

EN

11TH EUROPEAN DEVELOPMENT FUND
NATIONAL INDICATIVE PROGRAMME
FOR THE KINGDOM OF TONGA

GENERAL CLAUSES

The Government of the Kingdom of Tonga and the European Commission hereby agree as follows:

- (1) The Government of the Kingdom of Tonga and the European Commission, hereinafter referred to as the Parties, determined the general orientations for cooperation for the period 2014 to 2020.

These orientations which are included in the National Indicative Programme, concern the European Union Aid in favour of the Government of the Kingdom of Tonga, and were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, revised and signed in Luxemburg on 25 June 2005 and revised and signed in Ouagadougou on 22 June 2010. The National Indicative Programme is annexed hereafter.

- (2) As regards the indicative programmable financial resources which the European Union envisages to make available to the Government of the Kingdom of Tonga for the period from 2014 to 2020, an amount of EUR 11.1 million is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation).

A B-allocation referred to in Article 3.2 (b) can be established to cover unforeseen needs. This allocation is at EUR 0 until a need arises. These allocations are not entitlements and may be revised by the Commission, following the mid-term and end-of-term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.

- (3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects. The National Indicative Programme concerns the resources of the A-allocation. It also takes into consideration financing from which the Government of the Kingdom of Tonga benefits or could benefit under other European Union resources. It does not pre-empt financing decisions by the Commission.
- (4) The B-allocation is destined to cover unforeseen needs such as humanitarian, emergency and post emergency assistance, where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate exogenous shocks. The B-allocation shall be established according to specific mechanisms and procedures and does therefore not constitute a part of the programming.
- (5) Pending the entry into force of the Internal Agreement between the Representatives of the Governments of the Member States of the European Union, meeting with the Council on the financing of European Union Aid under the multiannual financial framework for the period 2014 to 2020, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Kingdom of Tonga within the limits of the A- and B-allocations referred to in this document under the condition that sufficient financial resources are available in the transitional measures ("Bridging Facility") composed of uncommitted balances from the previous EDFs and from funds de-committed from projects or programmes under those EDFs. The respective projects and programmes shall be implemented according to the rules and procedures of the 10th EDF until the entry into force of the 11th EDF implementing rules and financial regulation.

- (6) The European Investment Bank may contribute to the implementation of the present National Indicative Programme by operations financed from the Investment Facility and/or from its own resources, in accordance with Articles 2c and 3 of the 11th EDF multi-annual financial framework for the period 2014-2020.
- (7) In accordance with Article 5 of Annex IV to the ACP-EC Partnership Agreement, the (National Indicative Programme as well as the A-and B-allocations can be revised following the mid-term review and the end-of-term review or ad hoc reviews.

Signatures


For the Government
of the Kingdom of Tonga


For the European Commission

NATIONAL INDICATIVE PROGRAMME (2014-2020)
FOR THE KINGDOM TONGA

TABLE OF CONTENTS

Acronyms and Abbreviations

0. Summary

1. The overall lines for the EU response

- 1.1. Strategic objectives of the EU's relationship with the partner country
- 1.2. Choice of sectors: Energy

2. Financial overview

3. EU support per sector

3.1 Energy Sector

- 3.1.1 Overall and specific objectives
- 3.1.2. Expected results :
- 3.1.3. Donor coordination and policy dialogue
- 3.1.4. The Government's financial and policy commitments
- 3.1.5. Environmental assessment
- 3.1.6 The overall risk assessment of the sector intervention

4. Measures in favour of civil society

5. B-allocation

6. Support measures

6.1 Measures to support or accompany the programming, preparation or implementation of actions

6.2 Support to the National Authorising Officer

Attachments

- 1. Country at a glance
- 2. Donor matrix showing the indicative allocations per sector
- 3. Sector intervention framework and performance indicators
- 4. Indicative timetable for commitment of funds

Acronyms and Abbreviations

ACP	African, Caribbean and Pacific Countries
CRA	Climate Risk Assessment
CEDAW	Convention on Elimination all forms of Discrimination Against Women
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
GDP	Gross Domestic Product
MDG	Millennium Development Goals
NAO	National Authorising Officer
PFM	Public Finance Management
PEFA	Public Expenditure and Financial Assessment
REEEP	Renewable Energy and Energy Efficiency Plan
SRC	Sector Reform Contract
TERM	Tonga Energy Roadmap
TERM C	Tonga Energy Roadmap Committee
TSDF	Tonga Strategic Development Framework
UNDP	United Nations Development Programme

0. Summary

The Kingdom of Tonga, with a population of 104 000, is classified as a Lower Middle Income Country. Tonga has low poverty rates, high standards of education and health services, and has progressed steadily over the last decade. Due to sound development policies and the Government's commitment to service delivery, social indicators remain among the strongest in the Pacific. This is evidenced by the UNDP Human Development Index where Tonga ranked 90th in 2011, well above the regional average. Yet poverty persists, notably in the outer islands.

In the wake of the global financial crisis which significantly affected Tonga's economy in 2009, the Government of Tonga, faced with fiscal pressure from rapidly increasing oil prices, undertook to reduce the Country's reliance on important fossil fuels. The main aim was to reduce the cost of energy, thus contributing to promote private sector growth, and to ease the Government's fiscal pressure in order to maintain funding for social services. Currently, the cost of fuel import accounts for 10% of Tonga's GDP, which amounted in 2013 to approximately EUR 3 600 per capita.

The Tonga Energy Roadmap 2010-2020 (TERM), elaborated through extensive consultation with Development Partners, Government and Utilities in Tonga, is a well-defined national strategy. TERM refines Government's objectives in the energy sector, sets out priority actions for more cost-effective petroleum procurement, for managing energy production and consumption and for developing renewable energy. Tonga is committed to realise a share of 50% of renewable energy by 2020. Both, the promotion of renewable energy and efficiency gains, will considerably contribute to climate change adaptation and mitigation.

Against this background, the Government indicated its preference to maintain Energy as the focal sector for EDF11. Based on identified priorities in the Country and its continuity with the EDF10 cooperation, this choice was endorsed. The 11th EDF National Indicative Programme, in the amount of **EUR 11.1 million** for the period 2014-2020 will thus focus on this sector, which is considered vital for the Country's sustainable and inclusive development:

Energy (Efficiency/Renewables) – building on successful EDF initiatives, continued support will be provided to improve energy efficiency and promote renewable energy, for which an amount of **EUR 10 million** or 90% of the total NIP, is foreseen.

Support Measures – for which an amount of **EUR 1.1 million** or 10% of the total NIP, is earmarked. This includes activities aimed at supporting the programming, preparation, implementation, monitoring, evaluation, and visibility of EU-Tonga cooperation, as well as support to the National Authorising Officer, and measures in favour of Civil Society.

The Country will also benefit considerably from regional activities under the forthcoming EDF11 Regional Indicative Programme for the Pacific, which is likely to focus on (1) Regional Economic Integration, including Trade-Related Assistance; (2) Sustainable Management of Natural Resources; and (3) Governance, Support to Non-State Actors, as well as Capacity Building.

In addition, the NIP may be complemented by operations financed by the EIB from the Cotonou Investment Facility, the Investment Facility for the Pacific, and/or the EIB's Own Resources.

NATIONAL INDICATIVE PROGRAMME FOR THE KINGDOM OF TONGA

1. The overall lines for the EU response

1.1. Strategic objectives of the EU's relationship with the partner country

The European Union (EU) and the Kingdom of Tonga have a long standing tradition of co-operation and partnership dating back to the mid-1970s. It is currently guided by the latest revision of the *ACP-EU Partnership Agreement*, signed in Cotonou in 2000 and updated in Ouagadougou in June 2010.

The *ACP-EU Partnership Agreement* will remain in force until 2020 and is centered on the objective of reducing, and eventually eradicating, poverty through sustainable development and gradual integration of ACP countries into the world economy.

Cooperation between the EU and the Kingdom of Tonga shall therefore continue to pursue these objectives in keeping with the fundamental principles of the Agreement such as human rights, democratic principles, the rule of law, fight against poverty, good governance, conflict prevention and resolution. In addition the principles of sustainable management of natural resources and the environment, including climate change, shall be applied and integrated at every level of the relationship.

While a strong ownership of the country development strategy and the alignment of EU aid with this strategy will remain essential elements, the EU development approach set out in 2011 "EU Agenda for Change" and in the 2012 EU Communication "*Towards a renewed EU-Pacific development partnership*" will also be reflected. Efforts will be made toward developing a more targeted delivery of aid to ensure maximum poverty reduction and to help address climate change challenges.

The principle of alignment of the EU development strategy with the country national development strategy will guide the EU 11th EDF programming and implementation. The Tonga Strategic Development Framework (TSDF) 2011-2014, which was developed through a comprehensive consultative process, consolidates the development gains achieved against the Millennium Development Goals to date and exemplifies the ambitious reform agenda of the Government.

A donor coordination process has been established and development partners are engaged in structural and financial reform priorities drawn from the Tonga Strategic Development Framework (TSDF). The TSDF is a realistic and appropriate development strategy for the country and its long-term priorities are likely to be the basis for the next development framework for Tonga¹. Against this background, the EU Strategic cooperation with the Kingdom of Tonga for the 11th EDF will be guided by the existing TSDF, and its revisions until 2020.

1.2. Choice of sectors : Energy

Tonga, with a population of circa 104,000, has generally low poverty rates and high standards of education and health. Progressing steadily over the last 10 years, Tonga ranked 90th (out of 187) in the 2011 UNDP Human Development Index, with a score above the regional average. Thanks to aid flow and the governments' strong commitment to service delivery, social indicators remain among the strongest in the Pacific. Yet some poverty issues persist, notably in the outer islands, and development assistance will continue to be needed so as to ensure that development gains of the last decade are consolidated.

¹ A revised TSDF is due by end of 2014.

In 2009, in the wake of the global financial turmoil that affected the country's economy, the democratically elected government of Tonga, faced with fiscal pressure from rapidly increasing oil prices, took a commitment to reduce the country's reliance on imported fossil fuels. The aim was to reduce the price of energy, thus contributing to private sector growth, and to ease fiscal pressures, thus maintaining public funding for social services to population.

The TSDF 2011-2014 is consistent with the EU approach to development. It recognizes the importance to strengthen the 'growth dimension' and, in this context, to expand the provision of reliable and cost efficient power supplies to all communities. The aim is to improve the everyday life of the people and to lower the cost of doing business. The TSDF further recognizes that, as 98% of Tonga's energy requirements are met by imports of fuel, managing consumption and developing Tonga's renewable energy potential can offer important economic benefits and contribute to the sustainable development of remote and outer islands communities. Currently the cost of fuel import accounts for about 10% of GDP².

The Tonga Energy Roadmap (TERM) 2010-2020, elaborated through an extensive consultative process with development partners, government departments and utilities in Tonga is a well-defined national strategy which further refines government objectives in the energy sector and sets out priority options for more cost effective petroleum procurement, for managing energy consumption and for developing renewable energy. Tonga is committed to achieve a share of 50% renewable energy by 2020. Furthermore the shift towards renewable energy sources and energy efficiency is also identified by the Joint National Action Plan on Climate Change and Disaster Risk Management 2010-2020 as a climate change adaptation measure. Thus advances in Renewable Energy and Energy Efficiency will contribute to both climate change mitigation and adaptation.

In line with the overall objective of reform in the energy sector, the EU has engaged in 2013 in a Sector Reform Contract (SRC) on Energy. The approach is consistent with Tonga's priorities as well as with the EU approach to Energy sector and Climate Change challenges, notably through its emphasis on Renewable Energy and Energy Efficiency. In addition, the budget support modality of the SRC makes aid delivery more effective, ensuring minimum transaction cost for Tonga and maximum impact for EU assistance. The approach will therefore be maintained under the 11th EDF while a programme/project approach will be envisaged should the country fail to maintain budget support eligibility criteria.

The expected results of the operation will be the implementation of the Energy sector policy with the aim of reducing reliance on imported petroleum, promoting the use of renewable energy and improving energy efficiency whilst taking into consideration potential environmental impacts. However these long-term objectives will only be reached through continuous support and it is proposed that future interventions in Tonga focus on consolidating the results achieved through the 10th EDF energy sector reform contract.

As a result, it is proposed that Energy be the focal sector for EU under the 11th EDF, in keeping with the 10th EDF cooperation and long term Tonga Energy Road Map objectives until 2020. The EU will continue to support increased access to affordable energy services for the population, including in the outer islands, increased energy efficiency and increased use of renewable sources for the generation of energy. Continuous efforts to support Tonga through a budget support mechanism will ensure increased policy dialogue and facilitate the development of a conducive energy policy framework.

Beyond the energy sector, EU efforts will continue with a particular emphasis on the continuation of a Technical Cooperation Facility. This will include support measures to the National Authorising Office (technical assistance to the NAO as well as to the preparation and implementation of EU assistance) and support to civil society and private sector to enhance their participation in energy sector, both in policy dialogue and implementation, as well as in the monitoring of national programmes, and economic and public finance management reforms.

² Tonga Energy Roadmap 2010-2020

Non State Actors' assistance may include support to private sector associations within community level to support the focal sector programme. In line with the Agenda for Change and the EU's fundamental values, a particular focus will also be on gender issues, with support provided for the country to work toward compliance to various aspects of the Convention to Eliminate all forms of Discrimination Against Women (CEDAW). Support to this area need not necessarily be large and could also come from thematic envelopes, in partnership with the UN or another relevant agencies.

2. Financial overview (indicative amount)

<i>Energy</i>	<i>EUR10 000 000</i>	<i>90% EDF</i>
<i>Measures in favour of civil society</i>	<i>EUR 600 000</i>	<i>5.4% EDF</i>
<i>Support to the NAO</i>	<i>EUR 300 000</i>	<i>2.7% EDF</i>
<i>Support Measures</i>	<i>EUR 200 000</i>	<i>1.9% EDF</i>
<i>Grand Total</i>	<i>EUR 11 100 000</i>	<i>100% EDF</i>

3. EU support per sector

3.1 Energy Sector – Indicative Amount: EUR_10 million

3.1.1 The following overall and specific **objectives** will be pursued:

Overall Objectives

- To improve social and economic developments and provide sustainable living conditions for all Tongans, contributing to an environmentally sustainable and low-carbon development path.

Specific objectives

- To achieve universal access to modern and sustainable energy services, to improve the overall efficiency of the energy sector, and to increase the share of renewable energy, whilst minimizing its potential adverse environmental effects and ensuring its climate resilience.

3.1.2. For each of the specific objectives the main expected **results** are:

- (a) Universal access to modern, sustainable and environmentally sound energy services.
- (b) Improvement in energy efficiency in terms of generation, transmission and consumption
- (c) Increase the share of renewable energy in energy production

The main indicators measuring the aforementioned results are contained in the sector intervention framework attached in Annex 3.

3.1.3. Donor coordination and policy dialogue

Donor coordination in Tonga is facilitated through the Aid Management Division of the Ministry of Finance and National Planning, the central authority which oversees for all government and development assistance activity and progress towards development outcomes. The Ministry of Foreign Affairs and Immigration is the political entry point for development partners, while the Ministry of Finance and National Planning is the operational entry point for all partners to engage on the management and delivery of aid.

Donor coordination is ensured through the organisation of two development partners' roundtable meetings each year. This provides an opportunity for donors (e.g. EU, World Bank, Asian Development Bank, UN agencies, Australian Aid, New Zealand Aid) to review progress and to co-ordinate development assistance. In addition, a joint policy matrix, focusing on macroeconomic development, public finance management and energy, has been agreed upon between the Government and budget support partners. The matrix is reviewed annually and forms the basis of the budget support policy dialogue.

In the energy sector, following the adoption of the Tonga Energy Roadmap 2010-2020 (TERM), in 2010, a Tonga Energy Roadmap Committee (TERM C), comprising ministers from all key ministries, was established to guide the implementation of the energy roadmap. A TERM Unit was set up to manage the implementation of the policy and to provide a coordination framework for the sector.

3.1.4. The Government's financial and policy commitments

The government is committed to implement its national development strategy and maintain the country eligibility to budget support notably by:

Maintaining a stable macro-economic framework - Tonga is an lower middle income country, with moderate growth perspective (Real GDP growth is forecast to be 1.7% in 2015/2016). The country, with a population of 104,000, is highly vulnerable to domestic and external shocks and, over the past years, structural constraints, natural disasters, political disturbance and global economic developments have constrained economic growth. Tonga relies heavily on donor aid and remittances (from Australia, New Zealand and the United States). At a moderate risk of debt distress in 2014, the country's macroeconomic priorities include improving fiscal management (e.g. effective revenue services, no new borrowing policy, improved public finance management) and efforts to promote private sector development. Maintaining the macroeconomic stability of the country over the coming years is a strong commitment of the Government.

Implementing a credible Public Financial Management (PFM) reform plan –The trend in PFM has been very positive in recent years and the Government is committed to further strengthening its PFM systems over the medium-term. The government has developed a PFM Road Map 2014-2018, to be adopted in 2014, and will undertake regular PEFA assessments. Transparency and oversight are also prioritised with progress achieved both at the level of the external Auditor General Office (e.g. increased independence and capacities) and Parliament (e.g. revised mandate of the Public Account Committee in 2012).

Implementing the Energy Sector policy – As for all small island states in the Pacific, Tonga is highly dependent on imported fuels to meet its overall energy requirements. Since 2010 however the "Tonga Energy Roadmap (TERM)" provides the policy framework to ensure that Tonga's vulnerability is gradually reduced. The policy, which aims to increase the access to modern energy services for the whole population in a sustainable manner, provides the framework for all interventions in the energy sector. The TERM was complemented in 2013 by a specific

Renewable Energy and Energy Efficiency Plan (REEEP). This 3 year plan provides further guidance to progress in those two areas and includes four strategic priority areas. The first area relates to energy supply efficiency (i.e. efficient conversion of petroleum to electricity) and the second to energy consumption efficiency. The other two areas relate to increasing renewable energy share in energy production and increasing access to energy notably in the most remote areas in Tonga. The Government is committed to implement both the REEEP and TERM, with the support of development partners.

- 3.1.5. When needed, the appropriate type of **environmental assessment** (Strategic Environmental Assessment or Environmental Impact Assessment) will be carried out.

The environmental assessment and climate risk assessment procedures in the Guidance for the Integration of Environment and Climate Change in European Commission Development Cooperation will be applied to determine the need for an environmental assessment and/or a Climate Risk Assessment (CRA). Even if an environmental assessment or a CRA is not deemed necessary, the screening questionnaire will help identify environmental and climate change (adaptation and mitigation) aspects that could be integrated in the project/programme formulation in order to enhance their environmental and climate change performance.

In case of new energy investments, and in accordance with the Tonga Energy Road Map, an Environmental and Social Impact Assessment will be carried out.

- 3.1.6. The overall **risk assessment** of the sector intervention:

A key risk associated with implementing the programme is government's ability to maintain its eligibility to receive EU budget support. The risk is however mitigated by the solid path taken by the Government in past years to strengthen the energy sector, to ensure a stable macroeconomic environment and to improve public financial management.

The major risk for Tonga remains the high level of vulnerability to exogenous shocks and disaster, which potentially have a large impact on the population and the economy. Natural hazards, such as cyclones, droughts, earthquakes, tsunamis and human induced hazards, including economic and financial crisis, epidemics, oil spills are risks to be considered. Furthermore, climate change, which is likely to result in sea level rise and increased intensity of tropical cyclones, is a particular concern (e.g. damage to energy infrastructure). Increased temperatures and potential increase in drought conditions can also increase energy demand. The deployment of renewable energies conveys environmental risks associated e.g. to land clearances and waste management (i.e. spent batteries from solar photovoltaic systems). Those elements are particularly relevant in the saline conditions of small islands which significantly reduce the life-span of many components. Mitigation strategies include disaster preparedness and resilience building efforts supported by development partners, including EU, at national and regional level in all aspect of development cooperation (and notably in the energy sector).

4. Measures in favour of civil society

In line with the Cotonou Agreement and its Annex IV, an indicative amount of maximum EUR 600 000 may be set aside for support to civil society organisations. Support to civil society will allow for an increased cooperation between Tonga National Authorising Officer and civil society actors, including private sector associations. This will improve national ownership of EU support and ensure a stronger engagement of all actors in the EU cooperation efforts. While support to civil society organisation will focus on general development efforts in line with Tonga's priorities, EU focal sector and policy priorities for the region will guide the implementation of this assistance to civil society. Community organisations

may access funding to support the focal sector (e.g. capacity building and/or awareness towards communities on renewable energy and energy efficiency). Finally support will be foreseen to civil society organizations in the context of Tonga's work towards compliance to various aspects of CEDAW.

5. B-allocation

This allocation is at EUR 0 until a need arises. In case of necessity, a Financing Decision to meet an unforeseen or urgent need can always be taken notwithstanding the status of the indicative B-allocation mentioned in the National Indicative Programme.

6. Support measures

6.1. Measures to support or accompany the programming, preparation or implementation of actions

A support facility for Technical Assistance of EUR 200 000 aims to support the sector programming, preparation and implementation of actions foreseen in the programming. The support measures will be used for supporting activities of limited amounts.

6.2. Support to the National Authorising Officer

An indicative amount of maximum EUR 300 000 will be foreseen for support to the National Authorising Officer.

Attachments

1. Country at a glance
2. Donor matrix showing the indicative allocations per sector
3. Sector intervention framework and performance indicators
4. Indicative timetable for commitment of funds

ANNEX 1 - COUNTRY AT A GLANCE

KEY MACRO-ECONOMIC INDICATORS										
	2008/2009	2009/2010	2010/2011	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017	
Basic data										
1	Population (in 1000)	102.500	102.800	103.000	103.300	103.500	103.800	104.215	104.840	105.574
	annual change in %	0.1	0.3	0.2	0.3	0.2	0.3	0.4	0.6	0.7
2a	Nominal GDP (million EUR)	233	266	311	353	369	373	384	378	437
2b	Nominal GDP per capita (EUR)	2 270	2 584	3 016	3 414	3 567	3 595	3 682	3 603	4 140
2c	annual change in %	0.1	13.9	16.7	13.2	4.5	0.8	2.4	-2.2	14.9
3	Real GDP (annual change in %)	3.2	3.3	2.9	0.8	0.5	1.5	1.7	1.7	1.7
4	Gross fixed capital formation (in % of GDP)	20.6	24.2	29.6	28.9	33.1	-	-	-	-
Balance of payments										
5a	Exports of goods (in % of GDP)	2.3	2.1	2.6	3.1	3.2	3.3	3.6	3.9	3.7
	of which the most important: (in % of exports) <i>fish</i>	29.7	26.9	30.1	31.8	33.2	-	-	-	-

	of which share of regional trade (in % of exports)	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.2	0.2	0.2
5b	Imports of goods (in % of GDP)	40.9	35.4	36.1	38.1	28.7	28.9	31.5	34.7	31.9		
	of which share of EU imports (in % of imports)	2.1	3.4	0.9	1.6	1.9	-	-	-	-		
5c	Trade balance (in % of GDP)	-38.6	-33.2	-33.5	-34.9	-25.4	-25.7	-28.0	-30.8	-28.2		
6	Export of services (in % of GDP)	11.0	10.6	14.3	14.1	14.6	14.9	-	-	-		
	of which the most important: <i>Travel</i> (in % of exports)	50.6	40.9	52.2	52.6	35.2	-	-	-	-		
6a	Current account balance (in % of GDP)	-8.8	-2.7	-4.9	-6.6	-5.9	-4.7	-3.7	-3.2	-2.8		
7	Net inflow of remittances (in % of GDP)	26.4	22.2	20.7	14.2	14.9	15.2	15.4	17.6	16.6		
8	Net inflows of foreign direct investment (in % of GDP)	12.0	2.0	1.5	1.1	2.3	2.4	2.5	2.6	2.4		
9	External debt (in % of GDP)	31.5	31.8	35.4	41.2	40.3	38.9	37.1	35.1	33.2		
10	Service of external debt (in % exports goods + services)	0.7	1.2	1.2	1.3	1.6	2.5	2.7	2.8	2.6		
11	Foreign exchange reserves (in months of imports of goods and non-factor services)	4.6	5.0	5.7	8.0	7.8	7.4	6.4	5.6	5.1		

Trade capacity									
12	Average cost to export (USD per container)	400	400	400	525	505	505	-	-
13	Global competitiveness index	-	-	-	-	-	-	-	-
Government budget									
14	Revenues (in % of GDP)	34.3	27.0	26.3	28.0	23.9	24.2	23.8	23.7
	of which: grants (in % of GDP)	6.8	6.8	6.7	9.9	5.8	6.1	5.4	5.2
	of which: external tariff income (in % of GDP)	2.4	2.1	1.6	1.7	1.8	1.8	1.8	1.7
16	Expenditure (in % of GDP)	34.4	32.3	34.0	30.6	23.7	24.3	22.5	21.9
	of which: capital expenditure (in % of GDP)	2.7	2.6	9.4	5.6	2.0	2.5	2.6	2.7
16a	Deficit (in % of GDP) including grants	-0.2	-5.3	-7.6	-2.7	0.2	-0.1	1.3	1.8
16b	Deficit (in % of GDP) excluding grants	-6.9	-12.1	-11.0	-12.2	-8.6	-8.1	-4.3	-1.7
17	Total (domestic+ external) debt (in % of GDP)	34.0	37.0	40.0	44.0	43.0	40.0	38.0	37.0
									35.0

Monetary policy										
18	Consumer price inflation (annual average rate in %)	5.5	1.7	6.0	3.3	2.9	3.50	4.40	4.90	5.3
19a	Commercial Bank Lending Rates (annual average rate in %)	11.0	9.8	9.4	9.5	9.0	-	-	-	-
19b	Deposit Rates (annual average rate in %)	3.7	2.7	2.5	3.1	2.9	-	-	-	-
20	Exchange rate: annual average national currency / 1 EUR	2.9	2.7	2.5	2.3	2.2	2.3	2.4	2.6	2.4

Sources

1. Population: UNDESA United Nations Department of Economic and Social Affairs, Population Division, Populations Estimates and Projections Section (UNDESA). Website: <http://esa.un.org/unpd/wpp/Excel-Data/population.htm> and Government of Tonga
2. Nominal GDP: IMF Article IV Mission - Country Report for 2013. Since the GDP data is denominated in Tongan Pa'anga, the TOP/Euro bilateral exchange rate (period average) is used to convert the nominal into EUR. Exchange Rate data is from UNCTAD's database: http://unctadstat.unctad.org/ReportFolders/reportFolders.aspx?CS_referer=&CS_ChosenLanguage=en and also from the National Reserve Bank of Tonga. Furthermore, the forecasts are derived by using cross rates on major currencies for which the forecasts are available from the Consensus Forecasts (December 2013). Since the tables require medium term projections for the major economic variables, currency forecasts from these sources have been used here.
3. Real GDP: IMF Article IV Mission - Country Report for 2013
4. Gross Formation: United Nations (UNdata): <http://data.un.org/Default.aspx>
5. Balance of Payments data has been sourced from the IMF Article IV Mission 2012 Country Report for Tonga, as well, the Tongan Department of Statistics.
6. EU trade data is from the Eurostat Database: <http://ec.europa.eu/trade/policy/countries-and-regions/statistics/regions/>
7. Row 12 data under *Trade Capacity* has been sourced from the World Bank: <http://databank.worldbank.org/data/views/reports/tableview.aspx>
8. Government Budget data are from the IMF Article IV Mission 2012 Country Report for Tonga.
9. Monetary Policy indicators have been sourced from IMF Article IV Mission Country Report 2012 and the National Reserve Bank of Tonga.
10. For the MDGs and development indicators, additional information is provided in the attached excel file (which shows data sources in the 'comments').

KEY MDG AND DEVELOPMENT INDICATORS												
Key indicators		1990	2000	2008	2009	2010	2011	2012	2013	2014	2015 Expected Achievements (On-Track/Off-Track/Mixed/Insufficient information/Not Applicable)	2015 Original Goals
1	Proportion (%) of population below 1\$/day in PPP Source: PIFS 2013 MDG Report (based on National Basic Poverty needs	...	16.2	...	22.5	...	...	...	...	...	OFF TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	Halve, between 1990 and 2015, the proportion of people whose income is less than one dollar a day
2	Prevalence (%) of underweight children under age 5 [Source: PIFS 2013 MDG Report]	1.6	2.0	...	...	...	...	...	...	...	ON TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	Halve, between 1990 and 2015, the proportion of people who suffer from hunger
3	Under 5 child mortality (per 1,000 live births) [http://mdgs.un.org/unsd/mdg/data.asp]	22.9	18.1	14.5	14.1	13.7	13.3	12.8	...	...	ON TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	Reduce by two-thirds, between 1990 and 2015, the under-five mortality rate
4	HIV Prevalence in Population aged 15-24 (%) Source: PIFS 2013 MDG Report	...	...	...	...	...	...	...	...	...	ON TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	HIV have halted by 2015 and begun to reverse the spread of HIV and AIDS
5	Births attended by skilled health personnel (%) Source: http://mdgs.un.org/unsd/mdg/data.aspx	92.0	95.3	98.0	...	98.4	...	...	...	...	ON TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio

6	Children 1 year old immunized against measles (%) [Source: http://mdgs.un.org/unsd/mdg/data.aspx]	86.0	95.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0	...	...	...	ON TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	Reduce by three quarters, between 1990 and 2015, the maternal mortality ratio
7	Total net enrolment ratio in primary education, both sexes [Source: PIFS 2013 MDG Report (for 2011) & http://mdgs.un.org/unsd/mdg/data.aspx]	92.3	99.1	98.9	...	...	...	98.7	...	...	...	...	...	ON TRACK TO ACHIEVE THIS GOAL.. [Source: PIFS 2013 MDGs Report, pg 24]	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
8a	Gender Parity Index in primary level enrolment [Source: PIFS 2013 MDG Report (for 2011) & http://mdgs.un.org/unsd/mdg/data.aspx]	1.0	1.0	1.0	...	...	...	1.0	...	...	...	...	...	MIXED RESULTS IN ACHIEVING THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 22]	Eliminate gender disparity in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015
8b	Gender Parity Index in secondary level enrolment [Source: PIFS 2013 MDG Report (for 2011) & http://mdgs.un.org/unsd/mdg/data.aspx]	1.0	1.1	1.1	...	...	...	1.0	...	...	...	...	...
8c	Gender Parity Index in tertiary level enrolment [Source: PIFS 2013 MDG Report]	0.7	0.7	1.0	...	...	...	...	...	...	...	...	...
9	Percentage of pupils starting grade 1 who reach last grade of primary, both sexes [Source: PIFS 2010 & 2013 MDG Report (for 1990, 2008) & http://mdgs.un.org/unsd/mdg/data.aspx (for 2000)]	86.0	91.1	90.0	...	...	...	...	...	...	...	...	...	ON TRACK TO ACHIEVE THIS GOAL. [Source: PIFS 2013 MDGs Report, pg 24]	Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling
10	Population with sustainable access to improved water source (%) [Source: http://mdgs.un.org/unsd/mdg/data.aspx]	99.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0	99.0	...	...	...	ON TRACK TO ACHIEVE THIS GOAL. TARGET 7.C High access to water. Improved sanitation up. [Source: PIFS 2013 MDGs Report, pg 24]	Integrate the principles of sustainable development into country policies and programmes and reverse the loss of

																		environmental resources
11a	Fixed telephone lines per 100 inhabitants [Source: http://mdgs.un.org/unsd/mdg/data.aspx	4.6	9.9	24.8	30.0	29.8	28.7	28.6	...	...	...	...	...	...	...	...	...	...
11b	Mobile cellular subscriptions per 100 inhabitants [Source: http://mdgs.un.org/unsd/mdg/data.aspx	0.0	0.2	49.0	51.2	52.2	52.6	53.4	...	...	...	...	...	...	...	...	...	...
11c	Internet users per 100 inhabitants [Source: http://mdgs.un.org/unsd/mdg/data.aspx	0.0	2.4	8.1	10.0	16.0	25.0	34.9	...	...	...	...	...	...	...	...	...	...
12	Cost of business start-up procedures (% of GNI per capita) [Source: http://data.worldbank.org/country]	...	...	9.6	8.2	7.0	10.3	8.3	7.7	...	...	...	...	...	...	...	...	...
13	Time required to start a business (days) [Source: http://data.worldbank.org/country]	...	...	25.0	25.0	25.0	16.0	16.0	16.0	...	...	...	...	...	...	...	...	...
14	Real GDP per capita, PPP (constant 2005 international \$) [Source: http://data.worldbank.org/country]	2981	3843	3938	4042	4155	4256	4276	...	...	...	...	...	...	...	...	...	...
15	Access of rural population to an all season road N/A	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...	...
16	Household electrification rate	...	...	...	...	...	...	...	88%	...	...	...	...	...	...	...	...	...
17	Unemployment (in % of labour force, ILO def.) [Source: http://data.worldbank.org/country]	4.1	5.2	1.1	...	...	...	...	...	...	...	...	...	...	...	...	...	...

18	Employment in agriculture (in % of total employment) [Source: http://data.worldbank.org/country]	43.2	31.8
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Annex 2 – Donor matrix

Development Expenditure by Development Partner (Cash and in-kind)

	2011-12 Actual	Budget Estimate for 2012-13	Revised Estimate for 2012-13	Current Estimate for 2013-14	Current Projection for 2014-15	Current Projection for 2015-16
Australian Bilateral	8.33	14.84	8.45	15.92	12.62	6.87
Aust Defence-Cash	1.96	0.60	0.45	0.70	0.10	0.30
Aust Other	0.09	0.04	0.01	0.05	0.05	0.09
Germany	-	-	-	0.12	0.12	0.12
Japan Government/JICA	19.08	11.00	2.97	-	10.00	10.00
Japan TTP	0.45	1.21	0.00	2.31	32.30	32.30
Aust/NZ Pooled Fund	12.84	14.48	7.40	10.75	11.63	5.90
New Zealand Bilateral	14.31	15.35	11.57	12.20	11.18	14.72
People's Republic of China	2.80	9.10	0.63	37.88	51.00	0.25
UK Government	0.78	0.82	0.80	0.80	0.80	-
India Fund	0.06	-	-	-	-	-
Korean Fund	0.10	0.10	-	0.30	-	-
Pacific Regional Initiatives for Basic Education (PRIDE)	-	-	-	-	-	-
Asian Development Bank (ADB)	5.58	23.37	17.04	29.47	22.14	12.84
World Bank/International Development Agency (IDA)	6.57	43.90	34.26	23.58	36.94	2.59
EU Budget Support	1.59	4.50	1.23	4.00	2.00	-
Commonwealth Fund Tech Coop	0.04	0.13	0.14	0.02	0.02	0.02
Unesco	0.35	0.07	-	0.02	0.02	0.02
European Union	0.87	2.52	0.57	2.75	1.95	0.75
Pacific Islands Forum Secretariat (PIFS)	-	-	-	7.30	-	-
Secretariat of the Pacific Community (SPC)	0.03	0.25	0.56	1.28	0.22	0.08
South Pacific Regional Environmental Program (SPREP)	0.16	0.20	0.41	0.72	0.21	-
United Nations Development Program (UNDP)	0.23	0.97	0.24	1.55	3.59	3.16
UN Family Planning Association (UNFPA)	0.11	0.01	0.12	0.10	0.10	0.10
UN International Children's Fund	0.02	-	-	-	-	-
Food & Agriculture Organisation (FAO)	-	1.42	-	0.66	0.31	0.31
World Health Org (WHO)	0.44	0.50	-	-	-	0.50
South Pacific Geoscience Commission (SOPAC)	0.40	0.02	0.13	0.11	0.08	0.08
United Nations Environment Program	0.07	0.04	0.17	0.20	0.05	0.05
Forum Fisheries Agencies (FFA)	-	0.10	0.10	0.52	0.19	0.05
Commonwealth Local Government Fund	-	-	-	0.04	0.04	0.02
International Union for Conservation of Nature (IUCN)	0.30	0.13	0.11	0.51	0.50	0.20
PRC - EXIM Bank	46.89	5.13	8.05	-	-	-
Tonga Trust Fund	0.14	1.50	1.00	0.85	0.25	0.08
Local Level Contributions	-	-	0.00	-	-	-
Unidentified Donor	0.36	-	0.37	4.11	3.79	7.57
Total	124.96	152.28	96.81	138.81	202.19	98.97

Annex 3 : Intervention Framework and Performance Indicators

Sector 1: Energy

Expected Results	Indicators	Means of verification
Specific objective 1 - Universal access to modern and sustainable energy services		
Increased access to modern and sustainable energy services	Indicator: Percentage of population with access to modern energy services. Target: 100% of populations have access to modern energy services by 2020 ¹ (Baseline 2014: 88% of the population has access to modern energy services).	TERM annual progress report and Energy Sector Annual Meeting
Specific objective 2 – Improvement in energy efficiency		
Improved energy efficiency in terms of generation, transmission and consumption	Indicator: Energy losses measured as percentage of energy generated, transmitted and distributed. Target: losses in the power generation, transmission, distribution (measured as % of energy generated, transmitted and distributed) are reduced by 18% by 2020 ² . (Baseline 2014: 13.8% of energy generated is lost)	TERM annual progress report and Energy Sector Annual Meeting
Specific objective 3 – Increase the share of renewable energy		
Increased share of renewable energy in the country's energy mix	Indicator: Percentage of renewable energy in overall energy production. Target: 50% of renewable energy in energy production by 2020 ³ . (Baseline 2014: 4% of energy mix is from renewable energy).	TERM annual progress report and Energy Sector Annual Meeting

¹ The target of 100% access has been provided by TERM (in the document titled 'TERM's Activities and Projects') at the Energy Sector meeting held on the 6 March 2014 in Tonga. *World Energy Outlook (WEO)* defines modern energy access as “a household having reliable and affordable access to clean cooking facilities, a first connection to electricity and then an increasing level of electricity consumption over time to reach the regional average”

² The target of 18% has been provided by TERM (in the document titled 'TERM's Activities and Projects') at the Energy Sector meeting held on the 6 March 2014 in Tonga.

³ 50% target is indicated in the Renewable Energy and Energy Efficiency Plan (REEEP) and confirmed in the document titled 'TERM's Activities and Projects' submitted to partners at the Energy Sector meeting held on the 6 March 2014 in Tonga.

Annex 4 : Template for Indicative Timetable for Commitments

	Indicative allocation (million EUR)	2014	2015	2016	2017	2018	2019	2020
SECTOR – Energy	10		10					
<i>For ACP:</i>								
Other measures (support to civil society)	0.6		0.6					
B- allocation	0							
Support measures								
• Measures to support or accompany the programming, preparation or	0.2		0.2					
• Support to the National Authorising Officer	0.3		0.3					
Total Commitments	11.1							

The amounts mentioned in this table are indicative.