an expansion of total trade of 21.2 per cent. Tonga's imports are growing 30 per cent faster than exports.

Figure 5: Tonga's total exports and imports (TOP millions)

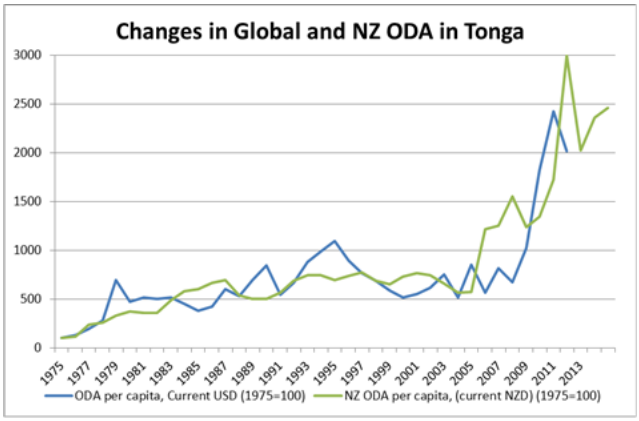


Source: Statistics Department Tonga, International Merchandise Trade Statistics, Annual Report, 1998-2014

2.2 Development Assistance

Globally, Tonga is the fourth-largest recipient of aid in ODA per capita terms. Over the period 2015-16, donor funds and in-kind contributions are predicted to provide TOP261.1 million to the Tongan budget of TOP496.3 million; the remaining TOP263.7 million is from local government revenue and budget support loans.[16] Since 2005 there has been a significant increase in ODA flows to Tonga - see Figure 6 below.

Figure 6: ODA to Tonga, 1973 - 2014



Source: OECD-DAC CRS database

Donor-funded activities

It is not possible to provide disaggregated data on the total number of aid activities due to a lack of compliance with reporting by donors. Tonga's Budget Statement 2015-16 provides some information on the scale and number of large activities and projects. There are 47 projects listed in the budget all with a value of TOP1 million or above. The total value of these projects is TOP193 million, accounting for approximately 86 per cent of all ODA to Tonga. According to the Aid Coordination Division of the Ministry of Finance there are presently TOP580 million worth of 'active' aid projects in Tonga.

There is limited data on aid activities by individual donors. According to internal MFAT documents there are currently 62 New Zealand bilateral and non-bilateral activities benefitting Tonga.[17] The Ministry of Finance and National Planning (MoFNP) estimates that around 36 per cent of donor assistance is provided as cash and 64 per cent provided in-kind. There is limited to no reporting by donors to MoFNP on the structure and objectives of in-kind activities, which constitutes the majority of development assistance. The 2010 PEFA in Tonga[18] found that reporting by donors to the Tongan Government was unsatisfactory,

16 Government of Tonga (2015) Budget Statement 2015/16: A More Progressive Tonga, Ministry of Finance and National Planning, May 2015.
17 MFAT (2015) Tonga Programme Consolidated Forward Aid Plan.
18 PEFA (2010).

scoring a D, the lowest score possible for the *Donor Practices: Financial information* indicator.

In the lead-up to each budget, MoFNP attempts to collect information on anticipated in-kind and in-cash donor assistance by sending two forms to donors. One asks for estimates of the magnitude of cash grants that will be disbursed through the Treasury system; the second seeks information on in-kind assistance (that is, any assistance that does not involve the transfer of funds through MoFNP). It was observed that most donors do not respond to this request and many do not provide estimates in time to be incorporated into the budget. In addition, none of the donors provide estimates using the GoT expenditure classification system.

Some donors provide assistance to regional programmes but do not advise the GoT of the proportion that will benefit Tonga. For example, the ADB has about 20 Pacific regional programmes with funding of USD48 million, but none are disaggregated by country. DFAT, MFAT, EC and JICA confirmed during the PEFA assessment that they generally do not send MoFNP estimates of the assistance they intend to provide prior to each financial year. Some donors mentioned that differences in timing of financial years and the nature of accounting systems made this difficult (the GoT uses a cash system, but some donors use accrual accounting). In many cases donors are making no effort to provide estimates or actual funds spent. This is also the case with various project-related loans, where MoFNP typically receives rough estimates during the feasibility stage, with only limited information or proof provided on actual costs.

Tonga is characterised by very weak predictability and expenditure with regards to the development assistance budget. Weaknesses in both GoT and donor systems and processes contribute to this issue. For example, in 2014-15 development assistance contributions to the budget were estimated at TOP248.38 million, of which only TOP138.71 million was expended[19]. Significant underspends were recorded in a number of ministries where New Zealand provides ongoing support, including the Ministry of Education and Training, which spent TOP8.62 million of its allocated TOP14.8 million, and the Ministry of Police, Prisons and Fire, which spent TOP2.08 million of its allocated TOP10.49 million.

Aid activities by sector

In 2015-16, donors are working in 15 sectors (or 'project types') across 6 islands and at the national level. The majority of spending is directed to Tongatapu (57 per cent) across 14 sectors and then nationally (27 per cent) across 7 sectors (see Table 1 below). Education receives the most funding (26 per cent), transport and storage (21 per cent), government and civil society (14 per cent) and construction (12 per cent) follow in importance. Health is mentioned by the Tongan Government and development partners as one of the critical blockages to future development but only attracts 3 per cent of donor 'development' funding.

19 Government of Tonga (2015) Budget Statement 2015/16: A More Progressive Tonga, Ministry of Finance and National Planning, May 2015.

New Zealand's aid programme

New Zealand has a wide-ranging development programme in Tonga that has been subject to expansion since the signing of the JCFD in July 2011. The JCFD outlined the proposed scope and focus of the New Zealand aid programme over the short to medium term, identified priority sectors and committed both parties to a set of aid-effectiveness actions. The JCFD noted that the majority of aid expenditure was to come through the bilateral programme, in order to "improve focus, reduce dispersal and focus on larger, longer investments.[20]" Agreed priority sectors included energy (including support for energy efficiency and renewable energy infrastructure; tourism (including support for the Tonga Tourism Support Programme), improved economic policy and PFM (through targeted sector budget support), and partnerships. As noted in Annual Programme Reports,[21] changes in political priorities in New Zealand have resulted in a number of additional aid activities, and the original intention to focus the programme has not eventuated. New Zealand has also provided significant support to reconstruction after Cyclone Ian, which the struck the Ha'apai islands on 15th January 2014.

According to MFAT's AidAMS data provided to the evaluation team, between July 2011 and June 2015 the bilateral programme funded NZD66.45 million[22] worth of development activities across nine sectors in Tonga. Priority sectors and activities over this period included:

- **Energy** (NZD23.2 million): including investments in improving transmission line efficiency, improving safety and reliability, connecting households to electricity, and building renewable energy infrastructure;
- **Education** (NZD13.9 million): including support for the Tonga Education Sector Plan II funded with Australian aid and the Ha'apai School Reconstruction Project co-funded with the ADB;
- **Scholarships** (NZD 13.81), which includes regional and New Zealand scholarships;
- **Law and Justice** (NZD10.3 million): including support for two phases of the Tonga Police Development Programme and support for the judiciary;
- **Skills Development** (NZD5.6 million): including support for TVET;
- **Tourism** (NZD5.3 million): including for the 'Eua Airport construction and the Tonga Tourism Sector Programme;
- **Economic and Private Sector Development** (NZD5.2 million): including support for the Tonga Business Enterprise Centre and Tonga Forest Products;
- **Health** (NZD2 million): including support for the medical treatment and visiting medical specialists schemes;
- **Emergency Assistance** (NZD1.8 million): including support for the Cyclone Ian recovery effort; and
- **Transport** (NZD0.36 million): including support for aviation safety.

20 MFAT (2011) Tonga – New Zealand Joint Commitment for Development.
21 MFAT (2015) Tonga Annual Programme Report, 23 July 2015.
22 AidAMS Bilateral Expenditure Summary by FAP Sector, Activity, CRS Sector, July 2011-June 2015.

An analysis of data provided in the Forward Aid Plan (FAP) between 2011-12 and 2015-16 shows that there were approximately NZD135 million worth of bilateral and non-bilateral development activities (NZD78 million worth of bilateral activities and NZD57 million worth of non-bilateral activities).

Table 1: NZ aid programme funding and activity numbers

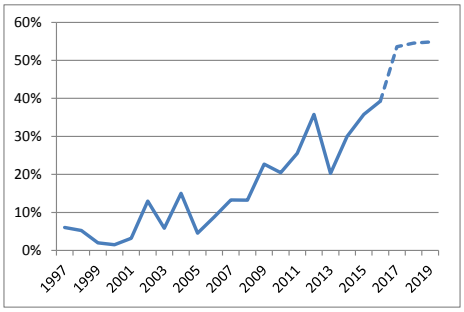
FAP - 2011/12 to 2015/16										
	2011/12		2012/13		2013/14		2014/15		2015/16	
Bilateral	Funding	Activities	Funding	Activities	Funding	Activities	Funding	Activities	Funding	Activities
Investing in Economic Development	14,628,195	6	3,536,897	5	8,765,432	9	7,054,684	7	8,983,000	9
Promoting Human Development	4,938,579	3	3,479,471	3	4,353,000	4	5,479,792	4	2,400,000	4
Building Safe and Secure Communities	1,703,839	2	2,362,310	2	2,512,704	3	3,114,123	2	3,200,000	2
Multi Sector Activities / Other	696,517	3	387,758	3	0	0	0	0	0	0
Total bilateral	***21,967,130***	***14***	***9,766,436***	***13***	***15,631,136***	***16***	***15,648,599***	***13***	***14,583,000***	***15***
Non-bilateral										
Tonga Transformational Programme	0	0	0	0	0	0	0	0	850,000	2
Humanitarian	99,750	1	146,553	1	211,491	1	120,000	1	150,000	1
Pacific Economic Development	1,332,303	15	2,553,527	19	3,504,673	16	2,813,631	10	1,724,142	20
Human Development	2,138,167	15	898,273	11	1,243,562	14	1,033,412	5	596,960	3
Pacific Regional Agencies			1,233,639	8	1,365,262	7	1,295,388	7		
Partnerships	2,042,794	15	2,674,179	22	3,358,360	26	5,224,265	17	2,305,445	15
Scholarships	2,908,481	3	3,166,191	4	3,949,845	3	3,787,017	3	3,200,000	1
Energy, Infrastructure and Environment									632,372	3
Pacific Transformational									84,734	1
Pacific High Commission/Embassy Fund									74,667	1
Total non-bilateral	***8,521,494***	***49***	***10,672,362***	***65***	***13,633,192***	***67***	***14,273,714***	***43***	***9,618,320***	***47***
TOTAL (ALL PROGRAMMES)	**30,488,624**	**63**	**20,438,798**	**78**	**29,264,328**	**83**	**29,922,313**	**56**	**24,201,320**	**62**

3. Findings – Aid Delivery

3.1 Ownership

Ownership means that aid is more effective if developing countries lead their own development policies and strategies, and manage and coordinate their own development work on the ground.[23] Ownership is strong when recipient countries set and drive their own development agenda. In Tonga, development cooperation is overseen by the Cabinet Aid Coordination Committee (CACC) of Cabinet, which is chaired by the Deputy Prime Minister. This committee has only been recently re-established following a long hiatus dating back to 2006. The CACC was originally the advisory body to Cabinet on development issues and was managed by the Central Planning Department (CPD), which reported directly to the Prime Minister. It coordinated all development assistance and maintained oversight of development and public sector investment projects. It was dismantled when the CPD was merged into the MoFNP in 2006. As such, Tonga has not had a high-level development coordination mechanism in place for almost a decade, which is somewhat anomalous considering the significance of donor funding, which in the last 5 years has averaged approximately 30 per cent of the national budget.

Figure 7: Share of grants in the national budget



Source: Ministry of Finance, Budget Statements

The Deputy Prime Minister, who was interviewed for this evaluation, has adopted an open-door policy with regard to the membership of the newly established committee, and guidelines for its processes are presently being developed. The key will be to ensure that the new committee can function effectively and put its decisions into operation. Existing weaknesses in aid coordination suggest this will be a challenge. The Aid Management Division (AMD) within MoFNP is the secretariat for the CACC. The AMD oversees the implementation of Government ODA policy, coordinates donor resources, reviews project proposals, and assesses the alignment of donor-funded activities with Tonga's Sustainable Development Framework II (TSDFII). It also organises annual donor round tables and works with donors to progress development effectiveness issues. The AMD, however, suffers from many of the same issues as other GoT departments and divisions with respect to human

23 OECD-DAC (2010) Glossary of Key Terms in Evaluation and Results-based Management, see: http://www.oecd.org/development/peer-reviews/2754804.pdf.

resource capacity, policy consistency and capability challenges. For example, the AMD's nine staff oversee more than 200 ongoing development activities[24] with a value of more than TOP260 million, as well as the work of seven donors and six multilateral agencies. Along with the consistent input into donor missions and other aid management-related duties (such as donor reporting), this places considerable pressure on staff. The lack of an adequate aid management system also affects the coordination capability of the division. There is particularly strong pressure on the AMD to manage development coordination in a more effective manner to ensure that donor funding is targeted to GoT priority areas and that funding is expended on time to ensure high levels of utilisation. Thus, the division adopts a very practical approach to aid coordination. When interviewed for this evaluation, the Minister of Finance emphasised the need to adopt a more strategic approach to aid coordination and to prioritise improving aid coordination mechanisms to ensure that development funding has maximum impact, and that donor funds are utilised as planned and within deadlines. The need to adopt a more strategic approach to aid coordination within MoFNP and for donors to work more closely with the GoT to strengthen aid coordination was highlighted in the Forum Compact Peer Review in 2012.[25]

In line with the development effectiveness agenda, ODA funding has in recent years been dispersed more and more through partner Government systems (see 'Systems Alignment' below). This has seen a move away from projects towards implementation through Government departments. However, there are significant barriers to the effective management of donor-funded development work on the ground in Tonga. At present, donor-funding utilisation rates are low by international standards. As highlighted in Chapter 2, development budget (total grants) underspends of up to 86 per cent (in 2007-08) have been recorded in recent years. Over the evaluation period (2011-16) the average underspend was approximately 40 per cent. Figure 8 disaggregates donor cash and donor in-kind grants, showing that since 2011-12 amounts pledged as in-kind are less likely to be met than cash grants. There are a number of factors create this outcome. The most important factors identified by senior GoT officials and donor staff interviewed for this evaluation are the lack of consistent senior leadership within counterpart ministries and, associated with this, shifts in Ministerial appointments. These shifts make it very difficult for the GoT to operationalise its priorities on the ground through the use of donor funding, as priorities often shift when senior leadership positions change. Procurement is inadvertently affected as ministries' policy responsibilities change and existing procurement pipelines are altered, and in some cases dropped mid-stream, due to ineffective handover procedures. This issue was specifically raised during consultations with informants in the tourism sector.

Since 2011 the utilisation of cash grants has improved when compared to in-kind grants. This could be explained by a change in budgetary practices or improved procurement practices. Overall the difference between what is estimated in the budget and what is reported as actual expenditure has not changed considerably over the period 2009 to 2015.

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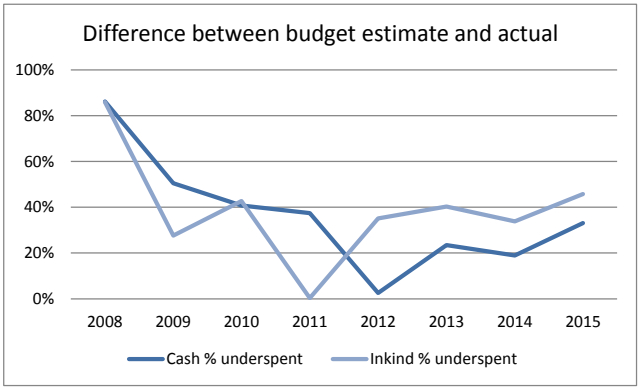
24 Note that development partners appear to under report total funding and activity levels. For 2014, 209 activities were reported on the OECD DAC CRS database.

25 Forum Compact (2012) Forum Compact Peer Review, Pacific Island Forum Secretariat, October 2012.

Figure 8: Grants pledged that are not used



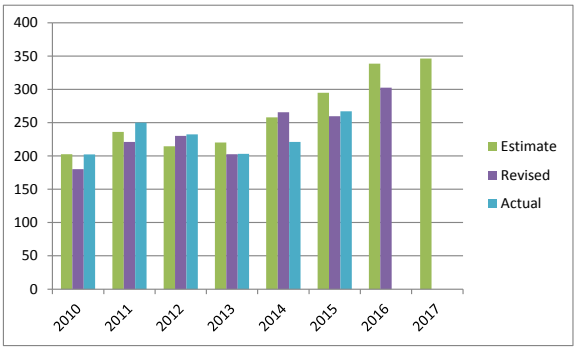
Source: Tongan Budget estimates 2008 - 2016, Ministry of Finance

Ownership requires an alignment of the strategic, policy and operational, and at present the latter is particularly weak in a number of GoT agencies. There exists a 'missing middle' in Tonga with regard to planning and budgeting, which affects the ability of the GoT to effectively manage its own resources and the resources of donors on the ground. Sector plans (where they exist) are largely not costed, Ministry business plans do not link to sector plans but rather to high-level priorities outlined in the TSDFII, and the annual Budget policy statement does not follow a logical and strategic approach to resourcing sector plans, which means that the medium-level budget planning required to make sector plans work is not possible. When functional ownership (i.e. the capacity to operationalise one's own development agenda) is low, donors are often incentivised to seek quick wins rather than invest in programmes that might have more long-term sustainable results.[26]

The lack of capacity of GoT departments to deliver New Zealand-funded programmes, and associated with this, the lack of policy direction and clarity in sectors where New Zealand is a significant investor, is seen as a significant challenge for the New Zealand aid programme and has been reported as such over a number of consecutive years. Various strategies have been put in place by MFAT to mitigate the effect of these challenges. As a result of these issues policy dialogue and interaction between NZHC and GoT counterparts has tended to focus on transactional, as opposed to strategic issues, not withstanding the strategic discussion that took place for the recent 2016 High Level Consultations (HLCs). As noted by MFAT staff interviewed for this evaluation, a significant amount of time is spent seeking to delineate GoT policy positions - this point will be discussed further under 'policy dialogue' below.

26 Lomoy, J (2010) Do No Harm: International support for statebuilding in fragile situations, Public Lecture, 6 May 2010, London School of Economics.

Figure 9: Tonga budget expenditure, excluding grants (TOP millions)



Source: Tonga Budget Statements 2009 to 2016

3.2 Alignment

Alignment is another aid effectiveness principle articulated under the Paris Declaration on Aid Effectiveness. It means that aid is more effective if donors line their aid up behind the priorities of developing countries, use partner country systems, and provide predictable aid flows. Alignment has three elements. The first is strategic alignment, also called 'relevance' in MFAT's Programme Evaluation Framework (PEF), which is the alignment of donor programmes to the strategies and needs of partners, and to their own policies and strategic priorities. The second is policy alignment, which is a measure of the extent to which a donor modifies its own polices and planning requirements to better align to those of the recipient Government (including instituting processes that improve the predictability of aid). The third is systems alignment, which is a measure of the extent to which a donor has worked with and through partner Government systems, and sought to strengthen those systems. Our analysis of alignment involved looking at all three aspects of alignment and the barriers and constraints to them in the Tongan context.

Strategic Alignment

New Zealand and Tonga's strategic alignment with regard to development cooperation was initially outlined in the JCFD signed in 2011. The JCFD outlined a shared vision for achieving long-term development outcomes in Tonga. It was informed by Tonga's national development plan and budget priorities, New Zealand's aid policy, and the development effectiveness principles articulated under the Cairns Compact and the Paris Declaration on Aid Effectiveness. Jointly agreed priorities included:

- improving energy supply and increasing the use of renewable energy;
- growing the private sector;
- contributing to economic growth through support for tourism;
- supporting a sustainable and effective police force;
- improving economic policy and public financial management;
- supporting education and training;
- leveraging New Zealand partnerships for the benefit of Tonga; and
- the tourism sector.

The JCFD also committed to providing support for emergency disaster relief and flagged additional future partnerships in core sustainable economic development sectors.

The JCFD was informed by New Zealand's aid policy at the time, which focused on supporting sustainable development and the achievement of the Millennium Development Goals (MDGs); working closely with other donors; pursuing gender, environment and human rights as intersecting issues; and improving value for money. In line with the Cairns Compact on Development Coordination and the Paris Principles of Aid Effectiveness, the JCFD highlighted the lead role that Tonga would take in development coordination and how both partners would work together to strengthen mutual accountability.

The JCFD outlined a series of mutual commitment activities. On the New Zealand side this involved increasing the proportion of aid delivered through programmatic approaches, providing long-term and predictable assistance, working through Tongan finance and procurement systems and pooling resources where possible. On the Tongan side these included improving the enabling environment in those sectors in which New Zealand would invest, which involved finalising policies and enacting legislation, establishing clear lines of management responsibility, developing and reviewing plans and maintaining sectoral budgets. It also involved providing clear guidance to New Zealand on areas in which it wanted New Zealand to invest.

The JCFD was signed in July 2011. By April 2012 the document was already seen to be out of date and a new process of renegotiation on priorities with the GoT was called for.[27] There was limited traction in some areas (primarily due to political issues), some initiatives were coming to an end, and there was a move within MFAT to consolidate aid programming through the policy commitment to"fewer, larger, deeper and more strategic contributions" articulated in 'Development that Delivers'.[28] The JCFD's results framework was also considered too narrow and specific, and to lack contextual relevance. As noted by key informants interviewed for this assignment, the Tonga JCFD was one of the first to be developed by the International Development Group, and changes were made subsequently to the format to ensure they were more high level. The limited utility of JCFDs as a planning tool in highly changeable contexts such as those in small island states, and the need to accompany them with higher-level, medium-to-long term country strategy documents was highlighted in a suite of evaluations undertaken for MFAT in 2015.[29]

Progress in JCFD priority sectors was constrained during the first three years of the evaluation period due to a range of factors highlighted in Country Programme Annual Reports and Plans from 2012-13 to 2014-15.[30] The environment during this period was

27 MFAT (2012) Internal Briefing, 25th April, 2012.
28 MFAT (2012) Development that Delivers: New Zealand Aid Programme Strategic Plan, 2012-2015, see: http://www.aid.govt.nz/webfm_send/448.
29 See Carpenter, DB *et al* (2015) Evaluation of New Zealand's Aid Programmes in the Cook Islands, Niue, Samoa and Tokelau – Synthesis Report.
30 See MFAT (2013) Annual Plan and Report for Financial Year 2012-13; MFAT (2014) Annual Plan and Report for Financial Year 2013-14; MFAT (2015) Annual Plan and Report for Financial Year 2014-15.

described in these reports and by key informants as being highly politicised in nature. The political relationship between New Zealand and the GoT was strained due to a number of factors; however, one issue that was highlighted by a large number of key informants from both New Zealand and Tonga was the fallout associated with the supply of the Chinese built MA60 aircraft to Tonga and the associated safety concerns of the New Zealand Government and the Pacific Aviation Safety Office (PASO). This issue will be discussed further in 'Policy dialogue', below. A range of other factors made for a challenging operating environment during the first two to three years of the JCFD period, including a vote of no confidence in 2013, tensions in Tonga in key sectors (particularly energy), ongoing problems with safety in the maritime sector, and difficulties with police support. As highlighted by MFAT key informants involved in programme management, a lot of time and resources was absorbed trying to manage these issues, which delayed implementation in priority sectors, especially tourism.

While there may have been tensions in the agreed priority sectors, this does not mean that the sectors were not ongoing strategic priorities for both Governments. As highlighted throughout this report, New Zealand's bilateral aid programme was, and remains, highly relevant to the development priorities of Tonga. The refocusing of priorities during the recent high-level consultations in March 2016 has further strengthened this alignment. The high-level consultations between the GoT and senior MFAT staff were seen in a very positive light by senior GoT officials interviewed for this evaluation. These talks helped shed light on the strategic position of MFAT, and GoT officials welcomed the opportunity to have direct input into the reallocation of resources to Government priorities. While this dialogue was somewhat belated, the way it was carried out and the strong ownership it imparted to the GoT helped to reset New Zealand's priorities and realign them with those of Tonga.

The high-level consultations renewed New Zealand's and Tonga's commitment to priority sectors such energy, policing, education, scholarships and in-country training, while also highlighting the need for ongoing support in areas like agriculture and fisheries. Importantly, the dialogue also confirmed New Zealand's support and impending investment in general budget support, which would put into effect the commitment it made in the 2011 JCFD. Some mutual decisions to withdraw support in areas where there has been a lack of traction and results over the last few years was also made in sectors such as tourism and private sector development (notably, support for the Tonga Business Enterprise Centre). The high-level consultation process has helped to re-invigorate and reset strategic alignment between the two parties and will be the basis of an upcoming new JCFD.

Policy Alignment

New Zealand has taken a number of important steps to ensure that its policies and planning processes better align with those of the GoT, but more could be done in this space to improve development planning. A particularly important example is the adoption of Forward Aid Plans (FAPs). The importance of FAPs was acknowledged in the recent OECD-DAC New

Zealand peer review.[31] These plans outline a medium-term budget envelope that provides details of all activities from all funds under each of the high-level strategic priorities over the course of the JCFD. They focus on bilateral expenditure and are a tool for forecasting and managing it, but they also map regional and multilateral ODA, and therefore include total country aid flows. FAPs provide a foundation to enable proper Medium Term Expenditure Frameworks to be developed, in which forward estimates reflect the costs of existing policies, allowing fiscal space to be calculated and fiscal priorities reviewed and set annually. However, more needs to be done to ensure these documents include total country aid flow and can be shared with GoT counterparts in a way that is useable and able to be reported in country systems. The discussion on systems alignment below further addresses this issue.

The probable adoption of country strategies by MFAT in the near future will also help with policy and planning alignment over the medium term, and will thus address the planning constraints associated with JCFDs. These strategies will help articulate how whole-of-Government resources (technical assistance, programme funds, and domestic policy) can be used to meet long-term goals, address the constraints and issues that consistently arise across various activities, and support better strategic operational management by targeting these constraints directly through various programmes. Section 5 highlights a suite of issues that should be addressed in a future Tonga country strategy.

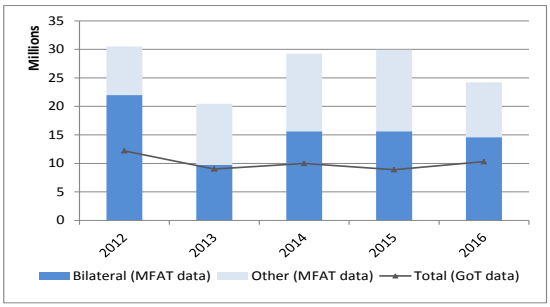
Systems Alignment

Systems alignment addresses the extent to which a donor has worked with and through partner government systems and has sought to strengthen those systems. The JCFD included commitments to working more through partner government systems in Tonga in order to strengthen those systems and to improve efficiencies in line with aid effectiveness principles.

Tonga's reporting of NZ Funding

The GoT in its annual budget only reports New Zealand aid funding that comes via the bilateral programme, with under-reporting of the bilateral programme identified in each year of the years covered by the evaluation (see figure 10 below).

Figure 10: NZ aid, Tonga v MFAT data



Source: FAP and Tonga Budget statement and Budget Estimates

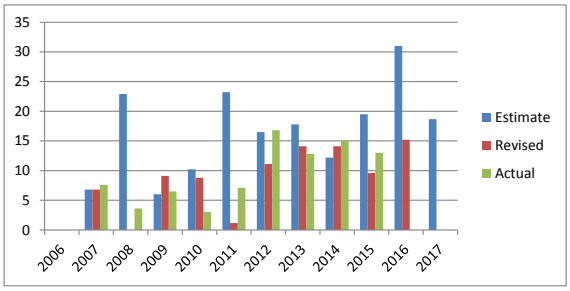
31 OECD-DAC (2015) Development Cooperation Peer Review – New Zealand 2015, OECD Publishing, Paris.

Total allocation from New Zealand in the Tongan budget for 2015-16 was estimated to be TOP15.2 million (approximately NZD9.8 million).[32] This understates significantly New Zealand's aid contribution to Tonga and probably that of other donors.

As shown in Figure 10 above, there is a large disparity between the level of New Zealand aid flows reported by Tonga and the level reported by MFAT. The 2010 PEFA country report on Tonga rated the issue of the reporting of donor funding as unsatisfactory, with the blame being attributed to donors. This issue was raised during consultations as an ongoing problem with all donors, including New Zealand. The issue seems to stem from either no effort to report and/or confusion with the reporting process.

Further, when we look at what is promised, what is reported, and what is actually delivered or spent, the Tongan Budget statements report large fluctuations between estimates and actual funding – see Figure 11.

Figure 11: NZ aid, cash and in-kind (TOP millions)



Source: GoT Budget statements 2007 to 2016

The 2010 PEFA also raised the concern that parallel procurement systems are being used by donors (including New Zealand) as they move to deliver via projects not via budget support. New Zealand was, however, seen as performing better than other donors in the use of partner systems.

3.3 Coherence and Complementarity

The assessment of coherence and complementarity involved looking at total country aid flow, and in particular, whether there are sufficient attempts to integrate and build synergies between the different elements of the programme (including the bilateral and non-bilateral funds), and whether the structure of programme led to a non-strategic approach. This included looking at how New Zealand deploys all the financial and technical resources at its disposal to achieve its strategic priorities in Tonga.

As noted in Section 2.2, between 2011-12 and 2015-16, the New Zealand aid programme spent NZD135 million in Tonga, NZD78 million of which was channelled through the bilateral programme and NZD57 million through non-bilateral pathways. This amounts to 58 per cent

[32] Tonga Budget Statement 2016/17.

and 42 per cent respectively. As such, a significant proportion of the New Zealand aid programme in Tonga is delivered through the non-bilateral programme. Six different funding pathways are used to fund non-bilateral activities: economic and human development funds from the SED Division; transformational funds, also from SED; humanitarian funds; partnerships funds; scholarships; and funds for regional and multilateral organisations. These funds support a large range of activities, with regional, multilateral, New Zealand State sector and CSO bodies in a range of areas as diverse as education, health, fisheries, private sector development, maritime safety, domestic violence, governance and rural development. Non-bilateral programmes have been included in the FAP only since 2011, when the TCAF approach was adopted.

Over the evaluation period there was a rapid increase in the number of new activities followed by a rebalancing; the growth came largely from non-bilateral sources. Total activities grew from 63 in 2011-12 to 83 in 2013-14, and fell back to 62 in 2015-16. In 2013-14 bilateral expenditure comprised 20 per cent of activities in Tonga, expending 53 per cent of the total aid flow. By comparison, non-bilateral activities comprised 80 per cent of activities but only 47 per cent of total aid flow (see Figure 12 below). The largest increase in activities has been under the SED allocation and Partnerships for International Development Fund (together managing 35 of the total 62 activities) (See Figures 12 and 13).

Figure 12: Funding and activity levels from bilateral and non-bilateral sources

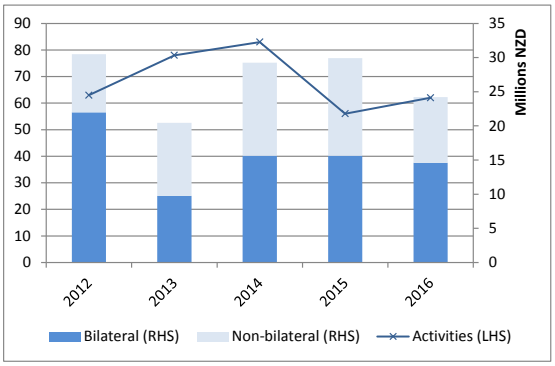
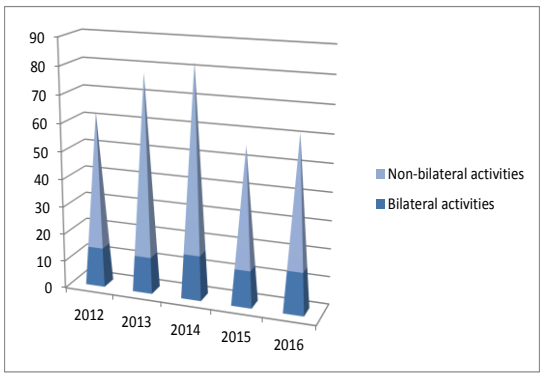


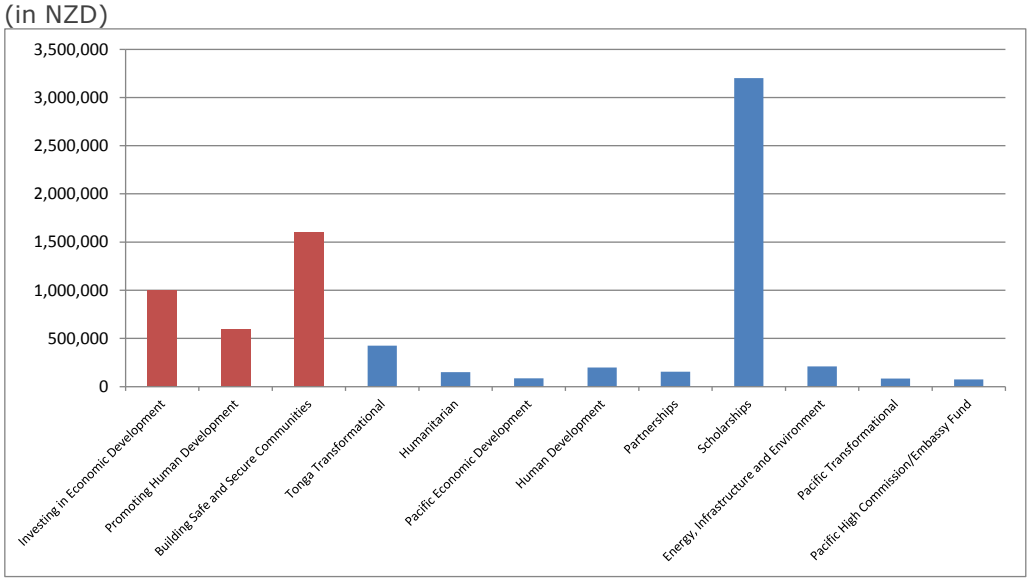
Figure 13: bilateral and non-bilateral aid activities



During the period covered by the evaluation, the annual average value of an activity under the bilateral programme was approximately NZD1 million. In contrast, the annual average

value of a non-bilateral programme activity was approximately NZD200,000; if the single activity of scholarships is removed, then the figure falls to NZD150,000 (See Table 1).

Figure 14: Average value of NZ aid activities in 2015-16, bilateral (red) non-bilateral (blue) (in NZD)



Source: FAP

The structure of the New Zealand aid programme in Tonga is such that the bilateral programme consists of a relatively small number of large-value programmes, while the non-bilateral programme consists of a high number of low-value activities delivered through multiple funding channels. This is a common feature of New Zealand's aid programme, and is similar to the profile in other Pacific Island countries, such as Samoa.[33] It is an outcome of the "New Zealand Inc" approach and the political imperative to ensure that New Zealand agencies, private sector bodies and NGOs can be involved directly in the delivery of New Zealand ODA.

As noted under 'Strategic alignment', a more focused approach to development programming was a key feature of the JCFD and has been a key priority for MFAT over the last four years through its *Development that Delivers* programme. As the data presented above suggests, activity levels have essentially remained static over the course of the evaluation period (after a big increase in 2013-14), but these activity levels are still reasonably high for a programme of the size of that in Tonga. A programme characterised by a high number of activities delivered through many programmes by many partners and in a large number of sectors is not necessarily incoherent; there may indeed be logical reasons for a programme with such characteristics. However, it is clearly more difficult to maintain coherence with many diffuse programmes when compared with simpler, more focused ones.

The issue of programmatic coherence was raised by a number of key informants interviewed for this evaluation. On the Tongan Government side there was a concern—particularly from

33 See Carpenter, DB et al (2015) Evaluation of New Zealand's Aid Programmes in the Cook Islands, Niue, Samoa and Tokelau – Synthesis Report.

the MoFNP—that financial and programme data regarding the full suite of New Zealand's non-bilateral activities were not reported and therefore cannot be included in financial systems reporting, an issue discussed under 'Systems alignment' above. The MoFNP felt there was a need to be more aware of the full spectrum of New Zealand's in-kind engagements and to be better consulted on these activities to ensure they align with Tongan Government priorities. At the sectoral level, particularly in education, where there are seven separate New Zealand-funded activities running in parallel, there was also concern about the coherence and complementarity of these activities and the burden they placed on education staff managing these projects. This is a particular concern in the education sector, which is characterised by a large number of unconnected donor activities. In recognition of this issue MFAT has put a hold on the development of new Education activities from non-bilateral sources. New Zealand stakeholders also questioned whether the NZHC had a good comprehension of the different programmes funded in Tonga, and some reported being given contradictory or erroneous information regarding possible funding pathways for suggested activities.

MFAT staff involved in programme delivery in Tonga also raised a number of issues with regard to coherence and the lack of strategic oversight of TCAF. There was consensus amongst staff interviewed for this assignment that NZHC does not, and cannot have, a comprehensive understanding of the full suite of New Zealand's activities, considering the fragmentation of TCAF as it currently stands. While these staff may not be responsible for the active management of all New Zealand-funded activities, the outward-looking, relationship-focused nature of their jobs in Nuku'alofa means they are the focal points for New Zealand's entire aid programme, whether they manage programmes directly or not. As such, when problems emerge in non-bilateral or bilateral programmes NZHC staff are invariably required to deal with these matters, and this can absorb an inordinate amount of time and resources, and result in less strategic use of time. As highlighted in internal MFAT briefing documents, the growth of the non-bilateral programme in 2013-14 (as highlighted above) brought with it management challenges and increased political management, which increased the strain on staff posted to Tonga.[34] This took place within a broader context of political tension between MFAT and the GoT.

A common problem highlighted by former and current posted staff, which impedes coherence and a more strategic approach to aid portfolio management, is the lack of meaningful and timely consultation on proposed non-bilateral activities. This issue was highlighted by one former posted officer as follows:

"*…there are too many projects from too many sources, designs come too late and when they do come they have already built momentum, we are simply not consulted early enough and our view on the local context needs to taken into account"*[35].

Key informants commented on how the 'matrix model' of management prevalent in MFAT contributed to this outcome. Staff at NZHC felt that they were often caught in the middle

34 MFAT (2014) Internal briefing – DLT Review of Programme Performance 2013/14.
35 Key informant 35, per comm, April 2016.

between providing support and advice on non-bilateral MFAT activities, while also trying to act on requests by the GoT to focus MFATs investments in certain sectors, such as education. Key informants from MFAT – Wellington also reported on the challenges associated with the oversight of multiple activities from disparate funding sources. Country programme staff saw this as an important task, but as one that was often deprioritised due to time constraints. The misalignment of bilateral and non-bilateral financial pipelines was seen as one major impediment to a more coordinated approach, particularly at the sectoral level. It is difficult to adopt a more cohesive approach in education for example when project development is at different phases and funding pipelines from multiple sources do not align temporally. On the human resource side, recent advances have been made with regard to the stronger coordination of Tongan bilateral and non-bilateral activities. PHM has recently appointed geographical focal points for their partnerships activities, in order to ensure that there is a better connection between partnerships activities in Tonga and the broader country programme. The Tongan focal point team has travelled to Tonga to better understand the development context on the ground, and locally engaged staff have participated in training in Wellington that included the more comprehensive appraisal of partnerships activities. These initiatives bode well for better cooperation and coordination across the programme going forward.

3.4 Policy Dialogue

Effective policy dialogue is an important aspect of quality aid delivery and fundamental to the maintenance of a strong and coherent strategy of development cooperation. Policy dialogue is defined as "the expression of a set of values or principles that the leadership of an organisation holds to be important in delivering its mandate or in bringing about change".[36] In the context of this evaluation, policy dialogue includes both development cooperation and foreign policy-oriented dialogue, as both enable New Zealand to express its set of values and principles. Policy dialogue is an important component of aid delivery because it can have a demonstrable influence on policy change. Policy dialogue is effective when areas of policy interest, objectives, and priorities are identified and communicated effectively, the necessary capabilities exist to ensure engagement are meaningful, and when informal and formal approaches are used, and power imbalances addressed.

A wide range of issues were raised by key informants in both Tonga and New Zealand with regard to policy dialogue and the values that underpin it. One of the issues most frequently raised by Tongan stakeholders (including politicians, civil society leaders, Government staff and beneficiaries) related to the recognition of Tongan socio-cultural values by donors and the role these values play in shaping an endogenous Tongan conception of development. While it was acknowledged that there is important alignment at the programmatic and development policy level of material priorities for development in Tonga, a wide range of Tongan stakeholders commented on a lack of appreciation of Tongan socio-cultural imperatives, which are seen to be of fundamental importance to Tongan society.

36 ODE (2013) Thinking and Working Politically: An Evaluation of Policy Dialogue in AusAID, April 2013, Department of Foreign Affairs and Trade, Office of Development Effectiveness.

A wide range of Tongan stakeholders felt that New Zealand (and other donors) focused too much on fostering economic growth, which was identified as important but subservient to strengthening local socio-cultural and institutional foundations. The need to foster social harmony, strengthen kinship units and build sustainable institutions was seen as equal in importance to the economic agenda, particularly considering the civil disturbances in 2006 and the perception that migration and economic pressures are forcing family units apart. Noting the instability that has occasioned the relatively recent emergence of democracy, one key informant commented that "when everything is in a state of flux our families and kinship structures need to remain stable."[37] There was some doubt amongst Tongan stakeholders about whether New Zealand (and other donors) understood these more intangible priorities, which may not always be articulated in plans or policies but are an important part of the endogenous Tongan development paradigm. A number of senior Tongan leaders noted that these issues were hardly ever discussed during dialogue between the GoT and donors, but that they should sit at the heart of such dialogue as they are central concerns of the Government and the people of Tonga.

This issue has real ramifications from a development perspective. For example, there is concern amongst senior Tongan leaders and Government officials that the Australian and New Zealand - funded seasonal worker programmes, which lead to family absences of up to seven months per year, are contributing to the breakdown in family units. There is a feeling that putting economic imperatives ahead of social ones is having adverse impacts on Tongan society. This was a view strongly held by a number of senior Tongan leaders, and is the type of issue that is not presently the focus of substantive policy dialogue between the two countries.

There were also concerns raised by some Tongan stakeholders that donors (including staff from MFAT) do not have a well-grounded understanding of Tongan socio-cultural norms and modes of interaction. This lack of awareness was acknowledged as a challenge by a number of senior MFAT staff, one of whom suggested more effort should be placed on "surfacing the cultural differences between New Zealand and Tonga."[38] MFAT stakeholders who had engaged directly with Tongan counterparts over the years commented on the "lack of traction", the inability to influence counterparts through policy dialogue and the void that sometimes existed between the perceptions of the two parties. Tongan counterparts suggested this was due to a number of factors related to the style of interaction between MFAT staff and their Tongan counterparts. Senior New Zealand stakeholders suggested that maybe MFAT does not have the cultural tools to interact effectively with Tongan counterparts, and that more needs to be done.

A major issue raised by Tongan counterparts with regard to modes of dialogue between the two parties is one that we have defined as 'equivalence'. This has two characteristics. The first pertains to the perceived equality or value placed on Tongan input into policy dialogue, and the second to the equivalence between the two people engaged in that dialogue. As noted above, policy dialogue involves power dynamics, and to be effective there must be

37 Key Informant 56, personal communication, interviewed June 2016.
38 Key Informant 20 personal communication, April 2016.

recognition on both sides of these innate power dynamics and the political context within which dialogue takes place. Due to obvious resourcing constraints and practical needs it is the case that relatively junior (i.e. Deputy High Commissioner, DPC, Development Officer, Development Manager) MFAT staff conduct dialogue on an ongoing basis with officials who are very senior members of the Tongan Executive and Government. Tonga is also a very hierarchical society, which presents its own challenges. The strained political nature of the relationship over the last few years (as highlighted in 'Strategic Alignment' above) has added an extra dimension to this dialogue. In some cases the raising of sensitive issues (by NZHC staff in dialogue with senior GoT staff/Ministers) has led to offence being caused, further straining the relationship. Staff members posted to Tonga who were interviewed for this evaluation are certainly cognisant of these equivalence issues, and seek to deport themselves in a way that does not cause undue problems, but a number of them commented on their low comfort levels with some of the dialogue they were required to undertake on behalf of the New Zealand government.

As noted under 'Strategic Alignment', the recent high level consultations between the two parties has certainly reset the relationship, and the conduct of this process potentially provides some guide for how policy dialogue could be improved. The lack of ongoing formal policy dialogue between the two parties at a senior level for a number of years was certainly sub-optimal from a relationship management and policy-influencing perspective. The absence of ongoing formal policy forums and entry points is a weakness in the formal policy dialogue space between New Zealand and Tonga that needs to be addressed. The annual development partners' meetings were seen by both sides as lacking in substance, and essentially only provide a forum for the GoT to discuss its challenges and constraints. The provision of budget support outlined in the recent high-level consultations will certainly provide space for high-level engagement in economic governance reform issues, which is a welcome sign. It is imperative that New Zealand now invests in properly resourcing this important opportunity to ensure dialogue can be ongoing (between JPRM meetings) and pitched at the right level. Key informants interviewed raised concerns regarding the unintended consequences from the current approach to budget support. While the Ministry of Finance is largely happy with the reforms attached to the budget support there were concerns raised regarding the internal resources directed at implementing each individual reform, which general offsets the undertaking of day-to-day tasks. This was provided as an explanation for loss of traction in previous reforms as staff jump from one reform to the next with limited to no resources left behind to embed the previous reform. One of the examples provided was the trigger regarding the debt strategy. Now that the debt strategy is completed there is only a limited focus on its implementation.

With regard to informal policy dialogue, Tongan Development Programme Coordinators (DPCs) play a key role, as they have good knowledge of the socio-cultural context and have established long-term relationships with key sectoral counterparts in the GoT. There was an appreciation in senior MFAT ranks of the role DPC staff play in policy dialogue and in putting strategy into practice in the country. There was also a feeling amongst some senior MFAT staff that DPCs could and should be used more strategically and that their views on important strategy and policy matters should be maximised even more fully than they presently are. This was seen as particularly important in the Tongan context, noting the socio-cultural and equivalence issues discussed above. A number of issues constrain this at the moment, including security clearance, which inhibit DPCs from accessing classified documents and thus understanding more about the strategic intent of programmes and

activities and being involved directly in MFAT dialogue; limited input into broader MFAT designs and programmatic activities, particularly non-bilateral activities (noting that DPCs do currently provide valuable input to the shaping of designs); and the need for more consistent ongoing training for DPCs.

3.5 Mutual Accountability

Another important aspect of aid effectiveness is mutual accountability, which is based on the premise that donors and developing country Governments must account more transparently to each other for their use of aid funds, and to their citizens and parliaments for the impact of their aid. As noted under "Systems alignment", more needs to be done to strengthen New Zealand's financial transparency, particularly the provision of in-kind support of non-bilateral programming. Mutual accountability also involves a negotiation between donor and recipient on the required level of financial and results-based reporting. Reporting places a burden on recipient Governments, and wherever possible the latter seek to reduce it. The reporting burden for New Zealand ODA funds is high due to the relatively high number of New Zealand - funded activities and the capacity constraints within the GoT. New Zealand requires multiple reports each year on the progress of initiatives implemented by the GoT; this may be in addition to internal reporting required within the GoT system. Informants from MFAT interviewed for this evaluation expressed concern over the quality and timeliness of reporting from some GoT counterparts, while informants within the GoT expressed concern over the burden of reporting, noting the capacity constraints they faced.

With regard to transparency and accountability to citizens for the use of aid funds, it is clear that more can be done by both Tonga and New Zealand (and other donors) in this area. Aid is a significant proportion of the Government budget, but accounting for this expenditure and explaining the reasons for under-utilisation of these funds, in particular, are sub-optimal. Senior GoT officials interviewed for this assignment emphasised the priority placed on "proving impact" by the present Government, and efforts are being made across the GoT to better monitor aid flows and the impact of these flows on development outcomes. The responsibility for this does not solely lie with the GoT, however.

On issues of transparency and accountability more broadly, there were some ongoing governance concerns that were articulated by a number of key informants both in Tonga and New Zealand. Chief amongst these was ensuring that the oversight role of the Legislative Assembly was strengthened sufficiently. This was considered particularly important given the reforms in 2010. A key feature of Tongan politics is the absence of a party system. This coupled with the high levels of new MPs who are elected each term (more than 50 per cent were new MPs in 2014) means that at each election a high proportion of MPs arrive in Parliament who have little understanding of the role and procedures of the Legislative Assembly. The Legislative Assembly in Tonga plays a very important role with regard to oversight, as it does in many other jurisdictions. The United Nations Development Programme (UNDP) (with funds from New Zealand) is supporting strengthening activities in various areas (including reading Budget statements), and these activities were seen as important by key stakeholders. The Pacific Association of Supreme Audit Institutions (PASAI) also conducted training on public accounts and other areas with MPs, which was also well-received. These initiatives are partly funded by New Zealand. However, there was a feeling among some key stakeholders that more systematic, long-term and programmatic support

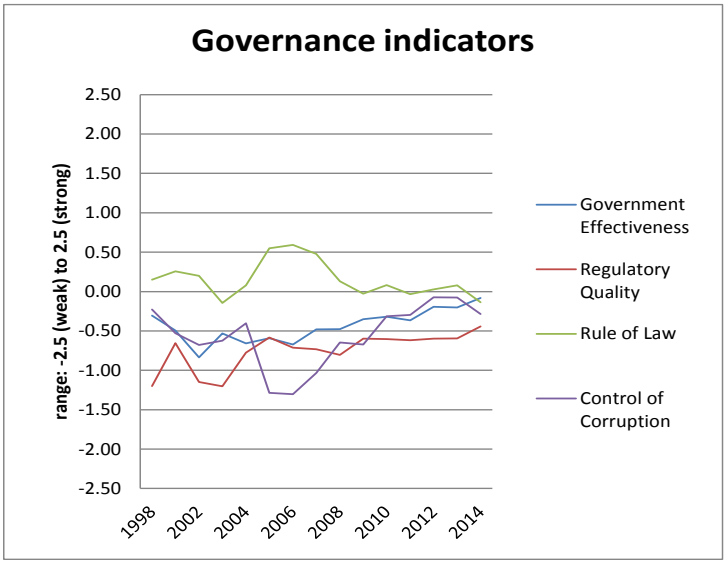
for strengthening this important oversight role was warranted and necessary to improve accountability to citizens.

When asked about governance and accountability, key informants also commented on the need to strengthen Cabinet decision-making processes to ensure that decisions are not just robust and based on good policy but made in accordance with the rule of law. There were numerous examples given to the evaluation team of poor Cabinet decisions that were made without following existing Cabinet processes.

At the institutional level there are a number of structural issues that were also raised by key informants who were versed in Tonga's reform process. These issues included the need to give practical effect to existing legislation on anti-corruption and good governance, which had not been done by successive Governments. For example, the Anti-Corruption Commission Act, which was passed by the House in 2008, established the position of Anti-Corruption Commissioner; however this position has not yet been filled. The GoT had recently allocated funds for the appointment of a Commissioner, but a reduction in counterpart funds from a donor to support that initiative has put the appointment on hold. There is optimism that this position will become established in the near future. Legislation was also passed in 2012 to establish a Good Governance Commission and an associated Good Governance Agency. This legislation laid out the policy directions of the Commission, its protections and the role of the Agency, but has since not been established. A number of senior key informants in Tonga commented on the need to implement this legislation to ensure that accountability is increased in line with public expectation.

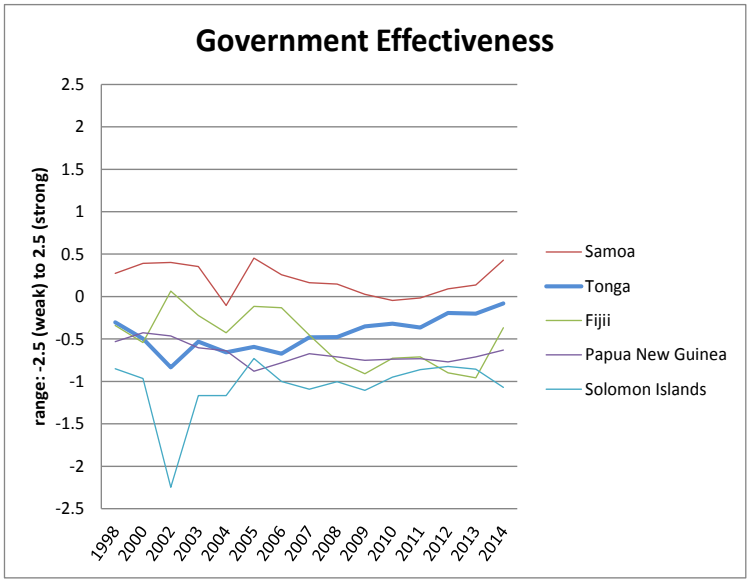
On general measures of governance, Tonga is neither strong nor particularly weak as Figures 15 and 16 below suggest. Tonga's level of performance with regard to following the rule of law has dropped significantly (from a comparatively high base) since the mid-2000s, while its level of performance in the area of Government effectiveness has steadily increased over time, particularly in comparison with other Pacific Island Countries (see Figure 16). Control of corruption has shown only marginal improvement over the last 18 years. Regulatory quality, which was historically the weakest aspect of the governance system remains weak but has improved steadily in recent times.

Figure 15: Progress in governance stagnates during the period 2011-2015[39]



Source: World Bank, (2015) Worldwide Governance Indicators, 2015

Figure 16: A comparison with other countries in the region



39 **Government Effectiveness**: reflects perceptions of the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.
Regulatory Quality: reflects perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development.
Rule of Law: reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence.
Control of Corruption: Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as "capture" of the state by elites and private interests.

Source: World Bank, (2015) Worldwide Governance Indicators, 2015

3.6 Summary

The above discussion has raised a number of issues with regard to aid delivery in Tonga. The evaluation found that while there have been some recent improvements in high-level ownership and aid coordination (as evidenced by the re-convening of the CACC at Cabinet level), there remain real issues with regard to functional ownership of the development agenda, i.e. the ability of Tonga to implement its own development agenda. First, Tonga struggles to coordinate its aid in a strategic fashion and there are significant capacity and systems constraints to this, including limited human resources. Second, poor reporting by donors, including New Zealand, on the full suite of their development activities affects development planning and there exists no system to capture all aid data. Third, there are deficits in planning and budgeting at the sectoral level that limit the capacity of the GoT to spend development funds in a timely and effective fashion.

Effective aid delivery is also constrained by the state of flux that is characteristic of this period of Tonga's national development. Leadership changes at ministerial and chief executive levels affect strategic direction and result in constant policy shifts, which cause problems with alignment. Shifts in priorities meant the JCFD became useless as a planning tool shortly after its inception in 2011. There is also a need for New Zealand to demonstrate more fully how it's often politically established priorities align with those of the GoT. As the discussion in Section 4 highlights, New Zealand is investing in relevant and important priorities at the sectoral level, but there is often an inability by the GoT to articulate and act on its sectoral priorities which creates problems with strategic planning.

New Zealand's aid programme is quite fragmented for a programme of its size, and lacks coherence at a TCAF level. This financial and management fragmentation places strain on staff and leads to a relatively non-strategic approach at the country programme level. Staff at NZHC are not fully conversant with the full suite of activities that New Zealand funds and this is frustrating for both them and the GoT. There needs to be a more timely and strategic approach to engaging with staff at NZHC, including DPCs, who add significant value in the Tongan context. These staff need to be engaged at a more strategic level.

The delivery of the New Zealand aid programme has been affected by a period of politicisation in various areas, which has affected the relationship between New Zealand and Tonga. Despite this, relationships at the transactional level remain strong and functional. High-level dialogue was missing for a period of time and has only recently been re-established. This type of strategic dialogue is highly regarded by the GoT, and needs to be a consistent feature of the aid programme. Due to the issues with equivalence and the hierarchical nature of Tongan society, the highest-level representation and advocacy from New Zealand should be deployed whenever possible. With regard to policy dialogue, which is primarily values-based dialogue, more effort should be spent on surfacing the cultural differences between New Zealand and Tonga to ensure dialogue is as meaningful as possible. Further attempts should be made to understand the intangible aspects of the Tongan development paradigm to ensure there is a meeting of minds at the level of values, which is significantly important in the Tongan context.

With regard to accountability, New Zealand needs to do more to report transparently and accurately on its aid flows to Tonga. Tonga, on the other hand, needs to strengthen its decision-making capacity (particularly at Cabinet level) and continue to improve accountability and transparency in a range of areas, particularly regulatory quality.

4. Findings – Effectiveness and Sustainability

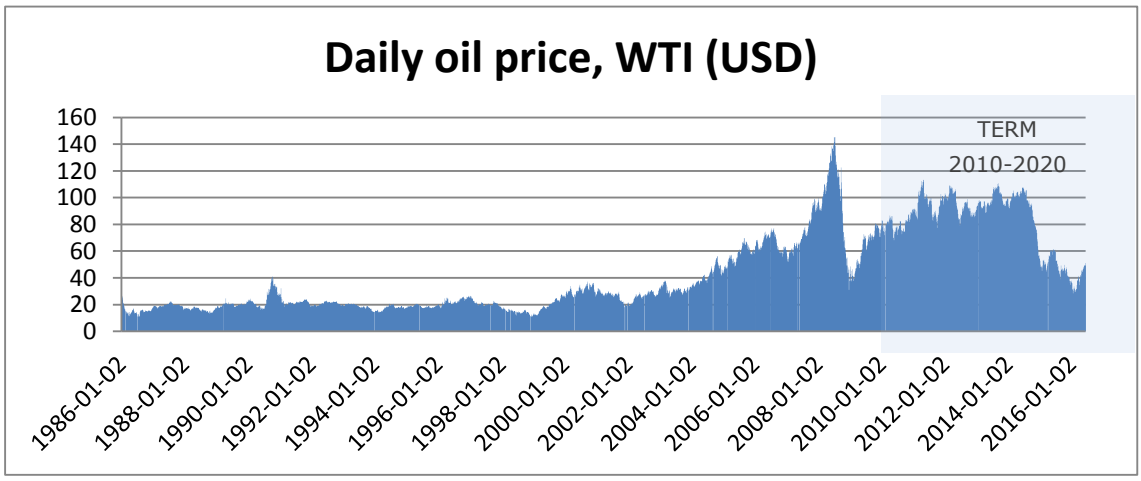
Effectiveness is a measure of the extent to which the objectives of an aid activity have been, or are likely to be, achieved. Objectives are the stated goals of the New Zealand aid programme as outlined in the JCFD and in subsequent planning documents, and results frameworks at the country programme level, as well as the objectives of sectoral programmes and activities within sectors. A priority for this evaluation was to determine why some interventions are more effective than others in Tonga, and the conditions that underpin effectiveness in the Tongan context. This analysis forms the basis for the prospective assessment of how New Zealand can better deliver its aid programme and achieve greater impact with its whole-of-Government resources.

Sustainability is concerned with measuring whether the benefits of an activity are likely to continue after donor funding has been withdrawn. Sustainable results are those that are likely to persist into the future and are resilient to economic, environmental and social changes. The assessment of sustainability took into consideration an array of factors, including whether an enabling environment that could support the ongoing achievement of outcomes had been developed, whether domestic financial resources have been or are being planned, and whether there are appropriate levels of human resource and organisation capacity to ensure sustainability.

4.1 Energy

Historically Tonga has been, and continues to be, heavily reliant on fossil fuels for electricity generation. This comes at a huge cost to the national budget. Over time, as oil prices have risen, the cost to the budget has also increased and Tonga has become more and more vulnerable to oil price fluctuations. In July 2008 the oil price peaked at USD 145 per barrel - see Figure 17 below. Prior to the start of the rapid increase in oil prices, before 2004, the price had not gone over USD 40 per barrel, and the average price between 1986 and 2004 was around USD 20. As prices increased, oil importing countries, including Tonga, started to search for solutions to their energy security problems with a focus on renewable energy generation and improving energy efficiency. The historical peak in the oil price precipitated the development of the Tonga Energy Road Map (TERM) in 2010.

Figure 17: Oil price fluctuations and the policy response



Source: US Energy Information Administration (2016)

The objective of the TERM is to "… reduce Tonga's vulnerability to oil price shocks and achieve an increase in quality access to modern energy services in an environmentally sustainable manner".[40] With regard to electricity, the TERM highlighted the need to reduce reliance on diesel electricity generation using a least-cost - investment approach, improve the efficiency of the electricity network, and strengthen the enabling environment for the energy sector by introducing a more coherent set of regulations and policies. With regard to renewable energy generation, initially the GoT committed to a target of generating 50 per cent renewable energy by 2012, but this was subsequently extended to 2020.

The JCFD signed between the Governments of Tonga and New Zealand in July 2011 prioritised New Zealand support for the energy sector. New Zealand committed to a range of actions including building a one-megawatt solar photovoltaic power plant, investing in the upgrade of village and peri-urban power distribution networks, training linesmen to New Zealand standards and increasing access to the energy network.[41] Between 2011 and 2015 New Zealand invested NZD23.2 million in energy sector support, which was its most significant sectoral investment, accounting for 17 per cent of TCAF during that period.

On 10th August 2012 the NZD9.24 million, 5,760-panel Maama Mai solar facility was delivered on budget, almost on time, and at a higher technical capacity than expected during its design.[42] The operation and maintenance of the system, which was managed and constructed by Meridian New Zealand, was handed over to Tonga Power Limited (TPL) on 15 August 2012, at which time a five-year operational partnership between the two parties commenced. The ownership of the plant will be transferred to the GoT in 2017/18. Since its construction the system has exceeded its 1880 megawatt-hours annual energy yield expectation by up to 10 per cent and continues to perform with very minimal engineering

40 Government of Tonga (2010) Tonga Energy Roadmap 2010-20.
41 JCFD, p.5.
42 MFAT (2012) Activity Monitoring Assessment – Maama Mai Solar Facility, 11October, 2012.

support.[43] The annual reduction in diesel fuel use associated with this project is approximately 517,000 litres per year, which provides a financial saving to the Tongan budget of approximately TOP900,000 annually.[44] The system met 4.05 per cent of Tongapatpu's electricity generation needs in 2014, directly contributing to the TERM goals and Tonga's renewable energy targets. Tongan stakeholders interviewed for this assignment noted the high profile and important nature of this project, and the fact that it has helped galvanise interest from other donors in support of renewable energy generation. No issues were raised with regard to the sustainability of the project from a technical or operations and maintenance perspective.

Stage 1 of the Tonga Village Network Upgrade Project (TVNUP), which cost NZD 6.096 million, commenced on 24 January 2011 with the MoFNP as the executing partner and TPL as the implementing partner. The project was overseen by a project coordination committee, which consisted of MoFNP, TERM and MFAT stakeholders, and for the first two years was managed by a New Zealand project coordinator and project manager who worked closely with TPL. This project focused on upgrading low-voltage networks in rural villages on Tongatapu with a view to improving network efficiencies, reducing diesel consumption for electricity generation, improving resilience to natural shocks, improving safety and providing a more stable and secure electricity system for rural Tongans. The project targeted 10,000 people in 1,750 households in 17 rural villages. These villages had amongst the poorest electricity transmission systems on Tongatapu, and were targeted for this reason.

Stage 1 of the project performed above expectations. By its completion in October 2013, electricity networks and systems in the 17 rural villages had been upgraded, infrastructure (including poles, lines and conductors) had been installed to New Zealand standards, linesmen had been trained to install and maintain the new systems, and 2482 new connections had been established. As a result, distribution losses were reduced to below 10 per cent in the target areas, a 70 per cent reduction in faults was recorded, and NZD470,000 in annual diesel fuel savings was reported.[45] By all reports this was a very effective and well-delivered project. Cost savings of up to NZD220,000 per year[46] were also achieved as a result of the project management innovations and efficiency measures put in place by the TPL management team. Alongside New Zealand's focus on the low voltage network, TPL also simultaneously upgraded the high voltage network, undertaking both upgrades in parallel ensured that wider network upgrade efforts were more effective.

In August 2013 New Zealand approved NZD21.616 million for Stages 2 and 3 of TVNUP from 2013 to 2018.[47] This additional funding aimed to build on and continue the success of Stage 1 by extending programme reach to a further 7,000 households in 33 villages. Like Stage 1 the project installs new distribution networks across rural Tongatapu, including low-voltage and high-voltage lines, high-voltage transformers and metering. It also includes training of TPL

43 Meridian (2015) Maama Mai Solar Facility, Annual Performance Report, October 2015.
44 MFAT (2015) Activity Monitoring Assessment, Renewable Energy Solar Project, 19 June 2016.
45 MFAT (2013) Activity Completion Assessment – TVNUP, 3rd December, 2013; MFAT (2013) Activity Completion Report – TVNUP, 31st October, 2013.
46 MFAT (2013) TVNUP Activity Assessment, internal MFAT briefing.
47 MFAT (2013) Programme Activity Authority Village Network Upgrade Project, 22nd August, 2013.

staff to New Zealand standards. The project is being delivered solely by TPL with no international support, is overseen by a project coordination committee, and is endorsed by the TERM and GoT Cabinet. The project has met and exceeded expectations since its inception and is widely regarded by MFAT and GoT stakeholders as New Zealand's most effective ODA investment in Tonga.

Stages 2 to 3 of the project commenced in 2014 after some months delay as a result of Cyclone Ian, which is the strongest cyclone ever to hit Tonga. The most recent progress report suggests that the project is on track to attain all of its objectives[48] and is exceeding expectations in a number of areas. As of September 2015, 15 of the 33 villages targeted by the project had received improved transmission networks, 2965 new connections had been made (14 per cent higher than predicted) and line losses had been reduced in target villages from 21 per cent to 6 per cent, well below the efficiency targets in the TERM. Networks faults had been reduced by 85 per cent and 13 additional linesmen (a high number of whom are women) had been trained to New Zealand standards. The project has also been delivered cost effectively with an additional NZD414,360 in savings identified in the first two years of the new stage.[49] It is not possible to report on higher-level outcomes with regard to reductions in tariffs or overall reductions in diesel consumption as the project is still two years from completion. It should be noted, however, that there has actually been an increase in consumption in targeted villages due to improvements in electricity provision and extra connections. This highlights the need to complement transmission improvement projects, with further investment in renewable energy generation, in order to realise renewable energy targets.

It is clear that New Zealand's investments in the energy sector have been highly effective and are directly contributing to Tonga's TERM priorities. However, there have been some concerns raised by stakeholders with regard to sustainability. It should be noted that these concerns do not focus on technical issues or any concerns with the capacity of TPL and their ability to maintain and continue to manage, to a high professional standard, energy infrastructure in Tonga. The concerns are largely around the enabling environment for the energy sector and the political issues associated with the high cost of energy in Tonga. Electricity prices are quite high in Tonga by international standards, at around 8 per cent of household expenditure. The high price of electricity and the burden this places on rural households was noted as a priority during focus group discussions held by the evaluation team in two rural villages. The high price puts political pressure on the GoT to keep prices down. As a public enterprise, TPL is in the difficult situation of having to meet this political imperative at the same time as providing a dividend to the GoT. The independent regulator plays an important role in ensuring that tariff prices don't decrease unreasonably but there remains a demand on TPL to provide strong dividends to the GoT. Further, there is a public expectation that more renewable energy and better transmission systems should lead to

48 Tonga Village Network Upgrade Project Stages 2/3 – Progress Report, November 2015.
49 After High Level Consultations in March there was an agreement between MFAT and the GoT to utilise savings from TVNUP for other government priorities. From an evaluation perspective it would be suboptimal if money generated through the efficient management of an ODA funded project was diverted to another project whose effectiveness was not proven. The incentives this sends to institutions with regard to performance also need to be considered.

reductions in electricity tariffs. This expectation has caused political tensions in Tonga and has not been managed well at a political level. At present, renewable energy generation in Tonga sits at around 13 per cent and internal GoT modelling suggests that financial benefits to households will not accrue until renewable energy generation reaches 50 per cent[50]. More needs to be done by the GoT to clarify tariff pricing issues with the public and ensure transparency. This will be particularly important when tariffs inevitably rise as a result of increases in the global price of diesel. The GoT, through the regulator, should provide information to the public on how high tariffs may have been in the absence of transmission line and renewable energy investments. The important role played by the regulator in the Tonga energy sector cannot be understated, the strong management of the concession contract by the regulator helps protect TPL from excessive government interference and ensures independence. The GoT should ensure that this independence is maintained and that tariff reductions are not driven by political expediency but by actual cost reductions passed on to consumers.

As noted by senior GoT key informants, more also needs to be done to strengthen the enabling environment for the energy sector. This was a priority under the TERM but was put on hold while efforts were devoted to achieving the renewable energy targets and other priorities. There is now widespread recognition that better energy policies and regulations need to be developed to strengthen the sector and develop the optimal system for energy provision in Tonga from both a financial and regulatory perspective, including clarifying the role of the private sector. At the moment there is a high degree of confusion amongst energy stakeholders with regard to the roles and responsibilities of the different actors. Energy policies are presently being developed which will be presented to Cabinet in the near future.

4.2 Education, Scholarships and Accreditation

Primary and Secondary Education

As highlighted in Section 2, Tonga has relatively high human-development indicators, but consistent achievements in education remain problematic. Tonga has almost achieved universal primary education, but the secondary enrolment rate has declined and drop-out rates are high. There is evidence that children are not acquiring basic literacy and numeracy skills. In 2009, the Tonga Early Grade Reading Assessment (TEGRA) reported that 70 per cent of children did not know the Tongan alphabet by Grade 3. In 2011, the Standard Testing for Tongan, English and Maths (STAT) test found that less than 50 per cent of students had a 'satisfactory' level of Tongan and English literacy skills and that only 20 per cent and 35 per cent of children in Grades 4 and 6 respectively were sufficiently numerate. The 2014 STAT reported that a high proportion of pupils are reaching at least the 'minimum expected skill proficiency' in Tongan literacy and numeracy by the end of primary school (97 per cent and 88 per cent in Year 6 respectively) against the curriculum. However, a deeper analysis of the data suggests that high numbers of students are falling below what is considered the 'competent level'. For example, at least 37% of students in Year 6 are below

50 GoT TERM Implementation Unit, personal communication.

the 'competent' level in Measurement, 24% are below the 'competent' level in English reading, and 45% below the 'competent' level in English writing.

With regard to the context for education support, the sector has been subject to significant instability over the past decade. In 2006 over 300 senior teachers left the Ministry of Education and Training (MET) as part of the reforms to the public service that took place at that time. As noted by senior education department officials interviewed for this evaluation, the majority of the teachers who took voluntary redundancies were in the senior levels (Levels 6-12). This led to significant capacity constraints and gaps in important teaching areas, including maths and science. Due to ongoing freezes on teacher promotion between levels, over 500 staff within MET have remained at their current level of seniority for many years, and this has resulted in widespread staff disaffection. The introduction of the Tonga Education Act in 2013 introduced a number of new reforms, including new administration and management structures with the Ministry and new policies regarding schools management. It also introduced compulsory schooling for all citizens between the ages of 4 and 18. In late 2014 a new Government was elected and Prime Minister Pohiva also assumed the role of Education Minister. A number of further reforms and changes to senior level positions within the MET ensued, and some of these changes were heavily criticised by Education stakeholders. In the previous two years the MET has had four different CEOs. Associated with these CEO-level shifts have been changes in priorities and shifts at middle management level.

Donor support for education in Tonga is important but highly fragmented. These initiatives are delivered through a range of modalities and the majority partner with the MET. New Zealand has contributed significantly to this fragmentation. MFAT has funded seven separate education programmes in Tonga since 2013, all of which include the MET as a partner. These programmes include:

- *Tonga Education Support Programme II* (NZD9 million over three years), funded through the bilateral programme;
- *Pacific Literacy and School Leadership Programme* (NZD6.8 million across three countries), funded through the SED Division and delivered by Auckland University;
- *Science for Health Literacy Programme* (NZD1.7 million across three countries), funded by the Partnerships Fund and delivered by the Liggins Institute;
- *Quality Teaching and Learning for Basic Education in Tonga Project* (NZD436,000), funded by the Partnerships Fund and delivered by Accent Learning;
- *Maritime School Support* (NZD 430K) funded through SED and delivered in cooperation with the Tonga Institute of Science and Technology (TIST);
- *Secondary Tertiary Development Project* (NZD350,000), funded by the Partnerships Fund and delivered by the Manukau Institute of Technology in partnership with TIST; and
- *Just Play Programme* (NZD 147K), funded by the Partnerships Fund and managed by the Oceania Football Confederation.

New Zealand's most significant investment in education has been the Tonga Education Sector Support Programme II (TESP II). TESP II is jointly delivered by New Zealand, Australia and the GoT and has a total budget of NZD20.15 million. This targeted sector budget support programme seeks to support a range of education outcomes, including increasing attendance, improving literacy and numeracy, curriculum development, raising the standard

of teaching by increasing the number of qualified teachers, and improving learning environments.[51] The programme is comprised of seven distinct components, including a school grants component that provides funds for schools to achieve minimum standards in the provision of education resources and the topping up non-government teacher salaries. Grants are seen as particularly important as they fosters school-based management and provide funds for resources that would otherwise not be available due to significant education budget constraints.

When describing the rationale for funding TESP II and partnering with MET, the Programme Activity Authority (PAA) noted:

"*… given progress in the implementation of TESP Phase I and the interim support stage, there is a high chance that investment in TESP Phase II will yield better returns because the design of the new programme takes into account the capacity and capability of the Ministry of Education to deliver on activities. For this reason, we can expect that we will obtain better value for money because activities within the programme and the desired development outcomes are assessed to be more achievable"*[52].

The PAA also acknowledged some very real risks associated with the activity, including the fact that "….*Ministry of Education and Training may not have the capacity to deliver the programme within the agreed timeframes. This may result in the Ministry losing focus from its core objectives of improving learning outcomes, and improving access to education opportunities. TAs can substitute essential responsibilities within MET to ensure the successful management of activities."*[53]

As the discussion below highlights, the design of the activity was far too ambitious considering the unstable context of the education sector and the capacity of MET, and the risks identified in the PAA did in fact come to fruition.

Activity reporting highlighted the slow progress of the programme, the general lack of enthusiasm within MET to proactively implement it, and the slow level of financial disbursement—after two years of the three-year activity only NZD1.5 million of an allocated NZD9 million had been expended by MET.[54] Reporting from the Programme Overview Group (POG)[55] highlighted the impact of restructuring within MET, the high level of senior staff movement, and the significant programme management capacity constraints. POG reporting also noted the lack of strategic engagement between donors and the MET with regard to programme priorities, the low quality of programme documentation, and frustrations with late reporting. Donors highlighted the need for a "more informed view on the progress of TESPII". TESP activities were being held up by delays in the recruitment of technical assistance, lengthy procurement processes with the GoT and staffing gaps.

51 MFAT (2013) Programme Activity Authority, Tonga Education Support Programme II, 7th June 2013.
52 *Ibid*, p 7.
53 *Ibid*, p 6.
54 MFAT (2015) Activity Monitoring Assessment – Tonga Education Support Programme, 10th July 2013
55 Programme Overview Group Meeting Briefing Notes, March 2015.

Frustrations were also felt by education officials involved in the implementation of TESP II from the MET. MET staff commented on what they considered a sub-optimal design and design process where due account was not taken of the context of the department and the sector more generally. There was a general lack of ownership and therefore enthusiasm for the project as reported by the POG. Key informants interviewed for this evaluation highlighted the significant constraints associated with managing a programme as ambitious as TESPII with very limited in-house staff support. At the beginning, the programme was coordinated by an international project manager; MET directly took over management of the programme in 2014 in an effort to foster greater control over it. However, only one staff member was appointed to coordinate and oversee this large and complicated activity. There was no consistent international TA or direct donor support to assist the staff member to implement the programme or prioritise activities. TESP I, which provided the rationale for MFAT's support for further investment in education, was delivered in an entirely different fashion. The direct management by 14 MET staff was a World Bank pre-requisite for funding and the programme also benefited from more consistent technical assistance.

An independent review of TESP II was undertaken in 2015.[56] This evaluation highlighted the difficulties with evaluating achievements due to weak data collection systems and the lack of results reporting across the ministry. The review noted that achievements had been variable, with some progress in areas like curriculum development and establishing systems for teacher professional development, but much slower progress in improving assessment, strengthening management information systems, supporting inclusive and early childhood education, and increasing the proportion of teachers with qualifications. The review also highlighted the very slow progress with regard to infrastructure improvements, and the impact of the GoT's slow procurement and appointment processes on project expenditure—the project has been almost 80 per cent underspent in non-school - grant fee areas since its inception.

The review noted that there had been little evidence of capacity improvements in MET and that the programme required much more support from DPs than was provided. The targeted budget support modality was a significant leap for MET, and there was some evidence that MFAT and DFAT had added value in some areas - the importance of consistently supporting weak implementing agencies during sector budget support operations will be discussed further in Section 5. The review considered the design to be unrealistic from an outcomes perspective. It was considered optimistic to assume that student learning outcomes could be improved in three years. In the evaluation team's view the ambition of the programme was far greater than the capacity to implement, and this coupled with the lack of ownership by MET led to an ineffective and inefficient project. The review presented a number of options for MFAT's future investment in education, including a 'hybrid' approach that includes the provision of budget support for established system support in areas like school grants and a more managed modality which would require greater input by donors.

56 Emmott, S and R. McIntosh (2015) Tonga Education Support Programme II – Independent Programme Review Final Report 14th September 2015.

Regionally, New Zealand also supports education in Tonga through the Pacific Literacy and School Leadership Programme (PLSLP) which is delivered in Tonga, the Solomon Islands and the Cook Islands by Auckland University and the University of South Pacific's (USP) Institute of Education. The role of the University of Auckland Centre for Educational Leadership and the USP is to develop the leadership of schools to enhance literacy outcomes. The key focus of the project is to use an evidence base to help teachers and school leaders improve children's learning of reading, writing, listening and speaking. Since August 2015 the project has moved into the implementation phase, which focuses on providing skills to leaders that can build literacy. The project focuses on producing real-life evidence from classrooms to support the professional development of teachers and school leaders. It combines training, in-class mentoring and support with resource development. Key informants from the MET commented on the very practical and useful nature of this project and the positive responses obtained from teachers and school leaders who have been involved with it. The key, as noted by these informants, will be to scale the learnings from this bottom-up process into the structures and systems of MET, which, as noted above, faces some very real constraints.

The New Zealand - funded *Pacific Science for Health Literacy Partnership Project* (PSHLPP) is implemented by the Liggins Institute in cooperation with the MET and Ministry of Health (MoH) in Tonga. The programme operates in high schools in Tongatapu. The project is designed to support young people to develop the skills and capabilities required for a healthy future, particularly to meet the challenges faced by non-communicable diseases (NCDs). It is fostering a school-science-community - partnership model to support young people in gaining science and health literacy capabilities. The programme adopts a holistic approach based on enhancing teacher professional development and planning, implementing literacy initiatives in the local community context and customising learning resources. The programme has strong school involvement and has been enthusiastically received by staff and students involved in the programme, as emphasised by key informants interviewed for this evaluation. The programme has adopted an innovative and adaptive approach to monitoring and evaluation that includes a range of methods to elicit information on the performance of the programme. A strong social media presence also helps with research communication and programme participation.[57] Stakeholders in the MoH commented on the strong alignment between this programme and the priorities of the GoT with regard to targeting NCDs and improving public awareness in particular, and this programme provides important and much needed resources for this priority. Both the PLSLP and the PSHLPP demonstrate how bottom-up approaches that are targeted and context-specific can make an impact in Tonga.

Scholarships

As highlighted throughout this report, Tonga faces a number of ongoing human resource constraints which, amongst other things, affect its ability to address pressing development challenges. Capacity constraints in areas such as education (science and maths in particular), law, and engineering (and other applied sciences) were raised by key informants in Tonga interviewed for this evaluation. New Zealand provides important support through its

57 See: https://www.facebook.com/LENSciencePSHLPP.

Scholarships programme that seeks to address these constraints. The priorities for scholarships are determined in partnership with the GoT. A review of recent scholarship awards suggests that the New Zealand programme largely aligns with human resource challenges in Tonga, the key challenge for the GoT is to ensure that there are meaningful employment opportunities for scholars upon their return and that broader strategies to do with bonds and incentives for retention are put in place to maximize the impact of returning scholars.

New Zealand provides approximately NZD 3.2 million per year in scholarship funding to Tonga, which is about 6% of total funding for all scholarships. Considering that NZ funds 85 countries through its scholarships programme, it is clear that Tonga (along with other PICs) is a priority country for the programme. At present 107 Tongan's[58] are on award in New Zealand or the Pacific undertaking a range of qualifications from Diploma to PhD level. Of these 60 are female and 47 are male. The most popular course of study for Tongan scholars is Commerce (n=14) followed by Education (n=6), Science (n=6) and Arts (n=6). Four scholars are undertaking degrees in Law. In 2014, 28 scholars completed their awards from a wide range of courses including Law, Medicine and Education; this increased to 35 in 2015 and included awards in Education, Commerce, Engineering and Construction.

The performance of Tongan scholars is above regional averages in some areas but below it in others. There are a higher proportion of stronger performing scholars amongst awardees in Tonga compared to the PIC average (12 versus 10 per cent) but also a higher number of poorer performing scholars (7 versus 4 per cent). During 2015, 26 per cent of Tongan scholars were either struggling with their courses or needed extra support, or had their awards terminated - this is slightly above the PIC average. All but one of these scholars is undertaking Bachelor level study in New Zealand tertiary institutions, which suggests that adapting to the rigours of New Zealand university expectations may be an ongoing issue. A more comprehensive review of scholarship trends in Tonga over time should be undertaken to identify performance trends particularly in the priority areas.

A computerized scholarship application and assessment process for all 85 countries was rolled out in April 2016 and this has been received with optimism in Tonga. The financial and application burden on scholars has been reduced, administration has been streamlined and transparency of selection improved. Key informants in Tonga raised issues with regards to the sectoral prioritisation of scholarships and the need to focus more specifically on those sectors where the capacity constraints are the most obvious, (e.g. in areas like education and engineering). There was a view amongst private sector informants that more needs to be done to incentivize young Tongans to target more technical careers that clearly support economic development in areas like mechanical engineering and construction. Conversely, public sector informants saw the need to retain scholars in the public service and to build management, IT, education and leadership skills.

58 2015 Scholarships Programme Country Monitoring Profile - Tonga

Accreditation

New Zealand has provided important support to Tonga in the area of skills development and accreditation through the provision of funding to various TVET institutions and the strengthening of the Tonga National Qualifications and Accreditation Board (TNQAB). New Zealand's support for TNQAB is funded through the Partnerships Fund and delivered by the New Zealand Qualifications Authority (NZQA). This project began in 2011 and will finish in 2017. The aim of the programme is to develop and strengthen the qualifications and accreditation system in Tonga to ensure that training institutions and the courses they deliver can be guaranteed to be of a high quality. This is important from both a human and economic development perspective as it ensures Tongan students are more employable in local and regional labour markets.

The programme has made substantial improvements to *the* qualifications and accreditation system in Tonga since its inception, but some challenges remain. The TNQAB has developed an organisational structure based on the NZQA. NZQA has assisted with the development of qualifications, systems and processes that are equivalent to those in New Zealand, and the enabling environment for qualifications and accreditation has been improved. For example, an audit and compliance committee has been established, the TNQAB Act has been passed, and lines of reporting have been established directly to the Minister of Education. There is evidence that TNQAB has evolved into a sustainable and high-quality institution, staff numbers have grown from three in 2012 to 15 in 2016, and its budget has grown substantially alongside this from TOP300,000 in 2012 to TOP900,000 in the latest budget.

TNQAB also have staff with expertise in most qualifications areas and only seek outside support in some technical areas like pharmaceuticals, for example. At present in Tonga there are 18 training organisations; 10 of these are presently not registered, and TNQAB has set a deadline for them to be registered by the end of 2016.

Key informants from New Zealand interviewed for this evaluation noted the significant improvements in capacity that TNQAB has developed over time, but highlighted a number of constraints that it faces. These include the need to ensure the legislative framework for qualifications and accreditation is in line with international best practice and the need to provide surety to senior TNQAB staff with regard to employment. TNQAB has had an acting chief executive for many years, and this position should be assured.

The evaluation team hosted a focus group discussion with representatives from the TVET sector, and a number of issues were raised with regard to accreditation and the broader challenges in the sector. Strengthening the framework for skills qualification and accreditation has put significant pressure on local training providers, who need to ensure they can meet the accreditation requirements by the end of 2016. Discussants highlighted the financial incentive to get accredited, as New Zealand - funded in-country training awards can only be given to students who train at accredited institutions, as such to benefit from New Zealand funding institutions need to be accredited. However, the effort involved in documenting courses and fulfilling the accreditation requirements is significant and stretches the capacity of teachers who are already busy teaching courses. Further, there are very long delays in the accreditation process (up to one year). Some TVET institutions have been told they need to certify up to 11 courses by the end of the year and have no capacity to complete this task. In the past, donor-funded TA could have assisted with this effort but no

such modality presently exists. TNQAB has estimated that there will be over 50 applications for unaccredited programmes during 2016.

Discussants also raised a number of other issues regarding the TVET sector that may affect New Zealand's support for in-country awards going forward. The first issue was the need to adopt a systematic approach to strengthening training institutions to ensure high-quality training can take place. Discussants noted that some institutions have strong teachers and a good curriculum but limited equipment, while others might have good equipment but weaker teaching staff and a sub-optimal curriculum, and this has impacts on the quality of training. Discussants also highlighted the need to ensure that Tongan qualifications are recognised overseas to ensure Tongans can be competitive in regional job markets. To this end, some TVET organisations have sought and been given accreditation by the NZQA, but now also need to be certified by the TNQAB for the same courses. This seems like duplication, as the TNQAB is modelled on the NZQA. Further, donors in the past, including DFAT and MFAT, have encouraged TVET providers to focus on demand, but Tonga faces a huge challenge with supply: over 1,000 students graduate each year and enter the TVET system and they need to be taught within the system that exists. Much more needs to be done to strengthen the entire system and this is why TVET is a continuing priority of the GoT.

4.3 Law and Justice

The law and justice sector in Tonga has undergone some significant and momentous changes over the last six years. In 2010 the Constitution of Tonga, which has existed since 1875, underwent significant reform and a large number of executive powers of the King were transferred to a Cabinet of elected leaders. Tonga thus moved from an absolute monarchy to a constitutional monarchy. These reforms established a power sharing arrangement between the executive authority and electoral and parliamentary systems. A 26-member parliament was established, of which 17 members are elected directly by the people; the nine remaining members are elected by Tonga's 33 landholding nobles, four Law Lords and nine life peers. These reforms came about after growing pressure for constitutional reform and were designed to achieve a balance that reflected the central value of the monarchy to Tonga, while establishing a more democratic governance structure. This balance was a priority of mainstream pro-democracy reformers, as highlighted in the quote below:[59]

"…*the objective of the mainstream pro-democracy reformers was to transform the role and authority of the Monarch in such a way as to preserve certain elements of his power and influence – to achieve a balance that would go some way towards securing the value of the Monarch to the nation*."

The King remained the traditional leader ("Hau") of the Tongan people and retained significant powers, particularly with regard to the judiciary. The King (upon advice of the Privy Council) appoints and supervises the judiciary and the Office of the Attorney General; the appointment and supervision of the judiciary is conducted through the Judicial

59 Powles, G (2014) The Tongan Monarchy and the Constitution: Political Reform in a Tongan Context, SSGM Discussion Paper, 2014/9.

Appointments and Discipline Panel (JADP). The JADP substituted the services of the pre-existing Judicial Services Commission and is a Committee of the Privy Council, comprising the Lord Chancellor, the Lord Chief Justice, the Attorney General and the Law Lords, all of whom are Privy Councillors. The King can also convoke and dismiss the Legislative Assembly at any time, and no law can be made by Parliament without his consent. The King also grants hereditary titles and estates.[60]

The evaluation team interviewed over 80 Tongans from all walks of life and there were variable views expressed by the Tongan people with regard to the nature and scope of the reforms that took place in 2010. At one end of the spectrum are those that would have liked to have seen the full devolution of the monarch's powers, and at the other end are those who think the reforms have gone too far. In general, there is an acceptance that Tonga has a distinctiveness founded on its social and political history and that there is a need for an appropriate form of democracy that suits this context.[61] With regard to the reforms to the judiciary there have been criticisms about the changes made in 2010, which included establishing the JADP, the position of Lord Chancellor and the Office of the Attorney General under the King's supervision. A review of the constitution by an expert in constitutional law[62] highlighted the historical independence of the judiciary and the fact that these recent reforms were inconsistent with the principles of democracy as manifested in other constitutional monarchies. Establishing three separate bodies responsible for the judiciary is seen as inefficient, ineffective and unaffordable.

Aside from these high level constitutional matters, there have also been quite significant upheavals in the last decade that have focused attention on the application of the rule of law. On 16 November 2006 civil unrest broke out in the capital Nuku'alofa, which destroyed a large proportion of the central business district. Private businesses and other property owned by the then Prime Minister and other senior leaders were destroyed. A state of emergency was declared, which lasted (with repeated extensions) until 2011. The Tongan Police worked closely with the Australian and New Zealand Police in Operation Kaliloa to investigate the civil disturbance, and a total of 571 people were arrested. The Government was forced to obtain loans for the rebuilding of the capital, which led to significant increases in debt levels. Despite these disturbances the economy rebounded relatively quickly.

During the civil unrest there were widespread reports of violence perpetrated against civilians by Tongan security forces.[63] Subsequent to the civil unrest there have also been a number of reports of violence perpetrated by the Tongan Police, against youth in particular. Two Tongan policemen were convicted of the manslaughter of a New Zealand policeman, who was beaten to death in police cells in August 2012, a case that was only recently settled in the Tongan Supreme Court in March 2016.[64] Tackling issues of brutality and unprofessionalism in the Tongan police force has been difficult and have resulted in tensions

60 See Powles, G (2013) The Kingdom of Tonga's Path to Democracy, University of the South Pacific.
61 Ibid.
62 Commonwealth Fund for Technical Cooperation, Review of Tongan Constitutional Reforms.
63 http://nautilus.org/publications/books/australian-forces-abroad/tonga/allegations-of-torture-and-mistreatment/.
64 http://www.pireport.org/articles/2016/03/07/tonga-settles-case-over-death-nz-policeman-custody.

between New Zealand and Tonga.[65] In 2014, the Tongan Police Commissioner, Grant O'Fee (a New Zealander) tendered his resignation due to pressure from protests within the Tongan Police force associated with his reform activities; this followed the non-renewal of the contract of another New Zealander, Commissioner Chris Kelley, in 2011.[66]

It is within this context of major reform and upheaval that New Zealand has provided important support to both the justice system and the Police department. New Zealand's support for justice includes the provision of funds for the full-time employment of Justice Charles Cato of the Supreme Court of Tonga and part-time employment of Justice Michael Scott, the former Chief Justice of Tonga.[67] Both judges are New Zealanders. Justice Cato is a very experienced Judge who assists the Chief Justice Owen Paulsen in the administration of the Supreme Court of Tonga. Justice Scott provides part-time support for three months of the year as needed and plays a vital support role for the other two justices. Justice Cato primarily oversees criminal matters (his speciality), an arrangement that has been in place since before the appointment of the new Chief Justice in 2014. According to Ministry of Justice (MoJ) reporting, Justice Cato makes a significant and cost-effective contribution to the administration of justice in Tonga. He has finalised 418 criminal matters in the past three years and obtained a clearance rate average of 79 per cent over the same period.[68] Justice Cato and Justice Scott also undertake circuit court work on islands outside Tongatapu, which helps with the provision of justice in more remote locations.

The Chief Justice of Tonga, who was interviewed for this evaluation, commented on the high quality of Justice Cato's decisions and the low appeal rates associated with his work. Key informants noted the quality of Tonga's judicial system more generally and the fact that Tonga has benefited for many years from a judicial system that helps maintain civil society and respect for the law. New Zealand has contributed significantly to this for many years. Key informants commented on the importance of the populace having confidence in the decisions of Tonga's highest court, particularly considering the upheavals over the last decade.

With regard to sustainability, there is a widespread aspiration that Tonga may be able to appoint Tongan judges to the Supreme Court at some stage in the next 5 to 10 years. However there are a number of issues that militate against this. First, as noted by senior GoT officials, there are the constitutional issues associated with the appointment of judges by the JADP. This process is seen as sub-optimal as its lacks transparency and public accountability and the high wages of judges puts pressure on the GoT budget. Tension emerges because the MoJ administers donor grant-funding and pays for the Chief Justice's salary, but has no say over the appointment or monitoring and evaluation of judicial services, as this is the remit of the JADP. As such there is a fragmentation in the judicial sector, which some key informants suggest needs to be addressed forthwith. To this end, Cabinet approved draft

65 See: http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10741418.
66 See: http://www.nzherald.co.nz/nz/news/article.cfm?c_id=1&objectid=10741418.
67 MFAT (2014) Grant Funding Agreement – Supreme Court Judge and Part Time Judge, 17 December, 2014.
68 MoJ (2015) Activity Completion Report – Supreme Court Judge, 10 September, 2015.

legislation in 2014[69] that aimed to amend the Constitution with regard to the management of the judiciary, as the MoJ believes the present arrangement is incompatible with judicial independence and needlessly duplicates structures. This legislation has not yet received Royal assent.

Further, there is, according to senior legal professionals consulted by the evaluation team, a need to strengthen the skills and qualifications of legal professionals in Tonga to ensure that one day the Supreme Court can include local Tongan judges. At present there is significant variability in legal skills. There is a need to systematically build a cadre of legal professionals that can one day fill senior positions within the Tongan judiciary. At present, support in areas like litigation skills and advocacy is provided by the New Zealand Law Society (at the request of the Chief Justice) and through the Partnerships –funded Litigation Skills Training Programme with Crown Law; the New Zealand Institute of Judicial Studies has also been involved in capacity building initiatives. Legal sector key informants also commented on the need to further strengthen the Magistrates Court, from which the Supreme Court hears appeals, in order to improve the provision of justice at this lower level. At present only one of the seven local magistrates holds a Bachelor's degree in Law and the remaining six magistrates hold Diplomas in Legal Studies. A significant constraint to further strengthening the legal sector is the very low salaries of Magistrates.[70] Key informants involved in the legal sector commented on the lack of donor interest in the justice sector, and the perceived bias of New Zealand support towards police and support for Supreme Court judges. There was a concern amongst informants that scarce donor resources are being used to strengthen one element of the justice sector at the expense of the other elements that together comprise a functional justice system.

The perception of imbalance stems, in part, from the size of the bilaterally funded Tonga Police Development Programme (TPDP) compared to New Zealand's other more dispersed investments in the law and justice system. New Zealand has funded a number of activities throughout the sector that seek to: strengthen transparency and governance (e.g. support for the Ombudsmen through the Pacific Ombudsmen Alliance and the Auditor General through the Pacific Association of Supreme Audit Institutions), strengthen court systems (e.g. the Pacific Judicial Development Programme and Judicial Pacific Partnership Fund), improve community safety (e.g. Pacific Prevention of Domestic Violence Programme) strengthen border management (through support for the Oceania Customs Organisation), and improve litigation skills (e.g. the PILON Litigation Skills Programme). These are all delivered through different funding pathways and some are part of regional programmes. The MoJ, which is tasked to deliver a vision and strategy for the Law and Justice Sector with very little resources, has minimal involvement in, or control over, these dispersed activities and it is not clear how they align to the priorities of MoJ which is seeking to build a coherent and strategic sector.

69 Act of the Constitution of Tonga (Amendment) Bill 2014.
70 Depending on seniority, Magistrates in Tonga are paid between TOP42,966 to TOP54,460 per annum; The Remuneration Authority are revising the Magistrates salaries.

New Zealand's support for the Tongan Police Force is funded through the Tongan Police Development Programme Phase II (TPDP II). This five-year programme (2013 to 2018) is jointly funded with Australia and delivered by the New Zealand Police. New Zealand's contribution is NZD14.4 million over the five years. This activity provides support for TPDP outputs; funds advisor support provided by the New Zealand Police; contributes to the salary of the Director of Public Prosecutions; and partially funds the salary of the Tongan Police Commissioner, who is a New Zealand citizen.[71] The modality is a modified sector support arrangement, and the outputs supported by the programme are those articulated in the Tongan Police's own strategic plan. Mutual accountabilities and results are set out in a results framework that been developed alongside the strategic plan.

The TPDP was the subject of a very comprehensive recent evaluation, and as such this present report does not include a lengthy discussion of the TPDP.[72] The evaluation found that the TPDP was providing important and relevant support for the Tongan Police during what has been a challenging period. The community policing initiatives were helping strengthen engagement with the community and youth in particular, which is a positive outcome considering past challenges in community engagement. The TPDP-funded infrastructure projects, which have included the construction of barracks for women and community policing stations, were directly contributing to improved outcomes, as was the provision of much-needed equipment, including ICT infrastructure and boats for maritime search and rescue. The provision of ICT infrastructure, including CCTV, is also helping improve accountability through the monitoring of police performance.

The evaluation suggested that to improve effectiveness, further effort needs to focus on building leadership capacity, improving organisational development issues and enhancing core policing skills. Building strong leadership was seen as an ongoing challenge and there is a need for clear direction and prioritisation from the Tongan Police executive to ensure its priorities can be met through TPDP. The evaluation suggested that more work needs to done to integrate planning between the three partners to ensure that the TPDP links with the corporate plan of the Tongan Police. This is important from a sustainability perspective. More work also needs to be done to strengthen capacity building approaches, including in mentoring and improving training assessment. There is little objective assessment of improvements in policing skills, and there needs to be more focus on assessing the impact of training. Importantly, the evaluation found that TPDP had fostered important gains in gender equality and that these gains need to be consolidated through the increased deployment of women in core policing areas—not just administration—and increased training in policing skills.

The Police Minister, who was interviewed for this evaluation, noted the significant progress of the TPDP and the important role it was playing in improving the professionalism of the police force and relationships between the force and the public. He noted the significant gains in gender equality and the positive role women play in the police force more generally. The

71 MFAT (2013) Programme Activity Authority, Tonga Police Development Programme Phase Two, 28 November, 2013.
72 Tennant, S., and Bernklau, S (2016) Tonga Police Development Programme Evaluation – Final Report, 15 April 2016.

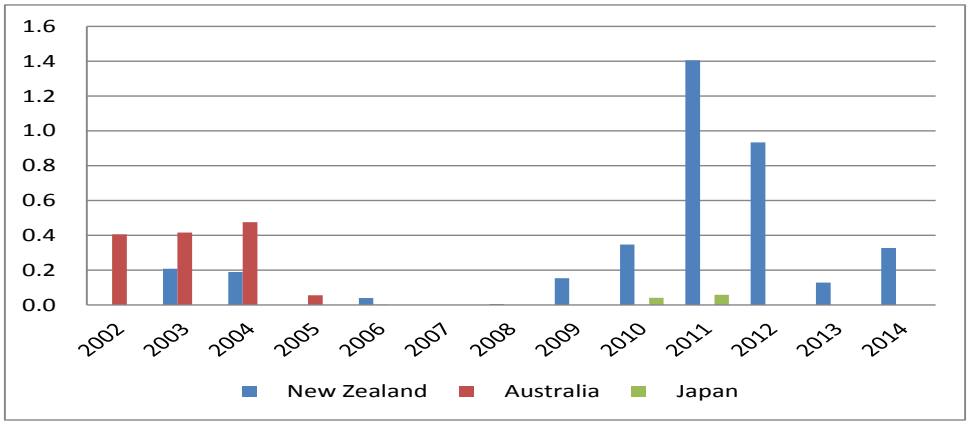
Minister highlighted the need to ensure that resources for the outer islands are considered within TPDP to ensure services can be delivered to remote areas. He also commented on the need to strengthen the police college and the training provided there, to ensure the college generates high quality young graduates who can further strengthen the police force.

4.4 Tourism

Tourism has been a target of support by New Zealand and the GoT over the review period due to its potential to drive foreign investment, employment, Government revenues and economic growth. Tonga's strategic development framework highlights tourism as a key source of growth, linked largely to the King's coronation in 2015 and the Pacific Games in 2019.

As Figure 18 below highlights, New Zealand has been the most prominent donor in the tourism sector, with only small support from JICA; Australia has not supported tourism for a number of years. New Zealand's total investment in tourism between 2011 and 2015 was NZD 5.3 million.

Figure 18: Total aid to the Tourism sector in Tonga, (USD millions)

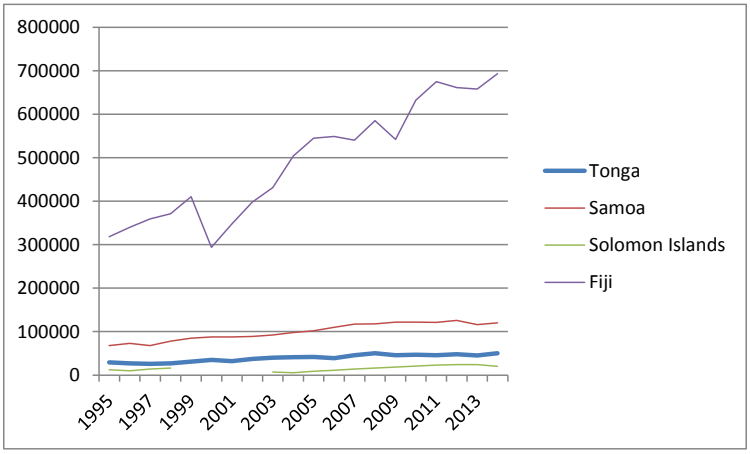


Source: OECD-DAC CRS database

The GoT's 2015/16 National Budget outlined a number of policy initiatives to support the tourism sector, including the Tonga Tourism Authority Business Plan and the Tourism Roadmap. The focus of these initiatives was to improve the marketing of Tonga as a tourist destination and to improve sector coordination. There was no mention of either initiative in the 2016/17 National Budget. There is a view that tourism can support other sectors like agriculture and fisheries through import substitution, whereas growth in domestic consumption continues to be sourced from imports.

The downturn in commodity prices has dented growth prospects in both Australia and New Zealand, with a possible reduction in tourism spending in the region (plus lower remittances flowing to Pacific Island countries, including Tonga). This is not yet evident in visitor arrivals data but may show up as data becomes available.

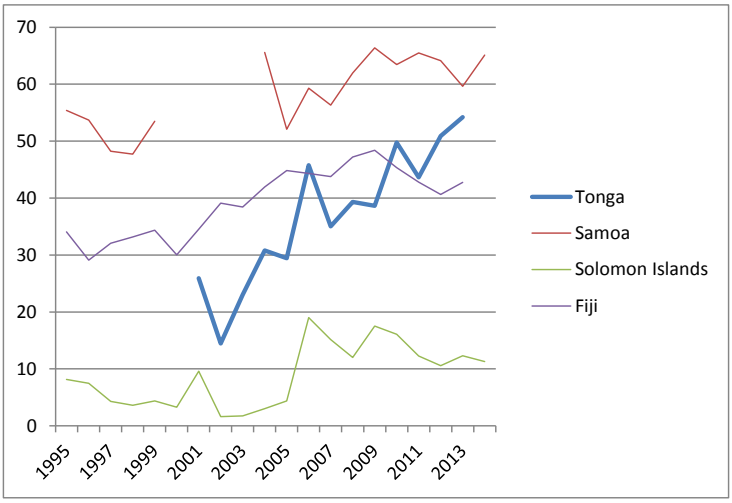
Figure 19: International tourism, number of arrivals



Source: World Bank, (2016), World Development Indicators

As outlined in Figure 19, international arrivals to Tonga have remained somewhat flat since the mid-2000s and are far below the levels witnessed in Fiji and even Samoa. While the number of tourists has grown very slowly, the importance of tourism to Tonga's trade balance has grown more rapidly. In 2002 tourism made up only 14 per cent of total exports, whereas in 2013 its contribution to exports had jumped to 54 per cent, increasing its relative importance at a time when other export sectors were falling. - see Figure 20. So while tourism numbers and receipts are much smaller in Tonga than in a country like Fiji tourism as an export is far more important to the economy of Tonga.

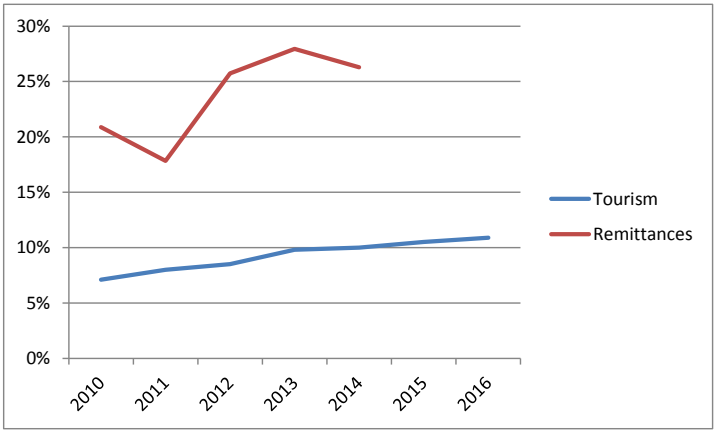
Figure 20: International tourism, receipts (percentage of total exports)



Source: World Bank, (2016), World Development Indicators

Remittances have experienced a steady decline (see Figure 21 below). Tourism, on the other hand has continued to grow slowly on all measures: as a percentage of GDP; in visitor arrivals; and in total receipts (see Figure 22 below). The current growth started prior to the adoption of the 2013 Tourism Roadmap and prior to New Zealand support through the JCFD.

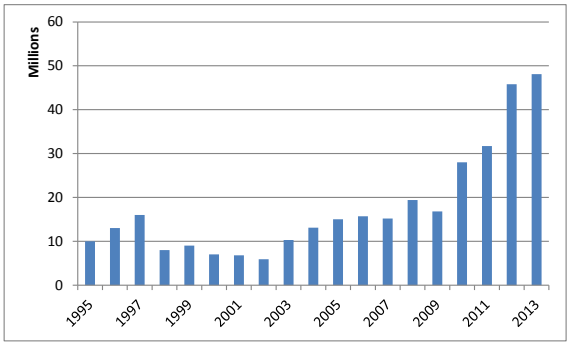
Figure 21: Tourism vs remittances, percentage of GDP



Source: IMF (2015), 2015 Article IV Consultation

In contrast to tourism, remittances have experienced a steady decline. Growth in the tourism sector is seen as an important factor for encouraging remittances by strengthening cultural and family ties with the Tongan diaspora.

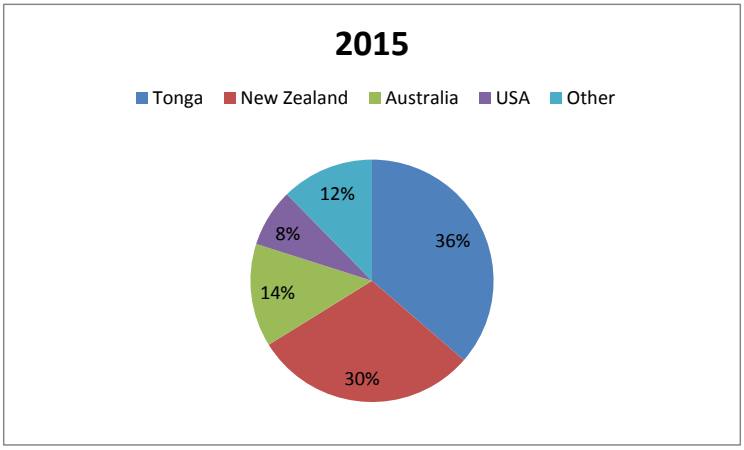
Figure 22: Tonga International tourist receipts (current USD millions)



Source: World Bank (2016), World Development Indicators

New Zealand is the most important source of foreign tourists to Tonga and accounted for 30 per cent of total arrivals in 2015, followed by Australia and the USA. Key informants interviewed for this evaluation involved in the tourism industry commented on the high influx of New Zealanders of Tongan heritage who visit Tonga for family and cultural purposes and the high value-add these tourists bring to the economy.

Figure 23: Tourist arrivals by country, 2015



Source: Tongan Department of Statistics

Noting the importance of tourism to the economy, New Zealand prioritised it in the 2011 JCFD. In 2012, New Zealand approved TOP 13.2 million for the three-year Tonga – New Zealand Tourism Partnership (TNZTP), which built on New Zealand's support for the previous Tonga Tourism Support Programme (TTSP). This new initiative aimed to build on major reforms that had occurred in the tourism sector that aimed to improve the enabling environment for tourism.[73] Progress in this area was influenced by the placement of a New Zealand-funded Programme Manager on TTSP who provided technical advice and strategic planning for the reform process – something that was not in place under TNZTP. Supportive reforms included the review of the Tonga Tourism Act, the creation of the Ministry of Commerce, Tourism and Labour (MCTL), which elevated the importance of tourism, and the establishment of the Tonga Tourism Authority (TTA), which was responsible for destination marketing. These reforms gave MFAT some confidence that its support would be utilised effectively, although some concern was raised about risks with regard to capacity constraints within the TTA and the potential gifting of aircraft by China to Tonga for use in their domestic fleet.[74] As highlighted below, both of these situations occurred, and had a debilitating effect on the programme.

In April 2013, shortly after the commencement of TNZTP, New Zealand suspended its support for tourism. This followed the departure of the New Zealand airline, Chatham Airlines, which had previously been servicing domestic routes in Tonga but exited the country due to excessive Government regulation and intervention. The GoT had expressed a desire to establish a new airline using the MA60 aircraft. MFAT was concerned about the certification and safe operation of this aircraft. As a result New Zealand updated its travel advisory for Tonga in August 2013, specifically referencing the fact that the MA60 is not certified to fly in New Zealand or other comparable jurisdictions and would not be allowed to do so without a thorough certification process under Civil Aviation rules. These two interventions had a significant impact on the political relationship between New Zealand and Tonga, which

73 MFAT (2012) Programme Activity Authority, Tonga-New Zealand Tourism Partnership, 17 December 2012.
74 Ibid, p.8.

affected not only tourism but policy dialogue and engagement more generally. Senior officials from the GoT interviewed for this evaluation commented on the shock occasioned by this decision and the negative impact it had on the progress of tourism, the relationship between Tonga and New Zealand, and tourism revenue, which, according to Tongan authorities was adversely affected. Officials were (and remain) of the view that this is a domestic Tongan issue and that it was Tonga's sovereign right to use gifted aircraft as it saw fit.

The suspension of the programme ended in 2014, and a range of activities recommenced in line with the Grant Funding Agreement (GFA). In February 2015, during a visit to Tonga, the Minister of Foreign Affairs agreed in principle to release the remainder of TNZTP funds. At that time there were growing concerns with regard to the performance of MCTL and its capacity to deliver outputs in accordance with the GFA; there were issues with the relationship between MCTL and TTA, ongoing concerns over the lack of ministerial buy-in in tourism, the possible misuse of funds, and the lack of technical support and guidance for programme management. Progress with regard to the eight outputs and 24 activities funded by the programme had been very slow. There were delays in almost all output areas and the budget was significantly underspent.[75] There were considerable delays in design and planning in particular.

A review of the TNZTP was undertaken in 2015.[76] The review outlined a significant number of constraints to tourism development and the progress of TNZTP. The review noted the problems with sectoral planning and policy coordination in the tourism sector, and the impact of the movement of the Tourism Department from out of MCL to the Ministry of Infrastructure and Tourism (MoIT) in 2015. The Tonga Tourism Roadmap, which was seen as a useful document, was usurped by the MoIT corporate plan, which was poorly structured and largely unfunded. It also flagged a move away from prioritising destination marketing towards a focus on infrastructure development. Ownership and capacity was low within the MoIT as most of the tourism development capacity remained in the MCL. Further, there was an ongoing lack of destination marketing expertise in the TTA and an inability to plan and prioritise destination marketing activities. The sector was in a state of flux due to ongoing safety concerns and issues with the provision of domestic air services. The review found that the implementation of TNZTP was very low due to limited capacity and ownership by TTA and MoIT staff and lengthy government procurement processes, which caused delays. There was a lack of technical support for programme management and limited formal guidance with regard to project management. Finally, the original TNZTP design itself was seen to lack clarity and did not sufficiently account for the complexity of certain activities.

In March, 2016 the Governments of New Zealand and Tonga agreed to cease funding for the tourism sector under the new Joint Commitment for Development. Both parties agreed that tourism is an important driver of economic development in Tonga, but noted that due to the issues raised above, it was best for New Zealand to cease its support. The GoT has

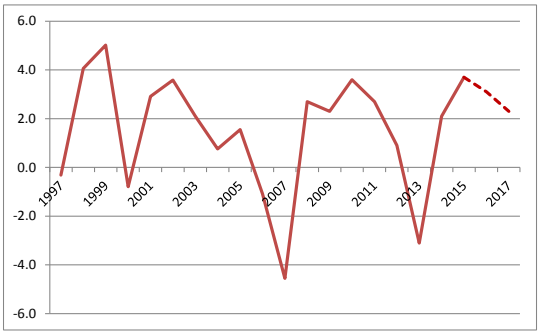
75 See MCTL (2015) Tonga-New Zealand Tourism Partnership, Second Progress Report, MCTL (2015) Tonga-New Zealand Tourism Partnership, Third Progress Report.
76 See: Hopkins, R (2015) Tonga-New Zealand Tourism Partnership Review, 26th August 2015.

committed to undertake an organisational review with regard to the tourism sector, and New Zealand has committed to reassess its support to tourism in the medium term. The recent appointment of a new Minister of Infrastructure and Tourism is a step in the right direction. The Minister comes from a private sector background and has flagged the importance of reviewing the Tourism Act, and ensuring private sector operators with experience in tourism are involved in the TTA.

4.5 Economic and Private Sector Development

Economic development in Tonga is limited to a small number of sectors with relatively narrow options for expansion and growth. Agriculture, fisheries and tourism are considered the main drivers of economic growth and the expansion of exports. Other sectors include construction, energy and public administration. While important, they are effectively contributors or enablers to the main three sectors, which will drive longer-term economic growth, employment and improvements in living standards. Tonga's economic growth has been volatile, with exogenous factors like the Global Financial Crisis dictating the growth story - see Figure 24.

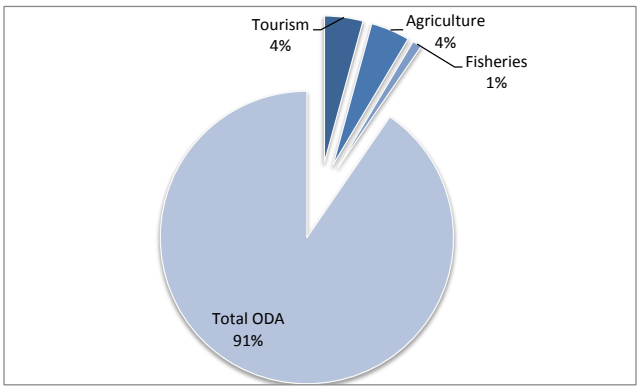
Figure 24: Tonga's GDP growth 1997 to 2017 (annual percentage change)



Source: ADB (2015) Tonga Factsheet, 2016 IMF Article IV

New Zealand's funding has been primarily allocated to economic enablers (such as energy and education) and not the key drivers of growth, as identified by the GoT in its development plans and annual budgets over the period. New Zealand's total investment in key economic sectors between 2012 and 2016 was only 9 per cent of the total aid budget. (See Figure 25).

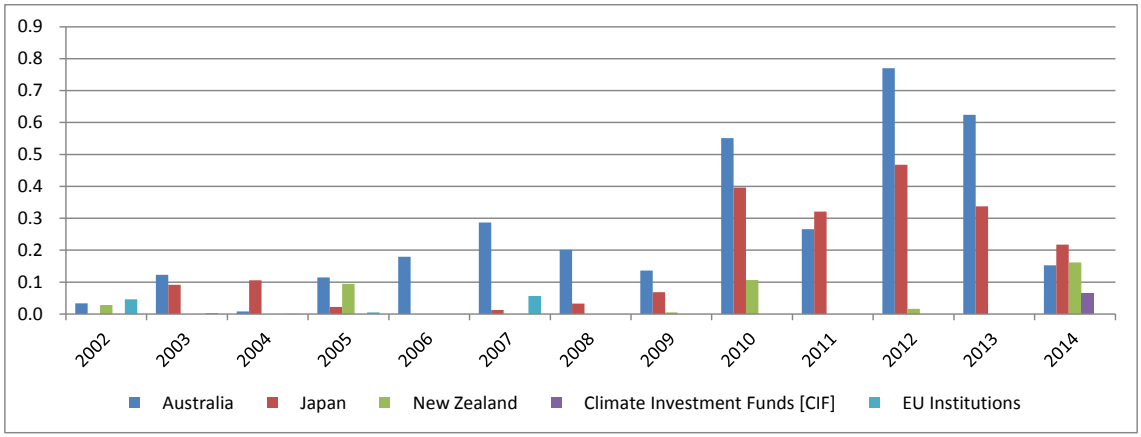
Figure 25: Total NZ aid to Tonga, key economic sectors, 2012 to 2016



Source: MFAT FAP

Between 2012 and 2016, New Zealand will have contributed approximately NZD 6.4 million to the agriculture sector, which is almost 5 per cent of New Zealand's total ODA to Tonga over the period. New Zealand's support to the sector is relatively small and less consistent compared to that from other donors such as Australia and Japan - see Figure 26.

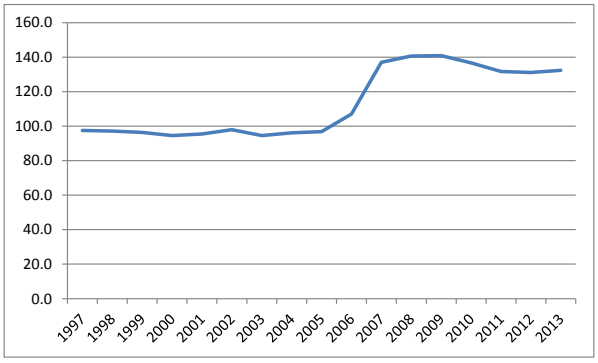
Figure 26: Total donor support to agriculture (USD millions)



Source: OECD DAC CRS

With regard to productivity, agriculture saw a brief period of improvement in 2006 and 2007; however, these improvements have not been maintained - see Figure 27.

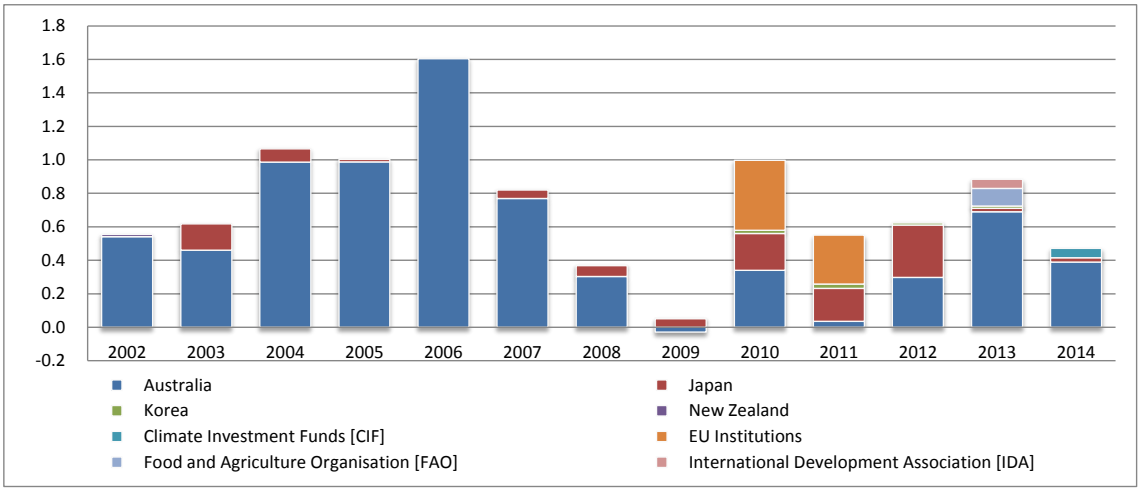
Figure 27: Agriculture production index (2004-2006=100)



Source: ADB (2015) Tonga Factsheet

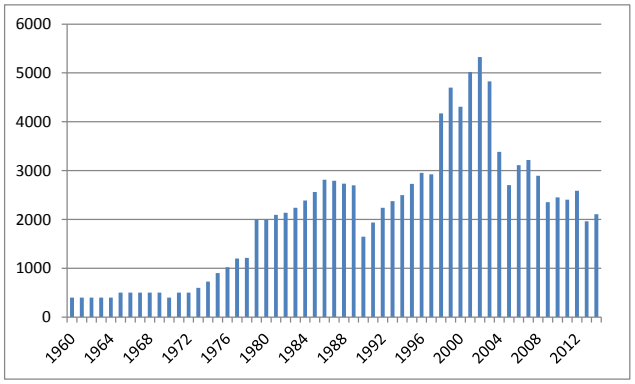
With regard to fisheries, between 2012 and 2016, New Zealand will have contributed over NZD1.5 million (approximately 1 per cent of New Zealand's total ODA) to Tonga over the period. Again, New Zealand's support is modest when compared to that provided by other donors - see Figure 28.

Figure 28: Total donor support to fisheries (USD millions)



Source: OECD DAC CRS

Figure 29: Total fisheries production (metric tons)



Source: World Bank (2016) World Development Indicators

As with agriculture, fisheries' productivity increased substantially for a short period in the early to mid-2000's, but has since declined back to levels witnessed in the 1980s and 1990s (see Figure 29). This is at a time of rising demand for fish products around the world and particularly in Asia, where incomes have increased significantly over the last 30 years.

New Zealand's investments in agriculture are primarily focused on maintaining market access and building the conditions for the more consistent supply of exportable products. New Zealand has supported the management of a High Temperature Forced Air Facility (HTFA) in Tonga for a number of years. The HTFA is used for the mandatory treatment of fruit fly host commodities that have market access to New Zealand. These include chilli, papaya, tomato, mango, breadfruit, eggplant and avocado. Tonga Export Quality Management Limited (TEQ-M LTD) was established in November 2010 and is the Government-owned registered company that manages the HTFA. In early 2015, the export pathway to New Zealand was discontinued following the discovery of fruit fly larvae and eggs in a consignment of breadfruit. The

Ministry for Primary Industries (MPI) has been working with the Quarantine and Quality Management Division (QQMD) to improve processes and systems associated with the HTFA in order to reopen the export pathway and strengthen biosecurity. MPI has worked with QQMD to redesign their export certification system, developed new operating procedures for the HTFA, installed an advisor to assist with HTFA operational and systems issues and trained staff within QQMD. However, biosecurity and agricultural stakeholders from both Tonga and New Zealand interviewed for this evaluation highlighted some major issues with the sustainability of support and the continual achievement of results in this area. First and foremost is the lack of a total supply chain approach. Extension services in Tonga are seen as very weak (particularly in the area of pests and diseases), and there is limited expertise in food safety procedures and supply chain approaches.

The HTFA is not a 'magic bullet' treatment and cannot guarantee a 100 per cent kill rate for pathogens; to be effective it must be seen as just one element of a quality supply chain. Key informants commented on the need for a HACCP[77] style approach to ensure food safety across the supply chain. The fluctuations in agricultural supply for export in Tonga coupled with the cases of discontinuance mean that for long periods of time the HTFA is not supplied with crops; this means the improved system and training provided by MPI cannot be brought into operation *in situ* and may become irrelevant. Key informants also commented on the lack of a compliance culture in Tonga and the cultural difficulties staff face when enforcing compliance to regulations. There were also more widespread concerns voiced by stakeholders about the agricultural sector, including the lack of prioritisation of agriculture by the GoT, the lack of funding for agriculture in National Budgets, the lack of donor interest in the sector, and the inability of the Ministry of Agriculture, Forestry, Fisheries and Food (MAFFF) to work effectively with the private sector.

MFAT is presently investigating the potential viability of papaya as an export crop. This year-round crop, which is in high demand in New Zealand, would have the dual benefit of keeping the HTFA system open year-round, while also providing much needed export earnings for Tonga. A recent assessment[78] suggests that with the right support and controls in place there is a market for Tongan papaya in New Zealand. The greatest challenge, as highlighted above, is to ensure that all parts of the supply chain adhere to the protocols for market access and that good food safety systems are in place across the system. This will ensure a consistent supply of high-quality fruit.

New Zealand recognises the need to establish sustainable supply chains for export, the capacity constraints within the MAFFF, and the difficulty it has working with the private sector. To this end it has been has been supporting the work of Grofed (Tongan Growers Federation) to bring growers together to resolve common issues that were previously regarded as Government responsibilities, such as finding markets, quality control and technology transfer. New Zealand provides funds for stakeholder engagement, building market networks, establishing crop business models and good agricultural practices. The work of Grofed was severely interrupted by the drought in 2014 but since then some

77 Hazard Analysis Critical Control Point – a systems based approach to food safety risks.
78 Agrichain (2015) Tonga Agriculture Export Growth, Papaya Value Chain Analysis, December, 2015.

advances have been made, including participating as a private sector organisation in the Agricultural Growth Committee, establishing the R&D needs of growers, providing monthly updates of activities to growers through radio and TV, developing a database of seasonal demand and prices, analysing new markets for Tongan produce, and conducting crop trials with watermelon, papaya, chilli and eggplant. The papaya trials are expected to produce fruit in late 2016/early 2017.

New Zealand's support to the fisheries sector includes a range of activities funded from four different funding sources: bilateral, sustainable economic development, PHM's regional allocation and the partnerships fund. New Zealand's most significant investment in fisheries was announced by Prime Minister John Key during his visit to Tonga in 2014. It is the five-year NZD2.7 million project implemented by the New Zealand National Institute of Water and Atmospheric Studies (NIWA), which is working alongside SPC and the GoT to develop a well-managed and sustainable line fishery for deep-water fish in Tonga's Economic Exclusion Zone (EEZ). The focus of the programme is on developing a sustainable deep-sea fishing industry that can bring in important export earnings and build on the export earnings Tonga currently receives for its tuna and snapper fisheries, and the relatively small income it receives from the US Treaty.

Phase 1 of the project has commenced and focuses on assessing the economic viability of deep-sea species; developing simulation models; improving the Fisheries Department's capacity and skills in technical areas, including statistics; undertaking cost-benefit analysis; and improving stock monitoring. Phase 2 will commence in late 2016 and will include exploratory surveys and further capacity-building initiatives. Research generated by the project[79] suggests that the potential exists for the expansion of deep-sea fishing and the further development of export markets for certain fish species. The report found that there is an opportunity to expand snapper catch and that the investment required to do this is relatively low. Required changes include upgrading fishing vessels, improving logistics, and directly marketing chilled fish. There is a strong demand for this fish species, and Tonga has been involved in its export for 30 years. There is limited evidence at present with regard to the commercial viability of the other high demand species (bluenose), so more data will be collected during fishing trials in the southern EEZ later in 2016. There is strong demand for these deep-water species in Hawaii, mainland USA, Australia and New Zealand. The review found that existing infrastructure can cope with increases in production with some minor upgrades in insulation and cold chain. There are some limitations in air freight, which need to be further explored, but sea freight is reliable. The review provided a range of recommendations, including focusing on marketing, retrofitting existing fishing vessels, improving storage and enhancing coldchain assets.

Informants from the Fisheries department in Tonga were enthusiastic about the possibilities for deep-water fisheries and welcomed New Zealand's support in this area. As with other Government departments, Fisheries faces a number of capacity constraints, including limited financial resources and a small number of staff. NIWA is introducing a range of new technical

79 Philipson, P., and B. Bird (2015) Development of Tonga Demersal Line Fisheries – Non-Technical Synthesis Paper, November 2012, NIWA, SPC, Tonga National Fisheries Council.

approaches in areas like statistical modelling and there was some apprehension with regard to the capacity of Fisheries staff to fully utilise these approaches. NIWA needs to ensure it adopts a sustainable method of capacity building that can ensure the analytical methods it deploys in New Zealand can be used in practice by Tongan Fisheries staff.

The focus of New Zealand's bilateral support is about strengthening the capacity of the Fisheries Department's senior management team to plan, implement and manage Tonga's fisheries resources. This complements the regional fisheries activities and is in line with New Zealand's objective to assist PICs to sustainably govern and manage their own fisheries resources. New Zealand funds a Fisheries advisor who works closely with the Fisheries department reviewing organisational structure, preparing the corporate plan, developing project proposals for donors, improving performance management systems and improving internal policies, Fisheries see this as vitally important technical assistance that is providing very practical and implementable improvements to the organisation. New Zealand, through MPI, is also assisting Fisheries in Tonga with the development of a licensing system and improving monitoring, control and surveillance.

Aside from its direct work with the Fisheries Department, New Zealand has provided funding for training through the Pacific Islands Forum Fisheries Agency, the regional body which negotiates on the US Treaty and seeks to facilitate a more coordinated regional approach with regard to Tuna fishing. There is also funding allocated going forward for sustainable aquaculture, Te Vaka Moana Fisheries Programme, and funding for tuna investment and export facilitation from the transformation fund. Noting the myriad activities in the fisheries sector funded by New Zealand, the strong partnerships between New Zealand agencies and Tongan counterparts and the clear economic development potential for the fisheries sector, MFAT should consider consolidating its support for fisheries and developing a practical sectoral plan that outlines how these various activities complement each other. New Zealand is helping ensure Tonga sustainably manages its fisheries resources into the future and this is needed to ensure revenue from these resources can grow sustainably over time.

Case Study - Pacific Sunrise

Pacific Sunrise is a family-owned fishing business that employs 53 people and runs four boats out of Nuku'alofa harbour. The business employs deckhands, skippers, engineers, administrators and processors. Pacific Sunrise exports fish to New Zealand, USA, Japan and Australia and also supplies the local market. Business is going well and a fifth boat is about to be acquired to expand the fleet. Once this new boat is on line an additional 10 people will be employed to operate and maintain it. Pacific Sunrise exports up to 18 tonnes of tuna per week on the Friday Air New Zealand flight (first-class fish), which, in a short amount of time, is served in restaurants in Los Angeles and Japan. While business may be going well, there are constraints facing both Pacific Sunrise and the industry more generally that limit the potential for expansion and, therefore, the potential for the further commercial development of the fishing industry. Chief amongst these are issues around the certification of staff. In Tonga, fishing vessels cannot be surveyed unless the crews who will man these vessels are certified. If a boat cannot be surveyed it cannot be licensed and therefore cannot be insured. To be qualified, staff have to complete a number of technical courses; unfortunately the Tongan Maritime College does not teach all the courses required to complete certification and Pacific Sunrise cannot afford to send its staff to Fiji or elsewhere to obtain certification. As noted by one Pacific Sunrise employee: "…I am not sure the government and donors are looking at things from a private sector perspective. Maritime support, education and fishing have all been funded by New Zealand but we still cannot get our guys certified and this is holding up business…it is not just important for us but for the economy

New Zealand has also provided long-term support for the Forestry sector in Tonga through the provision of funding to Tonga Forest Products (TFP) - a state owned enterprise. TFP was established in 1994 and has faced significant challenges managing a viable forestry industry in Tonga. These challenges included: poor asset management, ineffective management, lack of technical capacity, and high debt levels[80]. Between 2011 and 2016 New Zealand provided NZD 1.32 million for technical assistance in two key areas: Forestry Management and Production Management. The former position manages TFPs managed forests in 'Eua, which include Pine, Cedar and Mahogany resources located on GoT leased land and the Royal Estates. The aim of this funding was to provide the technical backstopping required to support a more commercially viable forestry sector in Tonga, a sector which provides important employment, particularly in the island of 'Eua where it is a major employer.

A review of this support in 2014[81] found that the technical assistance provided by the two advisers was effective but the sustainability of this support was affected by ongoing organisational capacity constraints within TFP particularly those associated with business management, financial planning and long term strategy. There were some positive signs due to the employment of additional staff in 'Eua and the earning of increased revenue, but high levels of debt and concerns over the transition from New Zealand TA were persistent. A review conducted by Delloitte[82] in 2015 re-emphasised these sustainability concerns. This report highlighted the limited integration between the forest management and processing arms of the business, the high and unsustainable reliance on NZ TA (and the need for this to continue for the company to continue to trade), the need for strong business management and leadership, and the need to lock in long term leases over land on 'Eua. The report noted that due to high levels of debt and limited cash flow, TFP was technically insolvent and suggested that a managed liquidation was the most logical option for the company. In March 2016 the governments of Tonga and New Zealand agreed that New Zealand should exit the sector.

The TFP and GoT were active in seeking commercial partners to support the forest sector in Tonga noting the withdrawal of New Zealand and other donors following years of constant support. The NZHC were involved in regular policy dialogue with the GoT and TFP during this time, which aimed to encourage privatisation as a means of preventing further debt and establishing the TFP as a viable business. In June 2016 an agreement was made between the GoT and a Maori Trust representing two significant Maori Iwi in New Zealand[83]. These two Iwi have significant experience in forestry management and commercialisation and export forest products to markets in China and elsewhere. In exchange for the right to control and manage TFP and the GoT's forests and processing facilities for 50 years, the trust has agreed to pay TOP 9.74 million. A new company, the Aotearoa – Tonga Forest Products Ltd has been formed which will manage the new enterprise. The new company predicts that employment

80 MFAT (2012) Program Activity Authority, Tonga Forest Products, 12 December, 2012.
81 MFAT (2014) Activity Completion Report (2014) Tonga Forest Products, 28 June 2014.
82 Deloitte (2015) Tonga Forestry Review – Final Report, 10 June 2015.
83 http://www.mic.gov.to/news-today/press-releases/6105-tonga-forest-products-limited-granted-new-lease-on-life

on ʻEua will be maintained and possibly increased, new replanting schemes will be developed and more modern management and planning approaches building on those from New Zealand will be deployed to sustain the industry into the future.

New Zealand support for Private Sector Development (PSD) included funding for the *Tonga Business Enterprise Centre* (TBEC), which was established with the help of New Zealand funding in 2010. TBEC was developed jointly with the GoT to address the noticeable lack of support for SME's in Tonga. PSD was a priority sector identified in the JCFD and TBEC was a flagship initiative designed to support and promote PSD in the country. New Zealand's support for TBEC scaled up over the evaluation period from NZD 500,000 per year in 2011 to an estimated NZD 1.3 million in 2015-16. Over the course of six years, New Zealand invested NZD 3.7 million in TBEC, which included salaries for employees, operational expenses and the delivery of a number of private sector and business development activities, including the Private Sector Training Programme (PSTP).

Early activity assessment[84] recorded good progress with organisational set up and the development of financial and operational procedures; training programmes were seen as highly relevant and well targeted and there were high satisfaction levels reported by training recipients. Financial sustainability was identified as an issue early on and the need to develop a cost recovery model to reduce ongoing donor investment was flagged. By all accounts, TBEC delivered timely and comprehensive reports at output level. In 2014 an independent evaluation[85] of TBEC was undertaken. This evaluation assessed the effectiveness and efficiency of the TBEC investment and influenced MFATs decision in 2014 to increase and extend funding for TBEC over the next five year period to NZD 6 million[86]. This evaluation found that TBEC's activities aligned to PSD needs in Tonga and the priorities of the GoT, TBECs services were reaching a wide range of beneficiaries and delivering effective services – over 200 courses had been delivered under PSTP to 2700 beneficiaries at a cost of approximately NZD 150 per person, this was seen as value for money. The evaluation recommended the continuation of funding for an additional five years, the expansion of services to micro-enterprises, improvements in performance management and changes to the governance structure of TBEC.

The Activity Completion Report in 2015[87] highlighted the significant reach of the initiative over the previous four years which included the training of 3,453 individuals (2,024 females and 1,429 males) and 859 businesses under the PSTP, including on outlying islands. The report flagged a move to focus more on small and micro-enterprises. It also highlighted a number of ongoing challenges including the need to strengthen TBEC relationship and interaction with the GoT to develop a shared understanding of the GoT PSD priorities, the need to link more with the GoT established Growth Committees, and the difficulties faced when seeking to provide training to a small and fragmented private sector who find it difficult to articulate their own training and business development needs and priorities.

84 MFAT (2012) Activity Monitoring Assessment, Tonga Business Enterprise Centre, 6 June 2012.
85 Allen and Clarke (2014) Activity Evaluation – Tongan Business Enterprise Centre.
86 MFAT (2014) Programme Activity Authority, Tongan Business Enterprise Centre, 28 August 2014.
87 MFAT (2015) Activity Completion Report, Tonga Business Enterprise Centre, 4 February 2015.

A number of key informants interviewed in Tonga from the private and TVET sectors highlighted the important role TBEC play as a training provider and reiterated the significant reach of the programme. There were concerns amongst other informants (from the GoT and MFAT) regarding the lack of a strategic approach to determining priorities for training and the failure to link training outputs to higher level PSD outcomes. Our review of the TBEC results framework suggests that the measurement of such outcomes was never really possible within such a framework and that a lack of more rigorous M&E, including baseline studies and deeper analysis of PSD constraints, would have been required to measure the impact of TBEC in a way that would justify New Zealand's investment. These frustrations led, in March 2016, to a decision by New Zealand (supported by the GoT) to finalise TBEC support in the current financial year.

New Zealand also supports economic development through the work of Volunteer Services Abroad (VSA), who have prioritised supporting economic and business development in Tonga since 2012, in line with MFATs broader strategic priorities. VSA has operated in Tonga since 1965 in a wide range of areas including education, support for civil society, economic and business development, and agriculture. VSA volunteers are typically posted to host organisations in Tonga for a period of two years. Over the last three years VSA has placed volunteers in the horticulture and agriculture sectors, working with government, private sector and civil society institutions, as well as supporting the work of civil society groups in the area of women's and children crisis centre support. Key informants from Tonga interviewed for this evaluation commented on the significant value VSA volunteers bring to their host organisations, which is due, in part to their significant practical experience and hands-on approach. Over the course of their two year postings VSA volunteers develop significant knowledge of the constraints in sectors and have to work to address these constraints with very limited resources. This type of practical experience with the everyday human and organisational capacity constraints in Tonga could provide valuable insights for larger MFAT funded initiatives if utilised by MFAT more strategically.

4.6 Emergency Assistance

New Zealand supports Tonga in the area of emergency assistance through regional, bilateral and humanitarian funds, which allows it to play an important role in building capacity while also assisting with response after a disaster. At the regional level, MFAT provides funding for the New Zealand Ministry of Civil Defence and Emergency Management (MCDEM) which works directly with the Tongan National Emergency Management Office (NEMO) to strengthen its capacity to manage and respond to natural disasters. MCDEM conducts disaster-response training in Tonga, assists in the drafting and review of emergency preparedness plans and has helped establish an emergency operations centre in NEMO, which was opened by the New Zealand Minister of Foreign Affairs in 2014. Stakeholders from NEMO interviewed for this evaluation commented on the practical and responsive nature of MCDEM's support and the close working relationship that has been established between the two offices since the inception of the project. NEMO has established the priorities for the programme of support, which at present focus on Tsunami preparedness, which is recognised as a major natural disaster risk in Tonga. NEMO and MCDEM also work to improve preparedness for cyclones (which, noting their frequency and intensity cause the most economic damage) and drought (which is an increasing challenge).

Key informants from MCDEM commented on the strong capacity that is being built in Tonga with regard to emergency management and the fact that NEMO continues to learn from experience. From a sustainability perspective, there is concern with regard to reliance on a small number of key individuals who hold most of the institutional knowledge with regard to emergency management in Tonga. As Tonga is one of the most vulnerable countries in the world, NEMO, which is the central body for disaster coordination and response in Tonga, is significantly stretched with regard to human resources and finances and this may affect the sustainability of New Zealand's investments in the future. Stakeholders from NEMO commented on the significant donor fragmentation within the Disaster Risk Management (DRM), Climate Change Adaptation (CCA) and emergency management spaces, and the myriad funds available for these activities. There is limited coordination amongst donors in these areas and significant duplication, which places a heavy administrative burden on NEMO.

The multiplication of donor efforts in this area will increase further in the near future with the advent of the USD 40 million Pacific Resilience Programme (PREP), which is a regional mechanism managed by the Global Facility for Disaster Reduction and Recovery (GFDRR). Tonga is targeted for the first phase of investments which will include the development of early warning systems. MFAT has assisted coordination in this space by developing a spreadsheet of DRR activities of key partners (including Australia, France, US, Japan, EU and World Bank) under the auspices of the Donor Statement of Disaster Risk Management. This mechanism should be used by NEMO to facilitate active coordination, and noting capacity constraints in NEMO, donors should take proactive steps to ensure harmonisation and coordination is optimised in this important sector.

During the evaluation period, New Zealand also provided important support for the response to Cyclone Ian, which hit Tonga on 11 January 2014. This category 5 cyclone was the strongest ever recorded in Tonga and caused significant devastation to the Ha'apai island group in particular, destroying 50 per cent of the 1,130 buildings in the island group, including most of the schools. New Zealand provided NZD1.78 million for immediate disaster response, and a further NZD5.2 million for the rebuilding of schools affected by the cyclone on the Ha'apai island mainland and outer islands. New Zealand entered into a co-funded arrangement with the Asian Development Bank (ADB) to rebuild the schools soon after the cyclone hit. However, there were significant delays with the rebuild, which resulted from the ADB's long and drawn-out procurement and design processes, a lack of urgency within the GoT, and indecision over the number of schools to be rebuilt. From the outset the ADB provided insufficient project management and design resources, and this compromised not just the timing but the technical aspects of the project related to "building back better".[88] In 2015, almost 18 months after the Ministerial announcement of support, the project was still stalled, and this caused significant problems within MFAT and between MFAT and the ADB. As a result, the New Zealand Minister of Foreign Affairs appointed a senior MFAT executive to deal with this issue and additional funds were allocated to directly fund an experienced New Zealand Project Manager who oversaw the construction project, working closely with the

88 MFAT (2015) Activity Completion Report – Cyclone Ian Education Recovery, 20 November, 2015.

Tonga Ministry of Infrastructure. In a relatively short period of time the project was back on track and five outer island and five mainland schools were rebuilt by mid-2016.

4.7 Transport and Safety

New Zealand has provided important support to Tonga in two key transport and safety areas, notably the maritime and aviation sectors. New Zealand's support for the Maritime sector is delivered through the NZD6 million Pacific Maritime Safety Programme Phase 2 (PMSP2). This programme operates in three Pacific Island countries (Tonga, Cook Islands and Kiribati). The aim of the programme is to ensure safe, reliable, environmentally-friendly and affordable maritime transport services connecting people and markets in the Pacific, which meet international requirements.[89] The programme was developed following a series of high-profile maritime accidents in the Pacific in 2009 including the sinking of the *Princess Ashika* in Tonga, the capsizing of the *Uean Te Raoi II* in Kiribati, and the grounding of the *Forum Samoa II* in Apia. The Pacific is characterised by a large number of domestic commercial operators of varying sizes (estimated to be in the order of 1800 to 2000 vessels) that do not have regular safety checks. The maritime processes and systems of Pacific Island Governments are also quite variable and in many countries are not of international standard.

On 5 August 2009, the *MV Princess Ashika* sank on route to Ha'afua from Nuku'alofa harbour. 74 people perished and 54 (mostly men) were saved. This was the biggest maritime accident in Tonga's history and precipitated much soul searching on behalf of maritime safety authorities and politicians. A Royal commission of inquiry, led by the then Chief Justice of the Tongan Supreme Court, Warwick Andrew, investigated the circumstances surrounding the disaster. The report of the Royal commission[90] found there was a total breakdown in GoT maritime safety processes and systems. In 2011 four people were convicted as a result of the disaster, including the head of the maritime safety office in Tonga.

The PSMP2 is delivered in Tonga by Maritime New Zealand in partnership with the Marine and Ports Division (MPD) in the Ministry of Infrastructure and Tourism. Other partners include the International Maritime Organisation (IMO), the Secretariat of the Pacific Regional Environment Programme (SPREP) and the SPC. The programme focuses on five output areas: maritime safety and awareness, the maritime sector regulatory framework, improved search and rescue and measures and plans associated with MARPOL[91], vessel navigation and safety improvements, and maritime sector education and training.

A review conducted in 2015 reported on the progress of the PMSP2 after four years of operation in Tonga.[92] Between 2011 and 2015 the Tonga component of PMSP2 received NZD1.574 million or 27 per cent of programme expenditure. After a period of some uncertainty with regard to governance structure, a delivery model and associated structure was developed, which had various levels of oversight, with day-to-day implementation

89 Programme Activity Authorisation, Pacific Maritime Safety Programme, Phase Two.
90 Commission of Enquiry into the Sinking of the MV Princess Ashika, March 31, 2010.
91 MARPOL is the international convention for the prevention of pollution from ships.
92 Symplexity (2015) Pacific Maritime Safety Programme, Completion Report.

activities overseen by a programme manager in SED. A wide range of activities were delivered in Tonga, including:

- the development of a shipping registry and seafarer database;
- the development of a vessel compliance programme;
- the mentoring and training of local surveyors;
- the development and approval by Cabinet of a national response plan;
- enhanced search and rescue planning and associated capacity building; and
- support for the Maritime Polytechnic Institute.

In general, the review found that:

"… the PMSP has been successful in delivering against its aims and objectives. While the approach has arguably lacked a holistic or 'strategic' planning element, constraints of time and funding have determined that an optimal result was achievable through a series of initiatives targeted at perceived areas of need in the three identified countries."[93]

As highlighted in the quote above, a key feature of the programme was the customisation of the programme to the needs of the counterparts on the ground. This approach was highly regarded by key informants from the MPD in Tonga interviewed for this assignment. MPD informants noted the harmonisation between New Zealand's focus on 'software' issues in the maritime space and the 'hardware' focus of other donors, including JICA and the World Bank. GoT counterparts commented on the significant improvements that had been witnessed over the last four years with regard to surveying skills and vessel compliance but noted a number of constraints that continue to affect the sustainability of outcomes. Chief amongst these is the need to reform the sector to ensure that the roles and responsibilities of Government actors is clear. Recent Cabinet decisions regarding the role of the Port Authority and its potential role in regulation in the maritime space have caused confusion within the sector that needs to be clarified. Stakeholders commented on a general lack of clarity with regard to roles and responsibilities in the maritime area. A review conducted by MFAT[94] in late 2015 highlighted similar constraints, including uncertainty in leadership and lack of direction and high-level executive support for the MPD within the MoIT and the GoT more generally, capacity constraints due to recent resignations, ongoing human resource capacity constraints, and the need to finalise funding for the relevant instructors and a manager of the TMPI to ensure that New Zealand maritime education investments can be built on. The report highlighted the lack of leadership of the MET in this area and the need for clear direction. While the PMSPII has achieved some good results at the output level, there remain a number of issues with governance and political commitment to maritime safety that affect the sustainability of results and the performance of the sector more generally. The GoT needs to do more to clarify roles and responsibilities in this sector, demonstrate political leadership and coordinate actors to ensure higher level outcomes stem from New Zealand's important support.

93 Ibid, p.16.
94 Formal Monitoring Visit Report: Pacific Maritime Safety Programme – TONGA, September, 2015

New Zealand has also provided important support in the aviation sector through the Civil Aviation Authority (CAA) of New Zealand. This support helps ensure the safety of Tongan airspace and ensures that the management of the airport and issues such as compliance with ICAO[95] requirements are of an international standard – a standard that Tonga would not be able to achieve without New Zealand support. Key informants from Tonga Airport Limited commented on the fundamental importance of this support for ongoing safety and compliance to international standards. The CAA have provided assistance in a wide range of training areas, including air traffic control, local safety instructors and the handling of security and safety equipment. Training is conducted in accordance with New Zealand standards. Of particular importance is the adoption by Tonga of New Zealand rules with regard to the various ICAO procedures and regulations that must be adhered to in order to ensure ongoing international accreditation. Tonga adopts these rules from New Zealand (some of which are very complicated) and the CAA works with Tonga on the implementation of these rules. Future assistance will be required to assist Tonga to comply with the procedure-based navigation requirements of ICAO.

4.8 Health

New Zealand supports a wide ranging portfolio of health investments in Tonga, most of which are funded from non-bilateral regional and multi-country funding pathways. Between 2011 and 2015 New Zealand provided NZD 2 million for health initiatives in Tonga; this is expected to grow to NZD 2.33m over the period 2015-16 to 2017-18[96]. New Zealand supports a diverse range of health sub-sectors including: child health, mental health, non-communicable disease prevention, sexual and reproductive health, eye care and laboratory quality assurance. New Zealand also provides funds for emergency-related activities in response to communicable disease epidemics.

New Zealand's most significant commitment is the *Medical Treatment Scheme* (MTS), with NZD2 million committed to Tonga over a four-year period to 2016. The MTS operates in five countries (Tonga, Fiji, Kiribati, Vanuatu and Tuvalu). The MTS provides specialist clinical services in Tonga in areas where in-country care is not available due to local capacity constraints. The New Zealand-funded MTS works alongside the GoT-funded MTS expanding the services of the latter. The MTS has two components: an overseas referral scheme (ORS), which enables people with debilitating medical conditions to travel to New Zealand, Australia or Fiji for specialist medical care; and the Visiting Medical Specialist (VMS) programme, which enables specialists to be sent to Tonga to provide medical treatment that is otherwise not available.[97]

95 ICAO is the International Civil Aviation Organisation; it is a UN special agency that manages the administration and governance of the Convention on International Civil Aviation. It works with its 191 member states to reach consensus on civil aviation Standards and Recommended Practices (SARPs).
96 See: Regional and Multi-country health investments – Tonga, 30 June, 2016. The figure of NZD 2.33m may increase once new proposed initiatives such as Sport for Healthy Lifestyles, Maternal Health and Immunisation, and Strengthening Services for Newborns are approved.
97 Health Services Limited (2012) New Zealand Medical Treatment Scheme – Background Paper

Between 2010 and 2014 a total of 500 patients were referred through the ORS; 85 of these were from Tonga, and a high proportion were children and women.[98] These patients were treated for life-threatening conditions that in many cases would have resulted in death or significant disability without treatment. The average cost of referrals under the scheme (across all countries) was NZD27,222, and discharge summaries suggest that 95 per cent of cases were successfully treated. Selection for treatment under the ORS is based on potential for survival over the medium to long term; survival rates in Tonga after one year are approximately 83 per cent[99]. Between 2010 and 2014, 23 visits were made by visiting medical professionals to Tonga, and these teams treated 1,848 patients during that period. A wide range of services were provided including paediatric oncology, surgical services, psychiatry, paediatric cardiology, paediatric survey and emergency department services. Over a four-year period the MTS programme treated a total of 1,933 patients at a cost of NZD1.72 million or NZD890 per person.[100]

Aside from the short term outcomes associated with directly treating patients, the VMS has been involved in a number of medium-term initiatives that have helped improve health outcomes in Tonga. These include the paediatric cardiology screening of 26,659 children, or 90 per cent of children under 5 years of age, the improvement of in-country plans relating to the treatment of paediatric cardiac issues, and the improvement of clinical services for patients with cardiac disease. The same model has been subsequently rolled out in Fiji and Vanuatu. The MTS also supported a programme to develop emergency medicine in Tonga, including enhancing the leadership skills of nurses, strengthening emergency department systems and building the core skills of emergency department staff. As a result, a pathway for specialisation in emergency medicine has been established, as has a formal triage system.

Key informants from the MoH interviewed for this evaluation commented on the importance of the MTS and the fact that it directly provides clinical services that cannot be provided locally. The MoH is building a strong cadre of specialist doctors in various areas but there are some specialisations that will never be available in Tonga. The following point was highlighted by the Director of MoH:

"*…we will never have a colorectal surgeon….we will always need help with this…look at New Zealand it only has five such surgeons.*"[101]

The MoH is presently prioritising building of capacity in sub-specialisation and technical areas such as radiology, laboratory analysis and specialised nursing, and seeks to work with donors (including New Zealand) to strengthen these areas. Technical experts in radiology and other specialist areas are presently operating in Tonga with support from the Chinese Government. With regard to the MTS, stakeholders from MFAT commented on the tension between providing highly visible and reactive support for acute medical problems and the need to

98 Field, A (2015) The New Zealand Medical Treatment Scheme - Review for Health Specialists Ltd, 5 March 2015.
99 Ibid, 2013.
100 Ibid, p.43.
101 Key Informant 44, per comm April, 2016.

address capacity constraints in a more structured and systematic fashion. Clearly there is a need to identify which specialisations are practically capable of being developed in a sustainable fashion and those that are not, within the context of a small medical service in a small island State.

New Zealand's support through the *Strengthening Pacific Health Lab Systems* (SPHLS) programme from 2013-2016 has helped Tonga improve its compliance to WHO Lab Quality standards, which increased from 60% to 90% during the evaluation period. Lab technicians have been trained in disciplines including haematology, blood transfusion and biochemistry. These activities underpin the important role laboratory services play in clinical and public health services in Tonga and harmonise with the work of other donors, including Australia. New Zealand is building on this investment and will provide NZD 643,038 under the Pacific Laboratory Quality Assurance (PLQA) programme for further laboratory quality assurance work in Tonga over the next three years. This programme will develop an accreditation framework for medical laboratories in the Pacific to measure against international standards; support to reach accreditation will be provided to Tonga through the programme.

New Zealand has also provided support for blindness prevention in Tonga through the *Pacific Blindness Prevention Programme*, delivered by the Fred Hollows Foundation. Between February 2013 and December 2015, 1938 consultations were undertaken in Tonga and 650 surgeries performed. This support is particularly important in Tonga which suffers from high levels of diabetic eye disease. Training provided to local eye health experts with New Zealand funding has helped with the provision of local laser care treatment, which ensures needlessly blind people in the community can achieve a better quality of life.

New Zealand also provides support for sexual and reproductive health in Tonga, through the *Pacific Regional Sexual and Reproductive Health Initiative*, which is delivered by the UNFPA, UNICEF and the IPPA[102] in five Pacific island countries. This activity focuses on marginalised groups and young people and prioritises the enhanced provision of Sexual and Reproductive Health (SRH) services and improved community education and health promotion. During the evaluation period a Needs Assessment for SRH in Tonga was conducted, training and national consultations have taken place on the four most populous island groups, peer education training and outreach has been undertaken and a culturally sensitive approach that takes into account the conservative values and holistic family-based perspective of gate-keepers has been developed to ensure sustainability.

New Zealand's support through the *Pacific Mental Health Programme* has helped increase the awareness of mental health issues in Tonga while building capacity and improving access for people with mental illnesses. Tongan doctors and nurses have been trained under the WHO Mental Health Gap Action Programme, new policies and plans to strengthen the mental health sub-sector have been developed and medical staff have been successfully trained through to post-graduate level.

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102 United Nations Population Fund, United Nations Childrens Emergency Fund and the International Planned Parenthood Association.

New Zealand has also provided important support for the recent *Zika* outbreak, which was highly regarded by MoH officials interviewed for this evaluation. New Zealand's response was swift and included assistance provided directly to the Tongan Red Cross and reflected a humanitarian emergency response approach. New Zealand also provided funding through the WHO (the regional coordinator) but the disbursement of funds was delayed due to delays in WHO financial processes and this delayed implementation in Tonga. Feedback from the MoH suggests that the response was effective, but could have been swifter and more effective if the WHO had prepared a regional Zika virus plan and could have disbursed funds more quickly through their regional mechanism. Officials from the GoT noted the 'emergency' nature of Zika and wondered why the same sense of urgency that attends regional responses to a natural disaster does not similarly take place with an epidemic such as Zika.

Stakeholders in the health sector also welcomed New Zealand's swift response to the pharmaceuticals and medical consumables shortage that occurred in 2015. This helped Tonga to procure urgently needed supplies and flagged an important systemic issue, which is presently being addressed by the MoH.

While the quantum of New Zealand's support for the health sector may be relatively small, compared to the GoT's own investment and the large sector support provided by Australia, New Zealand clearly plays an important in helping to 'plug the gaps' in the health sector. A small country like Tonga simply cannot sustainably develop the full range of primary, secondary and tertiary health services that are available in more populous and affluent countries, practical support of this kind helps ensure that services remain available despite significant human resource and financial constraints.

4.9 Summary

New Zealand's aid programme demonstrates a strong performance in some areas and weak performance in others and in almost all sectors there remain challenges to the sustainability of results. New Zealand's most effective investment is in the energy sector, which has led to demonstrable improvements in energy security and directly addressed key strategic and development priorities. The strategic vision in this sector is strong, there is a high level of political buy-in and New Zealand's counterpart agency in Tonga has very high capacity. However, there remain a number of issues to do with strengthening the enabling environment for the energy sector that need to be addressed to ensure sustainability. New Zealand's support for education through TESP II has been relatively ineffective and has not achieved the minimum results expected. There was weak ownership by the MET, an over-ambitious design that was not suited to the context, and significant capacity constraints that were not foreseen by New Zealand or addressed in a systematic fashion. Some elements of the programme continue to remain financially important, and New Zealand needs to find a way to implement its education support in a fragmented and challenging environment. New Zealand's investment in skills development and accreditation has been effective but there remain challenges within the TVET sector that undermine long-term sustainability. One element of the system has been strengthened (qualifications and accreditation) ahead of other elements, and as such the capacity to improve the entire sector is challenging

New Zealand's support for law and justice has been effective and helps underpin the rule of law in Tonga, which is particularly important considering the difficult context. Its support for

the police is helping build a more professional and accountable force and further improvements to planning and strengthening leadership should assist in addressing sustainability issues. However, more needs to be done (by New Zealand, the GoT and others) to rebalance support in justice, to ensure that other elements of the system are strengthened in a way that builds quality throughout the system. There also remain significant tensions within the justice sector that remain unresolved.

New Zealand's support for tourism has been the most ineffective investment of those reviewed, and has been halted. A number of issues conspired to create this problem including a lack of leadership from the GoT, a lack of clarity with regard to roles and responsibilities, an over-ambitious design, constant restructuring and change in the sector and the political issues between New Zealand and Tonga. New Zealand's support for other economic sectors such as fisheries shows clear promise going forward. The agricultural support is quite limited in scope but remains important from an economic and trade perspective.

New Zealand provides very important and well-regarded support for emergency management, but more needs to be done to harmonise and coordinate donors and to strengthen NEMO. This is very important from a resilience perspective.

New Zealand plays a very important and effective role in the area of safety. Without New Zealand's support, maritime and aviation safety in Tonga would not be of the quality it is. To ensure long-term sustainable improvements in maritime safety there needs to be more clarity of roles and responsibilities in that sector and a stronger enabling environment. New Zealand's support for health is small but effective, and in the case of the MTS it helps provide a service that is otherwise not available that saves lives.

4.10 Lessons Learned on Aid Delivery, Effectiveness and Sustainability

This discussion highlights a number of lessons that New Zealand should consider applying in Tonga over the medium term. The effectiveness and sustainability of New Zealand's development cooperation has been affected by the weak enabling environment for development cooperation in Tonga (which includes the policy and regulatory environment as well and organisational and human resource capacity), by certain characteristics of the New Zealand aid programme and by the political issues that surfaced between the two countries during the evaluation period.

One of the major lessons emerging from this evaluation is the need to ensure there is effective coordination within a sector before providing support for that sector. The regulatory environment and associated policies typically describe the structure of the sector and the function of the executive, government actors, state owned enterprises and other actors within a sector - this is a necessary but not sufficient condition for coordination and cooperation. In some sectors these frameworks are weak or in a state of flux (e.g. Maritime and Tourism), in others there are significant political constraints and tensions with regard to the best structure and function (e.g. Law and Justice). For aid at the sectoral level to be effective, however, there needs to be a history of effective coordination between actors in a sector. Can the different actors work together? Have they done so before? What incentives drive the different actors? These are all questions that New Zealand needs to ask before

providing support that seeks to have impacts at the sectoral level. In some areas it might make sense to fund simple activities that incentivize actors to coordinate more effectively before moving to more complicated sectoral level programmes.

There is a noticeable lack of coordination and cooperation between actors in Tonga. A lack of sectoral coordination has a debilitating impact on effectiveness and sustainability, particularly when donors seek to disburse funds through programmatic modalities. New Zealand's support for the tourism sector highlighted this lesson. In that case there was a clear lack of cooperation and coordination between the different Tongan actors in the tourism sector (GoT, private sector and public enterprise actors). There was an overarching sectoral plan but this plan was not used as a coordinating mechanism and was therefore practically redundant.

A prerequisite for sectoral support should be the practical demonstration of coordination and the delineation of clear roles and responsibilities of the different actors in each sector. Numerous examples have been given from almost all sectors of how a lack of clarity in this area has led to problems. The changing structure of the GoT and shifts in policies contribute to this problem. One of the reasons for the success of the energy investments has been the very clear and obvious role that TPL plays in that sector, a role that is protected by the regulator. There are other broader issues within the energy sector but the role and responsibility of TPL is quite clear. Indeed, part of the success of TVNUP was that TPL did not have to coordinate its activities with a range of different actors.

On the New Zealand side there is also a lack of coordination at the sectoral level, which has an impact of aid effectiveness. In some sectors MFAT funds up to seven activities, each one has its own results frameworks, activity pipeline, partners and funding mechanisms. This places an administrative burden on both the GoT and MFAT. These individual activities may be achieving results at the output level (and they are, as the discussions in Law and Justice, Fisheries, and Health attest) but New Zealand needs to consider whether higher order results (i.e. outcome and impact) and sustainability could better be achieved with a more coordinated and strategic approach at the TCAF level. This does not mean the development of complicated sector-level modalities but simply more cohesion between separately funded activities within a sector; it could involve the development of sector delivery strategies with associated results frameworks. This might also reduce the reporting burden of delivery partners. This type of activity would help ensure coordination between the different MFAT and New Zealand Inc. partners in much the same way as sectoral coordination between Tongan actors needs to be fostered.

One of the most significant impediments to effectiveness in Tonga is the lack of prioritisation at all levels of the planning process. This is particularly a problem in sectors that are supported through programmatic modalities as it leads to rudderless and changeable activities. New Zealand has sought to work through GoT systems and has increased its programmatic support but clarifying priorities remains a challenge for the GoT. This has been evidenced in nearly all the sectors New Zealand supports: Education, Tourism, Agriculture, Private Sector Development, Maritime Safety and Energy. New Zealand has shown that it is keen to support GoT priorities and has done so, but these need to be more clearly specified. New Zealand has contributed to the 'prioritisation' problem through the development of ambitious designs that have sought to target too many priorities. This was the case with its two most ineffective interventions, namely Education and Tourism. More context specific

approaches need to be adopted that target a small handful of activities that are co-developed with Tonga counterparts and that address clear government priorities.

Associated with this is in the need to operationalise these priorities and improve the functional ownership of development funding in Tonga by improving planning and procurement processes. To be effective New Zealand cannot provide support through GoT systems without also strengthening those systems in the most important areas. It is clear from this evaluation that those activities that have involved medium term technical assistance with appropriate handovers and capacity building have been the most effective (e.g. Energy). When the objectives of an activity that aligns to GoT priorities are clearly laid out, when local resources are allocated, and when there is strong technical support and clear lines of responsibility then effective activities can be delivered. This was the case for Energy and has been the case for those activities where twinning between New Zealand and Tongan Government agencies has been a feature (e.g. Aviation, TNQAB, Emergency Management and Maritime Safety). In the latter type of programme there are clear goals to do with policy development, regulatory framework design, human resource development etc supported by New Zealand expertise in the relevant areas. While there remain challenges at the enabling environment level in some of these areas at least there are changes occurring on the ground, outputs being generated and systems slowly changing. To ensure sustainability work also needs to be done to improve the enabling environment.

This evaluation has also highlighted the need to ensure that the high level outcomes of New Zealand funded activities are better reported through M&E. The TBEC investment is a case in point. As highlighted above, and compared to a number of other MFAT investments, TBEC was performing well, this was confirmed by MFATs own reporting and evaluation processes, and as a result its budget grew over time. The investment grew because it performed well at the output level, while other MFAT investments struggled. But MFAT wanted to see demonstrable outcomes and improvements in private sector development more generally in order to justify the scale of the investment. The key issue was an inability by MFAT and the GoT to adopt a more strategic and joined up approach to PSD and to situate TBEC at the centre of that with an M&E framework that was robust enough to capture results at the outcome level. This would have required a different type of M&E framework.

5. Findings – Maximising the impact of New Zealand's engagement

This section focuses on the various ways MFAT can maximise the impact of its engagement in Tonga. It draws on the lessons derived from the retrospective analysis to highlight the key constraints that hinder strengthened engagement, and presents a range of suggestions in various areas ranging from aid delivery to whole-of-Government engagement.

5.1 Improving aid delivery and effectiveness

The discussion in Sections 3 and 4 highlighted a number of constraints that need to be addressed to improve the delivery of aid in Tonga, the achievement of development results and the sustainability of those results. These included the need to strengthen sectoral coordination and prioritisation, improve leadership and ownership, address financial and human resource capacity constraints, strengthen enabling environments, and ensure policy decisions are of a high quality. These characteristics are certainly not unique to Tonga and characterise many Small Islands Developing States (SIDS).[103] Tonga is, however, at a certain stage in its evolution as a nation State and has undergone some quite momentous and far-reaching changes in recent years. Tonga could be said to be in a state of flux. This is evidenced by the constantly shifting priorities of politicians, the evolution and constant restructuring of national institutions, the flux at political and bureaucratic leadership levels and concomitant shifts in sectoral priorities.

There are also the particular economic and development challenges that SIDS (and Tonga in particular) face with regard to remoteness, exposure to exogenous shocks, limited natural resources, and small populations. SIDS also face strong challenges in adopting utilitarian approaches to governance, due to the juxtaposition of formal and informal institutions, the limited distinction between the public and private spheres, and the small size of bureaucracies.[104]

To what extent has New Zealand delivered its aid to Tonga in a way that fully accounts for this flux, complexity and these constraints? On the face of it the approach taken by New Zealand to deliver its aid in Tonga is no different than that adopted in other country programmes. MFAT stakeholders interviewed for this evaluation have commented on an inability to gain traction in Tonga and the challenges Tonga presents from an aid management and relationship perspective compared to other countries. The following discussion highlights some ways New Zealand may be able to have greater impact by modifying and strengthening aspects of its aid delivery to Tonga.

Early on in this evaluation a senior MFAT official commented on the need to "surface the cultural differences" between New Zealand and Tonga to be more effective. This involves developing a greater understanding of Tongan social norms and cultural practices and the priorities that underpin Tongan society that are built on its socio-cultural heritage. This might sound anthropological, but it has profound effects with regard to working effectively in a place like Tonga, which is one of the (if not the most) traditionally hierarchical places in the Pacific. Key informants from New Zealand expressed some frustration interacting with Tongan counterparts in a range of areas, as did their Tongan counterparts. The issue of equivalence (between junior MFAT staff and senior GoT staff) was a case in point, as was the lack of ongoing substantive dialogue between senior officials on the priorities of the New Zealand aid programme. Tongan stakeholders were of the view that dialogue should centre

103 GCPSE (2014) *Small So Simple? Complexity in Small Island Developing States*, UNDP Global Centre for Public Service Excellence, Singapore; and Carpenter D.B (2015) *Evaluation of New Zealand's Aid Programmes in the Cook Islands, Niue, Samoa and Tokelau – Synthesis Report*.
104 GCPSE (2014).

on Tonga's values and its endogenous development priorities and how New Zealand's aid programme and other interventions are or are not supporting those priorities.

New Zealand needs to do more to increase the cultural sensitivity and local political and economic awareness of its New Zealand staff through training and other measures. Specific pre-deployment training should be developed for NZHC staff that are to be posted to Tonga that focuses on Tongan cultural, political and historical issues, the history of policy dialogue between the two countries, and the performance on NZ-funded development activities in Tonga. The latter could be drawn from the outcomes of this and other evaluations. New Zealand also needs to deploy its DPC resources more strategically to ensure they have the resources to assist in surfacing these cultural issues, which they, as mainly Tongans, are enmeshed in.

Aside from the socio-cultural issues, both Tongan and New Zealand key informants expressed frustration with regard to the culture of decision-making within the respective Governments. Tongans were often confused as to how decisions were made with regard to New Zealand's aid programme, often with little or no consultation with the GoT, particularly with regard to non-bilateral projects. They often see Wellington bypassing NZHC on decisions, and they realise that NZHC does not control these decisions and that there are New Zealand political priorities that influence the development of programmes, but these procedures are unclear. Similarly, MFAT key informants were often unsure how GoT decisions are made and were surprised at some of the unexpected decisions that impact directly on the development activities they fund. It is clear that more consistent and transparent dialogue on decision-making processes needs to be established between New Zealand and Tongan officials, and that this needs to be systematic and ongoing.

Understanding the local political, economic and socio-cultural context is vitally important for effective aid delivery, particularly in a fragmented aid programme like New Zealand's in Tonga. Aside from the communication issues mentioned above, there were numerous examples given to the evaluation team of designs and projects where a lack of appreciation of this context resulted in poor designs that, in turn, led to ineffective programmes. In fact the two most ineffective bilateral programmes funded by New Zealand during the evaluation period fall into this category (TESPII and TNZTP); both were highly ambitious and did not take enough account of the challenging context in these sectors. Due to the constraints noted above and the state of flux Tonga finds itself in, it is imperative that designs take full account of the political-economic context, and this means more input from people in Tonga, including DPCs and other local experts at the design phase. New Zealand needs to find the time to ensure that a "Tongan" lens is applied to all its development projects (including the non-bilateral ones), and space needs to found in the appraisal process to ensure this happens and that feedback is incorporated into designs in an iterative fashion. Alongside this the GoT needs to dedicate resources and renew efforts to engage more fully in the design process. Apart from ensuring there will not be design failure, this may also reduce the performance management burden on staff at NZHC, who are often called upon to closely manage programmes that are "going off the rails"', which takes up an inordinate amount of time.

MFAT should consider adopting a more adaptive and less prescriptive approach to the design of activities in Tonga. As highlighted above, Tonga is a complex place, which at this time in its national development is in a state of flux. The development process in Tonga is non-linear

and unpredictable in nature. This does not mean that effective programmes cannot be designed and implemented (i.e. TVNUP) but that in the challenging environments (e.g. education or tourism) adaptive approaches need to be employed that seek to make small incremental changes, observe results and move on. This requires quick and insightful decision-making. The aim of these approaches is not always to solve problems but to navigate them and adapt to them.[105] Programmes need to evolve from ideas that actually work in the Tongan context and this may involve adopting a portfolio approach where there will be failures but also successes. A portfolio approach would involve implementing a small number of activities within a sector at the same time, monitoring and evaluating the performance of these activities as closely as possible and then scaling up the ones that perform the best while scaling down or exiting from those that don't perform as well. This will mean developing an appetite for risk and significantly increasing the quality of M&E. This could be particularly useful in sectors that are underperforming.

While adaptability with regard to programme design and management is important, there is also a need for a stable and consistent presence in the area of strategic technical advice and policy influencing. This can help maximise the impact of the aid programme. The consultations provided the evaluation team with a strong indication that New Zealand was not engaging deeply and on a regular basis with the GoT at a strategic level on policy and programme implementation. Strategic engagement seems to only be occurring on a 'transactional' basis in the lead up to high level meetings—note that this should not be confused with general engagement regarding programme management issues. There were a number of reasons given for the limited strategic engagement, including constrained resources, poor understanding of the local context, and staff changes on both sides. This needs to be overcome with a priority being placed on ongoing and regular strategic engagement. Such engagement is time consuming and requires appropriate technical skills.

To develop these TA skills within MFAT and to then deploy them to Tonga would be prohibitively expensive, therefore a short-to-medium term strategic technical adviser model is proposed as a next-best approach. This could involve the development of a Strategic TA Facility administered by a Managing Contractor. This 4-6 year facility could be managed by a suitably qualified senior local consultant working with an international team leader/project director supported by a small number of local administrative staff. It should include long-term local Tongan experts who are familiar with high level political and economic issues, augmented by international short-term expertise as required, working in synergy and complementarity with NZHC staff and in particular DPCs who can assist in 'surfacing the cultural differences'. This would augment resources at NZHC and help ensure a more strategic and high-level engagement between New Zealand and Tonga. The Facility leadership team would work with the GoT and MFAT to identify TA priorities which would align to the next phase of the JCFD, the Tonga Country Strategy, and New Zealand's headline investments, including budget support as well as other TA that is needed to improve the enabling environment for development cooperation. The managing contractor would then develop a call down list of suitable consultants (both locals and internationals) who could provide support over the short and medium term in these technical areas. The particular

105 Ramalingam, B (2013) Aid on the Edge of Chaos, London: Oxford University Press.

terms of reference for each assignment could be jointly developed by the managing contractor, GoT counterparts and MFAT.

The New Zealand aid programme has been largely devoid of strategic technical assistance, although this will no doubt be prioritised now that New Zealand has agreed to provide general budget support to Tonga. There are a number of areas where the deployment of strategic technical advice could help improve programmes, support higher-quality decision-making and improve the enabling environment for development cooperation. New Zealand TA support in targeted areas has been helpful (e.g. fisheries, maritime safety, aviation) and this has been very much appreciated. However the evaluation team is of the view that higher-level strategic TA would help assist the GoT to improve the enabling environment for aid more generally, and in the process this would improve the effectiveness and sustainability of New Zealand investments. It can also assist Tonga as it navigates through the challenges it faces in the evolution of its national institutions and those associated with being a new democracy. Noting the constraints raised in Sections 3 and 4, there are numerous areas where this TA would be useful including:

- supporting Cabinet decision-making processes, improving Cabinet guidelines, and Cabinet Submission quality with a view to improving GoT decision-making;
- supporting economic governance reforms, to improve the broader enabling environment;
- further strengthening the oversight role of the Legislative Assembly and building the capacity of MPs, to strengthen accountability and transparency and assist new MPs in their role in this new democracy;
- supporting the work of the new Cabinet Aid Coordination Committee and the Aid coordination work of the MoFNP, to ensure all aid (and New Zealand's aid) aligns with GoT systems;
- working with the MoJ to assist with the rebalancing of justice sector support, to assist Tonga on its Constitutional reform journey;
- working with the Government to strengthen legislative drafting, to ensure laws are of the highest quality;
- developing and piloting sector coordination processes and strengthening corporate planning and budgeting using culturally appropriate approaches, to strengthen Tonga's functional ownership of the development agenda;
- working in support of the priorities articulated under the JPAM, to improve economic governance;
- supporting policy dialogue with analytical work for both MFAT and the GoT, to ensure dialogue is informed by evidence;
- undertaking political economic analysis, to ensure designs and the setting of priorities takes sufficient account of the context;
- filling gaps in sectoral level TA in support of New Zealand investments, to ensure that these things that are holding up achievements in a sector can be addressed; and

- provide 'learning facility' support,[106] to learn what works and what doesn't work.

With regards to the programming of aid and the design of new initiatives in Tonga, there are a number of factors that need to be considered. Section 4.10 outlined a number of lessons that need to be taken into account by New Zealand when developing new initiatives in the country considering the present constraints and the performance of its programmes over the last 5 years. These lessons are applicable to all sectors. First is the need to ensure that effective coordination between actors within a sector is evidenced before providing funds for programmes that seek to tackle issues at a sectoral level. Usually donors review the sector plans, policies and regulations in a sector to assess whether or not they are likely to support and incentivise cooperation and the achievement of results. This is not enough in Tonga. Sector plans are often not followed, policies may not be implemented and regulations may be weak. There needs to be demonstrable evidence of cooperation and coordination between actors and clear demonstration of the roles and responsibilities of the different actors. If this isn't present then New Zealand could begin by funding small activities that incentivise cooperation between sector actors as a first start.

Second, New Zealand needs to design activities that are simpler with a smaller number of priorities, and these designs need to be flexible enough to allow for shifts in approach. This will require more of an application of a 'Tongan Lens' and the nuanced assessment of the political-economic context. Third, New Zealand needs to ensure it provides ongoing and strong technical assistance, in parallel with its investments, while focusing on building capacity at all levels. New Zealand cannot continue to provide support through government systems without continuing to strengthen those systems- the discussion under 5.3 below provides a range of suggestions in this area. Fourthly, New Zealand should consider working more directly with those who are involved in service delivery on the ground and strengthening their capacity to do their job (bottom up approach), while also working to strengthen the system within which they are operating (top down approach) and the rationale behind this should be explained in sector level delivery strategies. An example would be the education sector where there is clearly a need for ongoing professional development and improvement in service delivery on the ground and the need to improve the capacity of MET in a range of areas including: planning, procurement, financial management and data collection and reporting. Working through a bottom up approach will have the added advantage of building demand from those who deliver services for better support from their own agency and a better enabling environment for service delivery more generally.

5.2 Improving coherence and strategy

The discussion regarding coherence in Section 3 highlighted the fact that the financial and management fragmentation of the programme places strain on staff and leads to a non-strategic approach to aid portfolio management at the TCAF level. A more strategic approach in Tonga will involve developing a medium-to-long term country strategy identifying

106 A 'learning facility' is a donor funded enterprise that centralises knowledge and learnings from activities in different sectors and programmes operating in a country, with a view to improving country level performance, results and M&E.

priorities for the New Zealand programme that address the pressing challenges facing Tonga. MFAT has made progress with the development of a country strategy process and we believe this process is underway—the outcomes of this evaluation can help inform the development of the Tonga Country Strategy. There have been many evaluations conducted on the role country strategies play in aid effectiveness and whether they have helped make aid delivery more effective. There are a number of common themes running through them. An important issue is the need to forge stronger links between the background analytical work and the programming choices made in operational plans. In the Tongan context this involves ensuring that sufficient account is taken of the political-economic context, a context which is shifting all the time, as highlighted through this report. The UK Independent Commission for Aid Impact[107] recently reviewed 44 of its reports to understand more about DFID's approach to delivering impact. The review found that impact is dependent on programmes that:

- engage over a medium to long period of time;
- build institutional capacity;
- influence the policies and priorities of partner Governments; and
- have clear long-term goals, but flexibility in how to achieve those goals.

The latter point supports our suggestion that programmes in Tonga need to be more adaptive and less prescriptive, but there still needs to clarity with regard to the ultimate aim of MFAT's engagement. The DFID review also found that effectiveness can be improved by:

- providing an overview of how diagnostic work influenced the portfolio and how new learnings were incorporated into programme design and portfolio management;
- focusing more on partner priorities and their capacity to deliver on these priorities;
- demonstrating how the portfolio of activities is laying the foundation for long-term trajectories of change.

The evaluation team is of the view that the Tonga country programme would benefit from having a small number of very specific longer-term development priorities that underpin New Zealand's engagement in the country. These should be the priorities of its 10 to 15 year Tonga Country Strategy. JCFD priorities and designs under the various funding pathways would have to demonstrate how they are supporting these longer-term goals, and new planning processes would need to be designed. Having a small number of simple priorities that can be used as the basis for ongoing prioritisation, policy dialogue and more coherent TCAF management will help improve the strategic delivery of the aid programme.

There are two key priorities for the Tonga country programme going forward: fostering stability and supporting economic development. As highlighted throughout this evaluation, the development context in Tonga is characterised by flux and instability at multiple levels. To some extent this is what one would expect of a small island State that has undergone very recent constitutional reforms and seeks to bed down its systems of governance. Tonga

107 ICAI (2015) *DFID's Approach to Delivering Impact, Report 45*, June 2015.

is learning be a democracy and a priority for New Zealand should be to support it in doing so. This will involve fostering stability where possible—financial, human resource and institutional stability. Instability, as we have seen throughout this evaluation, dilutes the effectiveness of aid. Shifts in leadership, shifts in policy, and shifts in prioritisation have all had a negative impact on New Zealand's development cooperation in Tonga. The evaluation team is of the view that New Zealand, in cooperation with other donors, needs to do more to address the causes of this instability to ensure aid effectiveness can be improved.

The evaluation team understands that the term 'stability' may connote ideas of maintaining the status quo, immobility or promoting a conservative approach, that is not the concept of stability suggested here, and indeed a better term may be required. What is clearly required in Tonga is some level of institutional, human resource and policy dependability and cohesion alongside the development of higher quality decision-making. High quality decisions need to be made and institutions need to be able to effectively implement these in a dependable fashion.

On the economic side Tonga is also too reliant on aid and remittances and needs to grow other parts of its economy to ensure it can be sustainable over time. The analysis in Section 6 outlines the prerequisites for sustainable economic development in Tonga, and the need to focus on growth in the productive sectors.

The discussion under Section 4.10 highlighted that fragmentation within the New Zealand programme is an issue and that more needs to be done to bring some level of strategic coherence to TCAF. The development of delivery strategies in the various sectors that clearly articulate how MFAT funded activities (and other trade and foreign policy objectives) support stability and economic development is one way to ensure a more coherent approach across the agency. These strategies would sit under the broader Country Strategy; they would provide a diagnostic overview of the stability and economic development challenges and opportunities within a sector and delineate how New Zealand is addressing those through its various funding pathways. Importantly, the process of drafting these strategies would bring MFAT TCAF actors (and other New Zealand Inc. stakeholders) together in a formal way to discuss the challenges and synergies between activities and design common results frameworks. The aim over the medium term would be to progressively shift from the development of standalone activities with different funding timelines to the development of synchronised activities that work together strategically to address pressing stability and economic challenges in a complementary way. This approach doesn't call for the development of overly complex sectoral level programmes with multiple elements but simply a more strategic approach to the delivery of TCAF which fosters greater cooperation between MFAT and its delivery partners, MFAT HQ and NZHC, and MFAT and New Zealand Inc. partners under a sectoral lens.

5.3 Strengthening human, organisational and institutional capacity

A key tool with regard to fostering stability is strengthening human, organisational and institutional capacity. Research suggests that the most binding constraints in development relate to institutions and institutional change. Research has also shown that ODA is more

effective in small island States in the presence of higher-quality public institutions and political structures.[108] However, donors have considerable difficulty acting on that knowledge. This is primarily because of the financing-gap concept of aid.[109] Further, the fragmentation of donor programmes, such as the MFAT TCAF in Tonga, makes it hard to adopt long-term and consistent institutional change programmes, as there are varying incentives from across the agency.

As the evidence through this evaluation has shown, human resource and organisational constraints within Tonga have a significant impact on the achievement of results and the sustainability of those results in all sectors in Tonga. In order to foster stability and improve the conditions for sustainability, New Zealand should work closely with the GoT in three key areas over the medium term. These are: strengthening political decision-making and oversight; fostering leadership and strategic direction; and strengthening public sector workforce capability and efficiency.

As highlighted in this evaluation, Cabinet-level decisions in Tonga are inconsistent. This has an impact on the effective use of aid. The Tongan Cabinet needs to adopt a more evidence-based approach to policy formulation to ensure that the decisions it makes are of the highest possible quality. There is also a need to strengthen the committee structure below the Cabinet level, Cabinet Committees dealing with policies and priorities, and below them the technical committees to deal with plans and implementation. This gap between the Cabinet level and the public service must be strengthened.

The use of evidence in policy formulation is important for a number of reasons. We need evidence to:

- understand the policy environment and how it is changing;
- appraise the likely effects of policy changes so we can choose between different policy options and subsequently assess their impacts;
- demonstrate the links between strategic direction, intended outcomes and policy objectives, to show that there are clear lines of argument and evidence between what we are aiming for and what we are doing now;
- determine what we need to do to meet our strategic goals or intermediate objectives;
- influence others so that they help us achieve our policy goals and take them through to delivery; and
- communicate the quality (breadth and depth) of our evidence base to meet the open Government agenda.[110]

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108 Bah, E.M; and J. Ward (2011) Effectiveness of Foreign Aid in SIDS, MPRA Paper No. 32061, University of Auckland.
109 Booth, D (2013) Facilitating Development: An Arm's Length Approach to Aid, London: Overseas Development Institute.
110 Shaxson, L (2005) 'Is your evidence robust enough? Questions for policy makers and practitioners' Evidence and Policy: A Journal of Research, Debate and Practice, Vol. 1, No. 1, pp. 101-111.

Policy is not solely driven by evidence, as is widely known, and a range of political, social and cultural issues intertwine to affect policy choice. This is the particularly the case in Tonga, where traditional values are strongly held and patronage politics is a feature of the political landscape. But there is evidence from Tonga that sub-optimal policy decisions are being made and that better use of evidence could strengthen those decisions.

A programme of support in this area could involve a range of tasks, including:

- **confidential process reviews** to diagnose current performance and track improvements;
- **revising Cabinet procedures** to better manage its agenda and to provide Cabinet members with sufficient opportunity to fully consider complex policy proposals and seek advice on technical issues;
- **standard format for proposals** to Cabinet to ensure Ministers are informed of evidence on needs and on the likely impact of proposals, as well as financial and implementation issues;
- **Cabinet liaison networks** with liaison officers or focal persons in each Ministry to enable the Secretariat to support Ministries in preparing Cabinet proposals and implementing Cabinet decisions;
- **effective standing committees** of Cabinet to provide technical advice and improve collaboration;
- **strengthening the capacity in Cabinet secretariats** to analyse and review policy proposals;
- **building capacity of line ministry personnel** to assess evidence and prepare Cabinet proposals; and
- **helping Ministers** to implement new Cabinet procedures and seek evidence-based policy advice.

This might not be on the radar of MFAT at the present, but the evaluation team believes it is something MFAT and other donors should seriously consider over the medium term. The evaluation team does not think that such interventions impede the sovereignty of developing countries. There are numerous examples of these types of programmes funded by donors across the developing world in contexts far more politically sensitive and fraught than Tonga. The aim of these programmes is not to interfere with decisions or even influence them but to focus on the *process* of decision-making and the objective assessment of indicators that point to higher quality decisions being made. To overcome perceived sovereignty issues donors have in the past pooled resources and funded private contractors to deliver these services for governments over the medium-term, or adopted regional arrangements, where countries work together in a south-south or peer review process to iteratively strengthen Cabinet processes[111]. There are a number of design options; the latter might be the most

111 See African Cabinet Government Network for an example of a highly functioning Cabinet project at the regional level: http://www.cabinetgovernment.net/partners.php

sensible for MFAT considering its strategic focus on the Pacific region and the need to continue to strengthen decision making processes in a wide range of PICs.

Strengthening leadership, strategic direction and public service accountability are other areas that will contribute to stability and the effectiveness of aid delivery. Strengthening leadership will require strengthening ownership within GoT organisations of New Zealand - funded activities, and this will require involving GoT counterparts more fully in the development of concepts, the appraisal of designs, and the adaptive management of activities (including M&E). As highlighted in Sections 3 and 4 there were numerous examples over the evaluation period of activities that did not have sufficient ownership at the leadership level, and this lack of ownership contributed significantly to the ineffectiveness of these activities. New Zealand - funded activities need to link directly to the corporate plans and strategic priorities of counterpart agencies and it needs to be obvious how this will occur. New Zealand needs to provide incentives for leaders to support and own New Zealand ODA - funded activities. More consultation and engagement at the beginning, as well as more substantive engagement throughout the course of activities, will be required. Too many project concepts are developed in Wellington based on perceived political priorities and MFAT's own incentive structures. Tongan counterparts interviewed for this evaluation felt that this model forced projects onto Tonga, which they would not say no to, but which may not be priorities for them. More time needs to be taken to understand the priorities of senior GoT staff, and project designs need to be co-developed that clearly reflect these priorities.

Given the need for stronger leadership and stronger public service capability more generally, New Zealand could consider working closer with the Tongan Public Service Commission (PSC), which is prioritising leadership and, in particular, CEO accountability. A number of reforms in Tonga suggest that now might be a good time to consider such an approach. The Remuneration Authority has submitted a report to Cabinet, which outlines a new public service structure and new pay grades; this has been endorsed by both the PSC and Cabinet and is currently subject to a consultation process. It is expected to be adopted in July. This is an important outcome. Other initiatives include the forthcoming review of the Public Service Act and the proposed roll out of a public service - wide performance management system (PMS). The PMS has undergone a trial and roll out is expected within the next 12 months.

The PSC has received some support from DFAT for these activities, but a number of future activities have limited donor support. These include the implementation of the PMS, a review of CEO performance, developing induction processes for CEOs, developing workforce planning models, and reviewing PSC policies and related legislation. The PSC is also prioritising the strengthening of the financial accountability of CEOs and the incorporation of audit findings: there are 8 Government departments (a number of whom are counterparts of New Zealand) that have serious weaknesses in these areas. The Strategic Technical Assistance model suggested under Section 5.1 could assist in these areas, with ongoing local support augmented by targeted analytical work. New Zealand could consider adopting a whole-of-Government approach, working through its own public service commission to strengthen public service outcomes in Tonga. This is a priority for Tonga and something that should be prioritised in Tonga's country strategy. New Zealand should consider developing a leadership and public service - strengthening strategy that informs the country strategy and outlines how its various investments are supporting a more effective public service in Tonga.

New Zealand can learn from the experience of other donors in this area. A 2012 review of the DFAT-funded Pacific Leadership Programme[112] found that it had some significant impact in Tonga working with leaders, and it did so by focusing on local priorities, building ownership and incentives, and being opportunistic and adaptive. The programme could have been improved by better applying its lessons to the general aid programme, and focusing on female leaders and agents of change. It is clear from our widespread engagements with over 80 stakeholders in the GoT that there is a cadre of young senior managers, many of whom are female, who should be seen as the future of the Tongan public service. These agents of change, some of whom are at the cutting edge of reform in Tonga, should be targeted and supported to continue their reform activities.

5.4 Sequencing and Prioritising

As highlighted above, the evaluation team is of the view that the Tonga country programme would benefit from having a small number of very specific longer-term priorities that can inform the Tonga Country Strategy. Fostering stability will involve strengthening leadership, strategic direction and public service accountability and efficiency. As outlined in the next section the sustainable economic development priority should include hardening support for economic growth by concentrating on the productive sectors. Improving economic governance, which is a priority for the New Zealand aid programme as signalled by its recent funding for GBS, supports both stability and economic growth.

New Zealand's aid programme, supported by a new Country Strategy, should evolve over the medium term to a portfolio of activities that clearly operationalise the abovementioned priorities. This strategy should be informed by diagnostics that outline the 'Stability' and 'Economic Development' challenges in Tonga at country and sectoral levels. In order to build ownership by the GoT and ensure a coordinated and harmonised approach within MFAT that includes TCAF, the development of the Country Strategy should be undertaken in a participatory and collaborative fashion. It could be the focus for renewed and strengthened policy dialogue between New Zealand and Tonga. New mechanisms for strategic coordination and collaboration in MFAT also need to be found.

With regards to policy dialogue and fostering ownership, New Zealand should seek to engage at a substantive level with Tongan counterparts on what stability means for the Tongan government and people, this will have political, economic as well as socio-cultural elements to it. The socio-cultural elements of stability are particularly important in Tonga as highlighted throughout this report. To ensure there is more of a meeting of the minds, New Zealand should make efforts to understand the Tongan perspective with regards to stability and clearly demonstrate to the Tongan Government and people how these concerns are reflected in its Country Strategy and various sectoral delivery strategies. The same holds for economic development; growth and reducing reliance on aid is a priority of the GoT and there clearly needs to be investment in viable productive sectors, New Zealand needs to work closer with the GoT to identify feasible investment options and identify blockages. It

112 Henderson, S., and C. Roche (2012) Pacific Leadership Programme, Independent Progress Report, June 2012.

also needs to discuss and understand the Tongan perspective with regards to growth, which, as highlighted by senior GoT officials interviewed by this evaluation is about sustainable broad-based growth. Improving domestic investment in the productive sectors, which is presently very low, will be important but as we have seen, the GoT budget may be 'better' from many objectives measures but medium term budgeting and budget execution remains weak and needs to be strengthened.

The first step in the development of the Country Strategy should be a stocktake of the current portfolio. New Zealand should ask itself: to what extent does our aid portfolio look like it is supporting stability and sustainable economic development? It should identify investments that support both priorities and strengthen those where possible. An example is New Zealand's support for Maritime and Aviation safety; these investments underpin both economic development and stability. Maritime safety and the continuance of maritime traffic is vitally important for the domestic economy, Aviation safety is clearly a pre-requisite for tourism and a growing tourism sector. Disruptions in these areas would increase economic instability and affect economic growth potential. Energy is also important (particularly renewable energy investments), which help decouple Tonga from global energy price fluctuations and thus improves price stability while also acting as an input into economic growth. An important component of the Country Strategy should be to articulate how the productive sectors can utilise energy investments in a way that can contribute to growth, and how these sectors can feed back into an energy strategy. As noted earlier, the TERM was developed to address energy security issues after the large increases in global fuel prices - so the focus was largely on stability - Tonga now needs to move towards developing a strategy that articulates the contribution of energy to productivity (and thus economic growth) – this is something New Zealand should prioritise going forward.

It is clear from the data presented throughout this report that Tourism will remain important to the economy. Tourism numbers have grown slowly over time and tourism has become more and more important from a revenue perspective. New Zealand will need to consider re-entering this sector over the medium term as it holds significant potential. The issue with Tourism, as highlighted in Section 4, is one of stability: constant flux in leadership, a lack of coordination, and a lack of clarity on roles and responsibilities. New Zealand invested in an unstable (but potentially productive) sector. In this context, stability and economic growth can be used as lenses to sequence investments in this sector. Once some element of stability and coordination has been achieved then New Zealand should consider increasing its economic-growth focused investment in tourism (or other sectors). New Zealand assumed that the sector was stable and that there was sufficient capacity to deliver, and then targeted funds for destination marketing and other growth-related activities, which were not capable of being delivered in an unstable, uncoordinated environment. New Zealand should work to help stabilise the Tourism sector (and other sectors more generally) over the short-term through its GBS by supporting improvements in procurement (including at authority level), the structure of authorities (and their budgeting and planning), and the review of Acts of Parliament. This could be supported by TA delivered through the Strategic TA fund suggested in Section 5.1. New Zealand should review the performance of the tourism sector and when improvements in these areas have been demonstrated (as well as stability at Ministerial level) and effective coordination and cooperation, it should consider re-investing in activities that can drive economic growth through tourism.

In the area of fisheries (and other productive sectors where there are multiple interventions, such as agriculture), New Zealand should consider developing sector delivery strategies that outline how New Zealand's investments are supporting stability and economic growth and aligning to the GoT's Fisheries Sector Plan, while highlighting gaps and risks that need to be addressed. On stability this may involve identifying human resource capacity constraints in the Fisheries department, providing ongoing TA to improve organisational performance (as New Zealand is doing) or conducting research to ensure the supply of fish is stable and sustainable (as New Zealand is also doing). On the economic growth side this might involve identifying blockages to growth from a private sector perspective, such as the training and certification blockages or transport challenges highlighted in the Pacific Sunrise case study, or directly supporting improvements in the value chain. These sector plans don't need to be voluminous but should link together presently disparate activities and act as a focal point for coordination and communication with GoT counterparts. This will help improve TCAF coherence as discussed above.

Education, scholarships and skills development play a vitally important role as a driver of economic development and in building the human resources required to strengthen public institutions. Scholarships and professional development can assist in building human resource capacity, while basic education, scholarships and skills development provide the human capital needed to drive economic growth. This sector is vitally important to both the economic development and fostering stability priorities. The Tongan Country Strategy should outline how its investments in education, scholarships and skills work to support economic development by adopting more of a line of sight between these sectors and the human capital gaps in the productive sectors.

There are a number of areas that need to be prioritised to improve effectiveness in the delivery of education activities in Tonga. First, there needs to be a strong commitment by Tonga, MFAT and other donors to sustainably develop organisational capacity over time. The GoT needs to lead the way in developing incentive structures that are conducive to sustainable capacity development, this includes developing better career pathways, ensuring remuneration is appropriate, providing more training opportunities and enhancing accountability through performance management. Secondly, donors including New Zealand need to to adopt a more contextual and flexible approach to the design and implementation of their education investments that fully account for the political-economy of the education sector and the existing constraints - these programmes need to be more realistic with regards to possible achievements over the medium term and M&E frameworks need to include indicators that are actually measureable using existing systems. This will involve fostering more ownership of education investments and ensuring GoT stakeholders are thoroughly engaged in all stages of the design process including the development of M&E frameworks. Thirdly, donors need to ensure there is consistent, high quality technical advice available to MET and other partners throughout the duration of education investments. Evaluations[113] have shown that education investments in low capacity environments that focus on financial augmentation without sustained high quality technical advice are ineffective. Fourthly, the GoT needs to do more to better coordinate donor investments in

113 World Bank 2005/8

education through its new Cabinet Aid Coordination Committee, this coordination needs to be supported by clear government priorities and by sufficient human resource capability.

As the main donor in the Law and Justice Sector, and in order to ensure the sustainability of its investments, New Zealand should formulate a medium-term Law and Justice strategy, in cooperation with the MoJ and other stakeholders (e.g. New Zealand Law Society, Chief Justice, regional stakeholders) that brings together its investments in a more coherent fashion based on the articulated priorities of the MoJ. One major priority is to develop the capacity of the local legal profession both as advocates within the Courts' and as potential Judges on the Supreme Court. This will not happen without a concerted effort on behalf of the GoT, the judicial system and New Zealand who traditionally have provided very strong and long term support for this sector. New Zealand should consider using its Partnership Funds and Scholarships programmes to support this initiative. It should also work closer with the MoJ to identify other priorities over the medium term and align its sector support to these priorities. New Zealand should also do more to bring to the MoJ's attention the work it is doing through non-TCAF channels.

The Country Strategy should also identify the characteristics that activities that support stability and economic development should have across MFAT. Designs and design appraisals should take these into account and there should be more strategic contestation with regards to potential activities within MFAT which have more Tongan input as noted in Section 5.1. The Strategic TA mechanism could be used to assist in the vetting of designs and assessing their alignment to the two priorities, while also facilitating Tongan input. Activities that clearly support both stability and sustainable economic development should be prioritised, followed by those that support one or the other of these priorities.

5.5 Deploying whole of government resources more effectively

There are a number of ways that New Zealand can improve the effectiveness of its whole-of-government resources to improve development outcomes in Tonga and the impact of its engagement. Whole-of-government resources include those within the MFAT portfolio—trade, aid and political—and those across the broader government, for example Maritime, Police, Agriculture, Fisheries, MCDEM and Customs. Remittances and the Recognised Seasonal Employment (RSE) scheme play an important role in the economy of Tonga. Recent analysis of MBIE data[114] suggests that RSE workers from Tonga earn, on average, NZD 20,067 per person, per seven month placement, and that approximately one-quarter of this (NZD 5,944) is remitted back to relatives in Tonga. This is clearly very important for the livelihoods of families in Tonga where average GNI per capita is approximately NZD 7,154 per annum.

The evaluation team interviewed a number of people in Tonga about the seasonal worker programme, including seasonal workers themselves, GoT officials involved in the management of the programme, Ministers and other politicians, and community leaders. There was widespread acknowledgement from all parties of the economic benefits of the

114 Data provided by MFAT, review of data from MBIE remittance pilot

programme, both at an economy-wide level, and at the household and broader kinship network level. Focus groups discussants (i.e. recently returned workers) reported much higher income levels as a result of participating in the programme. RSE workers typically remit funds to their family on a weekly basis and these funds are used to meet household expenditure and to lift quality of life and living conditions. Items of expenditure include electricity bills, food, school fees, household equipment, cars and car-related expenses, church contributions and funerals. RSE workers reported little investment in productive activities. Anecdotal evidence suggests that RSE workers utilise their income to support their families back home and, importantly, to improve their living conditions.

The development impacts of New Zealand's RSE programme was the subject of research conducted in 2013[115], which found that per capita income rose by over 30% for RSE participants relative to comparison groups. The rate of home improvement doubled, participating families were more likely to hold bank accounts, there was evidence that school attendance amongst 16 to 18 year olds with a family member participating in RSE was higher, and there was increased community-level investment in local institutions and infrastructure projects.

Key informants from both the New Zealand and Tonga governments reported that the management of the RSE programme has improved considerably over time. More resources are now provided in Tonga for the management of the programme within the Ministry of Internal Affairs (MIA) and participation numbers have increased considerably from 805 in 2007 to 1628 in 2015; 70 per cent of these workers are returnees, which demonstrates the strong demand for Tonga workers. Pastoral care within the New Zealand programme is reported to be of a high standard and considered by returned workers to be of a higher quality than the Australian programme. However, there were some concerns voiced by returned workers with regard to the transparency of financial contributions for items like rent, food, accommodation and travel. The deductions made by employers were seen to be excessive and not properly explained to the workers. Numerous examples were given to the evaluation team of perceived overcharging in all of these areas, particularly rental accommodation (compared to local prices); there was also anecdotal evidence of overcrowding in rental accommodation. Whether this is in fact the case cannot be determined by this evaluation, but it is certainly a perception that needs to be addressed by both the MBIE and the MIA. RSE workers also noted that aside from the initial inception visits they had not had contact with any New Zealand labour inspectors, or liaison/welfare officers.

While the economic benefit of the programme is acknowledged by all parties, there is widespread concern amongst senior Tongan political and community leaders that the programme is contributing to the erosion of Tongan social fabric and precipitating the breakdown of family units. This was a widely-held view by many of those interviewed from across Tongan society. There is a view held by some senior leaders that the RSE programme

115 Gibson, J., and D. McKenzie (2013) The Development Impact of a Best Practice Seasonal Worker Policy, World Bank Paper

benefits New Zealand first and foremost and that Tongan values and socio-cultural structures are harmed by participation in this programme. Staff at the MIA have to deal directly with family breakdown issues attendant upon participation in the programme, and this is a highly stressful part of their job. RSE workers are overseas for seven months at a time and this leads to family issues in some circumstances, as one would expect in any country. However, considering the high value placed on family and kinship relations in Tonga, this presents a problem from a development perspective: do the economic benefits outweigh the perceived social costs? It is important that New Zealand do what it can with its whole-of-government resources to engage with the GoT on this matter. It may well be that the programme is not directly contributing to social problems, but that these are part and parcel of a changing Tongan social landscape. However, it is important for New Zealand to address this perception.

Aside from quantifying the economic benefits, a task which is ongoing, New Zealand should establish a longitudinal action research project (with Tongan participation) that seeks to investigate this matter in a culturally sensitive and practical way. The New Zealand Institute for Pacific Islands Research (NZIPR) may consider extending its recently commissioned research to encompass Tonga more substantively. The NZIPR should work closely with MIA and community leaders in particular. Such research would be welcomed by all Tongan stakeholders. The outcomes of this research should be communicated to senior leaders in the GoT (e.g. Ministers) and the community (e.g. Church leaders) who have significant interest in this initiative and whose perceptions and attitudes towards the programme have significant influence in the community.

Aside from the RSE, New Zealand provides a permanent migration pathway for Tongans through the Pacific Access Category (PAC), which is a lottery process. Up to 250 Tongans, between the ages of 18 and 45 who meet certain health, English and character requirements, can migrate permanently to New Zealand after securing a full time job in New Zealand. Recent research[116] has quantified the significant gains in income Tongans derive from such migration, which is estimated at an additional NZD 315,000 over the course of a lifetime. Migrants earn 300% more than non-migrants, have better mental health, live in households with 250% higher expenditure and have more durable assets. The evidence from this research suggests that the majority of benefits accrue to the migrant and the migrant's immediate family and there are negligible benefits to extended family back in Tonga. New Zealand's seasonal and permanent migration programmes confer important economic benefits for Tongan's; the former programme more directly supports families back in Tonga (thus contributing to development impact in Tonga), while the benefits from the latter largely accrue to the direct participants.

The trade agenda, both bilateral and regional, is an area that has the potential to facilitate growth in the productive base through agreements like the Pacific Agreement on Closer

116 Gibson, J et al (2015) The Long-Term Impacts of International Migration – Evidence from a Lottery, November, 2015, IZA DP No. 9492.

Economic Relations (PACER) Plus. The PACER Plus trade agreement aims to encourage greater regional trade and economic integration. New Zealand has a role in supporting Tonga to position its productive base in a way that creates new markets and expands existing ones. The key to the agreement will be creating a more predictable trading environment, creating certainty for both domestic and foreign investors. Labour force mobility is also an important aspect for Tonga and the Pacific as a whole as countries build up technical capacity in discreet areas. For example, energy sector technicians are being trained in Tonga to implement the TERM, once the construction phase of the project is complete there will be an excess of technicians that could be utilised across the Pacific. An agreement to facilitate trade in services will encourage investments in longer term capacity and build on New Zealand's capacity building investments. Through increasing trade the PACER Plus agreement will potentially increase private sector interest in the Pacific facilitating enhanced FDI. MFAT's role is twofold, firstly capacity support in negotiating the agreements, and secondly through the trade arm of MFAT, developing ties to potential New Zealand investors facilitating discussions across its regional network.

Maximising the deployment of whole of government resources will ultimately be an issue of capturing these resources in the overarching strategic planning framework. Alignment of these resources with the focus on stability and economic growth will assist in harnessing all New Zealand resources around a common set of higher level objectives. Generally these resources are targeted at very specific or niche activities requiring a particular technical solution with only limited interaction with the broader aid programme and objectives. By bringing these resources into under a whole of programme strategic planning framework and creating a line of sight to the core of objectives identified will potentially improve effectiveness as all resources are coalesced around a broader joint goal. The development of a whole of programme strategic framework focusing on stability and economic development will also assist in driving coordination between different elements of the New Zealand government and New Zealand Inc. more broadly. These priorities are in New Zealand's national interest as a more stable and productive region clearly provides economic and security benefits to New Zealand.

6. Findings – Fostering Sustainable Economic Development in Tonga

6.1 Sustainable Economic Development

This section identifies the characteristics of sustainable economic development in Tonga and the role of productive and non-productive economic drivers. As noted in Section 2, Tonga has an externally driven economy, is very remote from global markets, has a narrow production base, has limited and fragile natural resources, experiences frequent natural disasters, has a new system of government, has had recent violent civil disruptions, and continues to suffer declines in health outcomes due mainly to non-communicable diseases.

Tonga has a heavy reliance on external financial flows that are detached from the domestic economy: remittances (26 per cent of GDP in 2014) and aid (53 per cent of the Government Budget).[117] Its trade deficit continues to expand (increasing by 12.4 per cent between 2011 and 2014)[118] and the key productive drivers of economic growth—agriculture, fishing and tourism—have an uncertain future and for reasons already discussed at length in this report, the GoT and donors have directed funding to other priorities, at least in terms of direct and coordinated support to the sectors. There are other drivers and enablers of economic growth that are important but none that will drive trade and ultimately lead to the economic sustainability of Tonga.

While Tonga is no longer referred to as a fragile state it is also not referred to as the opposite—a resilient one. Tonga requires large volumes of external flows—both aid and remittances—to maintain order and stability, to deliver social services at a level that meets communities' expectations, and survive and counter the negative effects of external and internal shocks. It is increasingly common for development agencies to conceptualise fragility in relation to its opposite—resilience.[119] The OECD (2010) argues that low levels of economic production are root causes of fragility. When viewed in this way, without external assistance Tonga is not a resilient State, and is possibly an increasingly fragile one. Tonga is increasingly susceptible to negative exogenous shocks. It is through this lens that we assess sustainable economic development.

117 Remittance data provided by the Reserve Bank of Tonga and GDP data from the Tongan Ministry of Finance's Budget Statements.
118 Statistics Department Tonga, International Merchandise Trade Statistics, Annual Report, 1998-2014
119 Mcloughlin, C., (2012), Topic Guide on Fragile States, Governance and Social Development Resource Centre, University of Birmingham, UK.

The New Zealand aid programme defines sustainable economic development as the process where growth increases income and employment opportunities and boosts tax revenues that support affordable and accessible public services, ensuring that growth is economically, environmentally and socially sustainable without compromising development opportunities for future generations, with an emphasis on private sector - led growth.

To apply this to the Tongan context, the issues of sustainability, inclusiveness and resilience need to be clarified.

Sustainable growth is that which is likely to persist into the future and is resilient to economic, environmental and social changes.

Inclusive growth includes increasing jobs and incomes and fostering broad-based economic participation, with specific provision for those who will not benefit automatically, and ensuring that people can realise their economic, social, cultural, civil and political rights. It also includes supporting the provision of high-quality public services and infrastructure that can reduce poverty and increase well-being. UNDP's Asia-Pacific Chief Economist recognised the following common features of inclusive economic growth:

"Growth is inclusive when it takes place in the sectors in which the poor work (e.g. agriculture, service industries); occurs in places where the poor live (e.g. undeveloped areas with few resources); uses the factors of production that the poor possess (e.g. unskilled labour); and reduces the prices of consumption items that the poor consume (e.g. food, fuel and clothing)."[120]

For inclusiveness to occur there needs to be growth in sectors that benefit the poor, regardless of what is happening in other sectors. It requires emphasis on industries likely to employ poor people and those that will generate incomes for women or provide goods and services that improve women's lives.[121] Poor people work the land and earn the majority of their income (cash or subsistence) from agriculture and engage in service industries like tourism.

Resilient growth in Tonga is predominantly about countering the effects of climate change and natural disasters, which are increasing in incidence and severity. In addition, global economic shocks are also of particular concern due to Tonga's heavy reliance on external flows. The IMF's 2016 Article IV outlined a number of relevant issues: there is a need to assess vulnerability; to incorporate disaster costs into national budget planning; to build fiscal buffers (surpluses where possible); enhance preparedness, including investing in suitable infrastructure; develop an enhanced debt management capacity; develop a regional pooling or insurance scheme; and invest in emergency response and reconstruction capacity. The IMF has noted that Tonga has "…comfortable gross international reserves supported by

120 "What does inclusive economic growth actually mean in practice?" UNDP (2015).
121 For a discussion of inclusivity that covers reducing inequality, see Klasen, S., 2010, Measuring and Monitoring Inclusive Growth: Multiple Definitions, Open Questions, and Some Constructive Proposals, ADB.

favourable external environment and a moderate public debt providing Tonga with some self-insurance in the medium term."

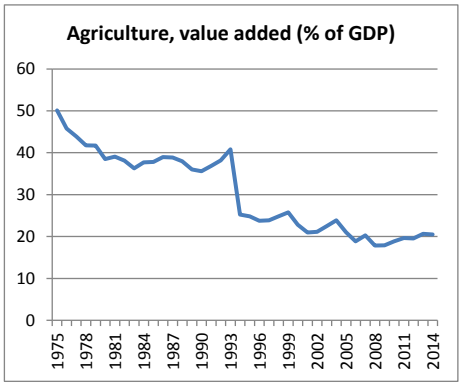
Sustainable economic development, and how aid is used to support development that is sustained, inclusive and resilient are examined below in terms of the economic drivers (or drivers of growth) and economic enablers (or enablers of growth). The priorities identified in the 2011 JCFD and subsequent priorities will be analysed as either contributing as a driver or an enabler.

Key economic drivers

The Tongan economy is split between productive and non-productive economic drivers. The key productive drivers are agriculture, fishing, and tourism; the non-productive ones include remittances, aid, construction (e.g. South Pacific Games), and government administration (e.g. wages). Each one contributes to economic growth and has a role to play in terms of the three factors of sustainable economic development.

The productive base of Tonga (and main exports) is made up of agriculture (more than 20 per cent of GDP), fishing (2.7 per cent of GDP), and tourism (10 per cent of GDP). Agriculture is the single largest productive activity and is growing in importance, despite limited support of the sector and falling commodity prices. Production in the sector has been increasing since 2008 (see Figure 30 below) and trade opportunities, especially for squash and root crops, have expanded with new markets in Korea and China. The sector employs people from rural areas where the poor predominantly live. Growth in the sector will support inclusive growth and improve economic resilience as households will be positioned to supplement incomes from other sources, like remittances.

Figure 30: Agriculture value added



Source: World Bank (2015) World Development Indicators

There is now a much-needed strategic plan for the agriculture sector, with the GoT endorsing Tonga's first National Agriculture Sector Plan in 2015 and identifying measures to boost and modernise the agriculture sector. This includes investing TOP36 million of Government and

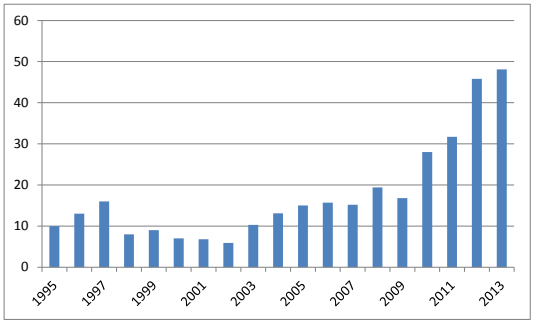
private funds, with support from the World Bank, the International Fund for Agricultural Development (IFAD) and the UNDP.[122] New Zealand's investments in agriculture are limited to a small number of low value activities primarily focused on maintaining market access and building the conditions for the more consistent supply of exportable products, with a focus on exports to New Zealand. These investments make up approximately 4 per cent of New Zealand's total aid investments in Tonga. There are other activities which may have an impact on productivity and growth in the agricultural sector, including energy, education, health and governance. However, there is no specific agricultural growth focus to the structure or design of these activities, and any impact is through association not design. The RSE scheme was noted as possibly having a positive impact on agricultural productivity due to the training aspects of the activity, but this was not the purpose of the activity; and as noted in Section 5, it is clear that it is an income-substitution activity and not an agricultural support activity. In fact, focus group discussants reported a move away from agriculture as a productive activity to a concentration on overseas employment as the main source of income, although home gardens and subsistence level production continue to provide for household level consumption.

The fisheries sector, on the other hand, has seen falling yields over the past five years with limited support from Government and donors; New Zealand allocates approximately 1 per cent of its total aid to the sector. Fishing is an important driver of economic growth but its potential is limited due to its current low base and factors within the sector that lead to boom-and-bust cycles. The sector has growth potential in the short to medium term due to Tonga's access to deep-sea species that are in high demand internationally, as highlighted in Section 4. During consultations it was asserted that the sector could cope with increased production levels with only minor upgrades required. Sustainability of the sector will be driven by both internal and external factors, many of which are out of the control of donors and the GoT. The sector does provide employment, which supports resilience; however, its growth potential is limited in the short to medium term and possibly longer, depending on the status of declining fish stocks. Support in the sector, both bilateral and regional, focuses on governance and not on a private sector led approach; this was an issue raised by stakeholders in the agricultural sector also. New Zealand's support through NIWA, is in its first phase and is focused on analysis and improving yields in a sustainable fashion, and this could led contribute to an increase in exports over time.

The tourism sector in Tonga has recently experienced impressive growth, delivering an average annual increase in international tourism receipts of approximately 32 per cent between 2009 and 2014 (see Figure 29 below) and it accounts for more than 50 per cent of all exports. It contributed a respectable 10 per cent of GDP in 2014 with further growth forecast for 2016. But this growth is fragile as tourism in the Pacific Islands is a highly competitive industry, with many countries competing for the attention of the same tourists. Tonga's tourism sector is one of the least developed and poorest performers of all the Pacific Islands. That said, Tonga has a niche offering in whale watching and a very large diaspora – almost 50 per cent of all Tongans live outside of Tonga, which presents a strong catchment of potential repeat tourists.

122 IMF (2016), Article IV.

Figure 31: International tourism receipts for Tonga, (USD millions)



Source: World Bank (2016) World Development Indicators

What we know from key competitor destinations is that growth in tourism can lead to broad-based employment and income generation, as well as supporting the retention of cultural traditions and the sustainable management of natural assets. The sector also includes a sufficiently diverse set of actors, giving it the potential to stimulate inclusive growth. If the sector is managed and marketed well it can support sustainability, and, like the other productive sectors, improve resilience by further diversifying the economy. There are important enablers that are required for growth to occur, including reliable electricity, access to fuel, modern telecommunications, unskilled, semi-skilled and skilled labour, transport infrastructure, and a supportive regulatory and business environment.

The Tongan Government recognised the sectors potential as a driver of economic growth and in response developed the Tonga Tourism Sector Roadmap 2014-2018. The Ministry of Commerce and Labour was responsible for implementing the Roadmap; however, since the change of Government in 2015 and the shifting of the portfolio to another ministry the progress has stalled, as highlighted in Section 4. The issue of leadership within the Tourism Authority also seems to be distracting from progress and it is unclear whether the new ministry will continue to implement the roadmap. The sector's immediate prospects are uncertain.

Non-productive economic drivers include remittances, aid, construction, and Government administration. These drivers are largely externally driven and have limited to no sustainability. However, they are important contributors to resilience as they have historically acted as a buffer when incomes from productive sectors have declined. They also support inclusiveness, as they transfer benefits across the economy.

Remittances provide income substitution but are reliant on both the maintenance of family and cultural ties and the performance of the global economy, in particular New Zealand, Australia and the US economies. The level of remittances continues on a downward trajectory, starting in 2008. There was a technical increase in 2013; however, this was related to an accounting measure and was not an actual increase. It is hard to know what remittances are used for across the economy, but based on economic theory and what we see in aggregated measures like the trade balance, there seems to be a propensity for increased demand of imported goods for consumption. While these play a role in stimulating GDP growth, they are likely to have limited impact on increasing the performance of the

productive sectors, as there is little evidence of increased savings rates. That said, they do provide the household with the fiscal space needed while the productive sectors develop and they do provide a buffer to endogenous shocks like localised droughts, pests and conflict.

Aid is a temporary transfer, that may (or may not) contribute to sustainable outcomes and will have differing impacts on resilience and inclusiveness depending on the nature of the aid activities. Our analysis in Sections 3 and 4 suggests that for a range of reasons, the results of New Zealand's aid—and, by extension, aid more generally—face significant challenges with regard to sustainability. Aid has been shown to be more effective and sustainable in countries with high-quality institutions and strong enabling environments. Our analysis in Section 4 suggests that Tonga faces some ongoing challenges in these areas. Forecast increases in aid volumes will have a positive effect on growth in the short term; however, the effectiveness of activities will determine whether this growth is longer lasting. What is important to note here is the sometimes fickle nature of aid, and its unpredictability as donor Governments adjust priorities and activities for a range of reasons, which are not always related to the performance of existing activities or the priorities of recipient Governments. So, in terms of sustainable economic development, aid needs to be viewed as a temporary opportunity to overcome constraints to growth.

The construction sector is an important driver of economic growth but in itself is not a productive sector. Tonga relies heavily on imported inputs to support the construction industry. The main construction activities in the short to medium term are for Government buildings (built by China) and sports infrastructure for the South Pacific Games. These activities will help to stimulate growth, but this type of infrastructure is not income-producing and will do little, if anything, to support the productive base of the economy; also, ongoing O&M will place a burden on the recurrent budget.

Finally, the Government stimulates the economy through the goods and services it procures and the investments it makes. Wages and salaries in 2016 account for TOP122 million (67 per cent of tax revenue), while capital expenditure is only TOP15.4 million. Wages and salaries have grown 34 per cent between 2011 and 2016 with more growth likely. The Remuneration Authority recommendations are likely to include performance benchmarks and strategies to rein in the rapidly growing cost of living allowances (COLA) with the overall approach focusing on affordability. Capital expenditure is more erratic, however, and its current level is historically low. It is possible that higher-paid or more public servants could lead to some productivity improvements in the delivery of Government services, but it could also lead to a structural deficit, higher public debt, and this may jeopardise debt sustainability and undermining the macro-economic environment, harming private sector growth prospects.[123]

The economic enablers that create and support an economy that is conducive to growth include: economic infrastructure such as roads, ports and energy; economic management, including fiscal and monetary policy that supports a stable exchange rate, providing confidence to foreign investors and trade exposed sectors, and prudent budgeting that

123 IMF 2016 Article IV.

supports the productive base; a regulatory environment conducive to private sector-led growth of the productive base; improvement in human capital with skills development, through better quality and targeted education, relevant to the productive base; and efficient access to finance so that capital is provided to the activities of highest economic return.

New Zealand, along with other donors, has directed the majority (91 per cent) of its support to the economic enablers. There has been a focus on supporting the functions of Government, creating a healthy and well-educated workforce, and establishing more efficient and reliable economic infrastructure. Support to the enablers is crucial as it creates the conditions where productive activities can be enhanced; however, what is less certain is the pro-growth focus on the productive base (i.e. agriculture, fisheries and tourism).

There are many enablers that New Zealand has supported, the most significant and effective of which has been New Zealand support for energy; this is also a high priority of the GoT. Energy is an enabler, but is not an economic driver. Cheaper and more reliable energy is certainly a precondition for a resilient economy as the cost of disruptions is lowered, assisting businesses and the broader economy to operate more efficiently. However, there needs to be businesses in place that can transfer the benefit from these improvements in supply so that it has an impact on the productive base and influences economic growth. Will better energy encourage new and/or more productive businesses?

Falling fuel prices and substituting diesel generation with renewable sources will reduce imports, increasing net exports, and will therefore lift measured GDP. Going beyond this macroeconomic impact, the lowering of this business cost provides opportunities for changing business models. The more innovative firms that adapt to these falls in prices can increase profitability and offer prospects for more sustainable services.

New Zealand's support to the energy sector is focused on energy security, efficiency, cost savings and access for poor households. The support does not have an overt focus on economic growth, aside from lowering costs and reducing disruptions. There is some evidence linking increased supply of electricity and economic growth; however, the current activities are about substituting existing supply and not necessarily expanding it, other than to remote rural areas. That said, improvements to the distribution network will increase its resilience to natural disasters and therefore reduce the otherwise negative effect on economic growth.[124]

The main issue for SED is the energy support leading to an expansion of the productive use of energy. Improved infrastructure can benefit business by reducing the operating costs of capital from connections to stable lines, reduce the need for business to invest in expensive backup and self-generation capacity and can increase labour productivity through less downtime and greater uptake of technology. While there is evidence globally for a productivity response to improved electrification, Edquist (2006) notes that there is an approximate time lag of 40 to 50 years for productivity growth. In addition, Fan (1999)

124 See Morimoto, R., and Hope, C., (2001) The impact of electricity supply on economic growth in Sri Lanka, The Judge Institute of Management Studies. Cambridge.

found that there were low productivity effects from additional government spending on rural electrification on agricultural productivity; in fact, agricultural research and development have higher productivity effects then electrification (Fan 2004).) In the case of Indonesia, Straub (2008) found that there was a negative effect on total productivity growth in the agriculture sector from investments in electrification. There is evidence to support the relationship between investment in electricity infrastructure and growth but the impact is lower than other forms of infrastructure, depending on the quality of that infrastructure.[125] The link to fisheries is even less certain, unless processing is part of the industry, which at this stage it is not. For tourism and poverty reduction the results are more positive.

Energy investments are being made on resilience, sustainability and cost grounds, with a possible link to improving economic growth. But electricity is not an end in itself; its primary function, like any infrastructure investment, may not be to directly increase economic growth but rather to overcome constraints to growth. Other factors like business development services and access to finance can increase the probability that improved access to electricity will have a positive impact on economic activity, private sector employment, incomes and poverty reduction. Therefore, the investments made in supporting Tonga to shift its energy generation to renewable sources should play an important role in supporting improvements in productivity and quality.

The long-term support to the education sector by New Zealand has been an important investment in human capital; a key economic enabler. The focus has been on fostering growth, opportunity, innovation, and leadership; targeting access and quality so that economic participation is expanded. Putting to one side the problems experienced in the sector and the conclusions of ineffectiveness in the assessment of the Tonga Education Support Programme, education will continue to be a critical enabler to growth in the Tongan economy that is if the trade exposed sectors of the economy are to be competitive in existing and new markets. The rate in which new technologies are adopted and new opportunities are created will be determined by the improvements in skills across the labour force.

Education improves peoples' productivity and creativity and promotes entrepreneurship and technological advancement. Ozturk (2001) discusses how during the twentieth century, education, skills, and the acquisition of knowledge became crucial determinants of a person's and a nation's productivity. However, its effect on economic growth is less clear. Aghion (2009) argues that policy makers must look at specific mechanisms and investments in education, and their appropriateness to the context, to better understand the potential impacts on economic growth.[126] Plus work by the World Bank has highlighted that quality matters more than quantity.[127] So with that in mind, future investments in education would

125 Attigah, B. and Mayer-Tasch, L. (2013): "The Impact of Electricity Access on Economic Development - A Literature Review", in: Mayer-Tasch, L. and Mukherjee, M. and Reiche, K. (eds.), Productive Use of Energy (PRODUSE): Measuring Impacts of Electrification on Micro-Enterprises in Sub-Saharan Africa, Eschborn.
126 Aghion, P., Boustan, L., Hoxby, C. and Vandenbussche, J. (2009): "The Causal Impact of Education on Economic Growth: Evidence from U.S.", Brookings Papers on Economic Activity: Washington.
127 Hanushek, E. and Wößmann, L. (2007): "Education Quality and Economic Growth", World Bank: Washington.

be well served by an understanding of Tonga's productive base, the economic enablers and designing support that focuses on the future skills required as discussed in Section 5.

One sector that will have an increasing impact on economic development in Tonga over the medium term is health. Tonga has one of the highest incidences of NCDs in the world. NCDs are the leading cause of death in the Pacific, and the leading cause of death in Tonga. Life expectancy has fallen as a result of NCDs and is expected to fall further as 25% of deaths in Tonga are premature and result from NCDs[128]. The costs associated with treating NCDs will grow over time and place significant stress of the GoT health budget. The per capita health cost associated with the provision of health care for NCDs is approximately USD 3,971 per person[129] per year. This is the direct medical cost and does not take into consideration the non-medical costs and the impact increased disability would have on the economy. As productive members of society are struck down by NCDs the impact on the economy will be significant.

Addressing this issue will require a holistic strategy and improvement in a wide range of areas, such as primary health care delivery, health financing, health policy reform, strategic health communication, trade, and tax reform. High income developed countries have struggled to address the issue of NCDs, let alone fiscally constrained poorer countries. This is a complicated area that requires a high level of analysis and technical support. The costs associated with this service provision would be very high considering the many disabilities associated with the contraction of NCDs (diabetes-related amputations, blindness etc). At present the aid allocated to addressing this serious health concern is not commensurate to the gravity of the situation. As noted in Section 2, only 3% of ODA is allocated to the health sector. New Zealand provides very little funding for health, it does fund activities that seek to address NCD issues but this is not done in a holistic fashion, nor does New Zealand adopt a whole of programme approach which includes reducing the provision of unhealthy foods through trade. It is vitally important that donors and the GoT increase funding for NCD's over the medium term to directly tackle an issue that will have severe effects on human capital and productivity.

6.2 Fostering SED through development cooperation and other means

NZ is not directly supporting the three main drivers of economic growth but it is providing support to the enablers, including energy, public administration (operating environment) and support to improve human capital through education and health activities. It is harder to determine the effectiveness of targeting enablers rather than the drivers directly, but this is not to say that this is not a sensible approach.

Generally, there does not appear to be a growth lens through which activities are either conceived or measured and relying on growth to occur either through hope or reliance on a trickle-down effect seems overly optimistic. Donors, including New Zealand, have prioritised

128 Anderson, I (2012) The Economic Cost of NCDs in the Pacific Islands, Final Report, World Bank.
129 Bloom, D.E, et al (2011) The Global Economic Burden of NCDs, Geneva: World Economic Forum, Harvard School of Public Health.

support to the enablers of economic growth but have steered away from directly supporting (in relative terms) the three key sectors that must grow for sustainable and long-term growth to take hold in Tonga.

The economy consists of a mix of sectors aiding resilience and inclusiveness but there must be a strong productive base from which to achieve sustainable economic development. There are a number of contributors to the economy, both internal and external, which have acted as a buffer when one or more sectors suffer decline. The broader the set of economic drivers, the more resilient the economy will be, and the greater the growth in the productive base, the more sustainable the economy will be. For example, remittances are currently in decline, while aid and tourism receipts are increasing. New Zealand can foster economic growth by overtly targeting growth in Tonga's productive base. This can be applied across all areas of support through developing links to each and every activity with targeted outcomes captured in the Tonga Country Strategy.

The development of comprehensive growth and private sector development strategies to guide approaches across direct support and the support to the enablers should encompass the areas of governance, transparency, business climate, access to external markets including marketing, as well as investing in energy, transport, communications, human capital (health and education), all with a line of sight to the productive base: agriculture, fisheries and tourism. One focus will need to be the lifting of the rate of foreign direct investment, which stood at 2.7 per cent of GDP in 2015 and lifting the low share of the private sector active in the economy.

A growth strategy could include identification of and response to the risks to growth. This can include activities that build resilience to possible "natural" shocks such as floods, droughts and cyclones. Climate change volatility means such activities are now more important than ever. With climate change expected to add to the intensity and variability of natural events, mitigation and adaptation actions are vital, with an emphasis on resilience for local communities. There is very little Tonga can do to reduce climate change. Dealing with such climate change volatilities should be included in a holistic growth strategy.

History also suggests there is a need for considerable investment in avoiding "human" shocks. These have traditionally presented themselves through forms of civil unrest,[130] lost productivity due to gradual increases in corruption, or more dramatically through the collapse of a key financial institution (such as a bank or provident fund). The GFC has highlighted these risks on a global scale, but they can also hit at a country level. Tonga has a relatively poor record on credit growth, so action to improve access to credit will require a balanced risk-management approach. Poor fiscal and monetary policies, including over-

130 The following extract from a 2011 ADB economic analysis is a succinct reminder: "Successive administrations had failed to provide the leadership and policies to address the underlying causes of the civil conflict—uneven regional development, maldistribution of public resources, land issues, and a rising youth population with little education and poor job prospects—and then proved incapable of imposing law and order. The civil conflict lasted to 2003 and resulted in hundreds of deaths and the displacement of over 20,000 people. Much of the post-independence income growth was lost."

valuations of the exchange rate and currency controls, can also dramatically impact on growth. It is crucial not to fritter away the significant gains that have been made, as economic mismanagement can have disastrous impacts on businesses and people. The Government's challenge will be ensuring the positive intents are translated into day-to-day practice across the Government and community.

New Zealand should focus on economic reform and harden up the focus on growth across the whole programme. There has been a propensity for donors in the Pacific to fix budget processes in the hope that this will lead to economic growth. There is no doubt that sustainable and efficient fiscal management is a necessary part of any reform agenda. However, it is only one part of growing an economy. For example, debt for high-return capital investments that support the key growth drivers should be encouraged, whereas debt to support public sector pay increases is questionable in terms of its return on investment. Further effort in identifying and understanding regional integration options could foster more robust growth and assist in overcoming issues of geographical remoteness through generating economies of scale. The Caribbean Growth Forum, consisting of 12 Caribbean countries, has identified three priorities: logistics and connectivity; investment climate; and skills and productivity.[131] The first of these is covered by the focus on transport, and the private sector appears to be adapting mobile phone technology rapidly to improve connectivity gains.

Economic governance is a new investment priority for the New Zealand Aid Programme, and general budget support is a key means of delivering this priority. The use of budget support through the JPRM will play an important role in further strengthening the governance of GoT's procurement and financial systems. It will be important for New Zealand to use its position in the JPRM to influence other donors and the facility itself to establish a clear line of sight to Tonga's productive base and ultimately the drivers of domestic growth and export-focused industries. As noted in Section 3, there has been a tendency for GoT officials to drop other important ongoing tasks in the pursuit of budget support linked 'priority' reforms so as to attract the next funding tranche. The sustainability of this approach for longer-term reform will need to be addressed.

131 http://www.worldbank.org/en/news/speech/2015/06/16/caribbean-challenges-engendering-growth-small-island-developing-states .

7. Conclusion and Recommendations

The effectiveness and sustainability of New Zealand's development cooperation has been affected by the weak enabling environment for development cooperation in Tonga, by certain characteristics of the New Zealand aid programme and by the political issues that surfaced between the two countries during the evaluation period. New Zealand's development cooperation in Tonga has targeted some important areas but its results have been variable. Its support for Energy and Justice is making a difference but its support for Tourism and Education has been relatively ineffective. A lack of functional ownership by the GoT and an unstable enabling environment for aid delivery in Tonga has affected the sustainability of results. Overambitious designs that haven't taken appropriate account of the implementation context have added to this problem. The lack of cohesion of the aid programme reduces impact and a more strategic and country-focused approach across the programme is required. New Zealand needs to ensure consistent high level and equivalent policy dialogue based on an appreciation of Tongan socio-cultural values is prioritised. Noting the development challenges in Tonga, over the medium term New Zealand should focus on two key priorities, and its whole of government engagement strategy (or Country Strategy) should articulate how it will deliver on these priorities. The priorities are 'fostering stability' and 'promoting sustainable economic development'; the latter should include a focus on supporting economic growth through Tonga's productive sectors. In unstable sectors such as Tourism the focus should be on fostering stability first by strengthening the enabling environment and then, when conditions are right, the focus should shift to directly supporting economic growth.

The evaluation makes the following recommendations:

1. New Zealand should develop a country strategy that guides its whole-of-government engagement in Tonga. This strategy should focus on two priorities over the next 10-15 years: 'fostering stability' and supporting 'sustainable economic development'. The country strategy should be supported by sector level delivery strategies that articulate how New Zealand's TCAF expenditure is supporting these priorities in a complementary way.
2. New Zealand should develop a policy dialogue strategy for Tonga that prioritises ongoing high level (formal and informal) policy dialogue that focuses not just on New Zealand's investment priorities under the JCFD but broader development issues of central importance to the GoT. New Zealand should allocate very senior staff to this dialogue.
3. MFAT should devote more resources to pre-post training for NZHC staff undertaking postings to Tonga that focuses on cultural, historical and politics issues in the country and includes a review of the challenges with delivering effective and sustainable activities in Tonga.
4. New Zealand should fund a medium term Strategic Technical Assistance Facility (4-6 years) that can provide targeted and consistent TA in support of New Zealand and GoT priorities, including activities that strengthen the enabling environment for development cooperation.

5. New Zealand should consider providing more strategic and programmatic support to the Justice sector that assists Tonga in strengthening accountability and transparency, while also building capacity within that sector.
6. New Zealand should ensure that more of a 'Tongan lens' is applied to the development of aid activities in the country. This would involve freeing up NZHC DPC resources for more timely and in-depth design appraisal, fostering more in-depth in-country feedback on designs and ensuring designs are appraised by consultants with expertise in the Tongan political and institutional context.

www.adamsmithinternational.com

Headquarters
3 Albert Embankment
London
SE1 7SP
United Kingdom
T: +44 20 7735 6660

Africa
2nd Floor Cavendish
14 Riverside, Riverside Drive
PO Box 26721-00100
Nairobi
Kenya
T: +254 20 444 4388

South Asia
Bharat Yuvak Bhawan
1 Jai Singh Road
New Delhi 110 001
India
T: +91 11 4150 2291/93/94/95

Asia Pacific
507/46-56 Kippax Street
Surry Hills
Sydney NSW 2010
Australia
T: +61 2 8265 0000

Adam Smith International