NOTE TO THE MEMBERS OF THE COMMITTEE

Annual Action Programme 2015 in favour of Tonga to be financed from the European Development Fund

1. Identification

EDF allocation	11th EDF – envelope A
Total cost	EUR10 million of EU contribution
Basic act	Council Regulation (EU) No 2015/322 of 2 March 2015 on the implementation of the 11th European Development Fund

2. Country background

Tonga, with a population of 105,000, ranks 101th (out of 187) in the 2014 UNDP Human Development Index, with a score above the regional average. The country has generally low poverty rates and high standards of education and health but some poverty issues persist, notably in the outer islands. Tonga has made good progress towards the Millennium Development Goals (MDGs). The country is "on track" for most of the eight goals apart from three; MDG 1 (Eradicate Extreme Poverty and Hunger): MDG 3 (Promote Gender Equality and Empower Women) and MDG 6 (incidence of Non Communicable Diseases).

Although Tonga is an Upper Middle Income Country, it remains prone to natural disasters with cyclones, earthquakes and tsunamis which regularly and negatively impact its socio-economic situation.

Tonga, faced with fiscal pressure from rapidly increasing oil prices, undertook to reduce the Country's reliance on important fossil fuels. The objective of the 2014-2020 NIP is to reduce the cost of energy, contributing to private sector growth, and to ease fiscal pressures, thus maintaining public funding for social services to the population.

3. Summary of the Annual Action Programme 2015 "Renewable Energy Sector Reform Contract"

1) <u>Background</u>

The Energy Sector in Tonga remains dominated by imported fossil fuels, the majority used for transport and an estimated 25 percent used for electricity generation. The main island of Tongatapu alone constitutes 86 percent of the electricity load with almost 100 percent electrification of international standard. Grid power is provided by the state-owned Tonga Power Ltd. which also operates small grids on the islands of Vava'u, Ha'apai, and 'Eua.

The outer islands face high poverty rate, high out-migration, low population, low electricity load and difficult access. More solar installations and better service are expected to meet these challenges and to eventually reach 100 percent coverage.

2) Cooperation related policy of beneficiary country

The EU aligns its support to Tonga's Strategic Development Framework (TSDF) and the implementation of the Tonga Energy Road Map (TERM) which is assorted with a Renewable Energy and Energy Efficiency Plan (REEEP).

The Tonga Energy Roadmap 2010-2020 (TERM) is the key policy document, representing the main priorities for the Government in the Energy sector and setting an ambitious political target of supplying 50% of electricity generation through renewable resources.

3) Coherence with the programming documents

This Action meets the needs of the Kingdom of Tonga as identified in the National Indicative Programme 2014-2020 and is consistent with the country priorities as set out in the Tonga Strategic Development Framework (2015-2025).

The Government indicated its preference to maintain Energy as the focal sector for EDF 11 with an allocation of EUR 10 million, to achieve universal access to modem 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.

4) Identified actions

The Action builds on the 10th EDF Sector Reform Contract in the Energy Sector. Activities will be supported by the transfer of EUR 10 million over the next five fiscal years.

The main activities will include:

- Policy dialogue on energy with Government and alignment with Government priorities,
- Effort to reinforce Government capacities in the area of PFM in the context of existing technical assistance programmes supported by the EU and other donors,
- Coordination with other donors within the budget support donor group in place for Tonga (through the joint policy matrix) and the regular monitoring of budget support eligibility criteria and the energy sector performance through the annual review of the sector, ad hoc exchanges with sector stakeholders and through the dialogue established under the joint government donor policy matrix.
- Monitoring of macroeconomic conditions taking into account IMF missions and other relevant assessments,
- Monitoring of public finance management eligibility on the basis of government PFM reform strategy and related assessment as well as ad-hoc analyses.
- Analyses of budget transparency which will be undertaken through verification of public availability of appropriate documentation.

Financial additionality is a key element of the sector reform contract (SRC) as the energy sector is currently underfunded. The Programme will allow for increased level of spending in the sector in line with the policy financing needs. The level of public spending will be monitored through the annual review of the energy sector and of the joint government donor policy matrix.

5) Expected results

The Action will provide financial assistance to Tonga to support the implementation of Tonga's Energy Road Map with the aim i) to achieve access to modern and sustainable energy services ii) to improve the overall efficiency of the energy sector, and iii) to increase the share of renewable energy, whilst minimizing potential adverse environmental effects and ensuring climate resilience.

The main expected results are:

a) Improvements in petroleum supply chain.
b) Improvements in efficiency of conversion of petroleum to electricity.
c) Improvements in efficiency of conversion of electricity into consumer electricity services.
d) Replacing a portion of current or future grid-based generation with renewable energy.
e) Increasing access to good-quality electricity supply to meeting the needs of consumers too remote to be connected to a grid-based supply.

6) Past EU assistance and lessons learnt

Local and decentralised solutions have proved their potential as a complement to centralized systems as a way to diversify sources of supply and thus increase the access to energy services. However, the level and quality of service from decentralized systems sometimes is poor, particularly in rural areas. The challenge of a nationwide access program is therefore not installation but sustainable operation and maintenance.

The experience of many energy access programmes has shown that despite the positive example in terms of institutional and organisational changes, many small and/or pilot projects are difficult to scale-up as they often rely on fully subsidised investments. Sustainability and up-scale ask for an efficient service structure, and for mobilisation of additional national resources.

The adoption of the REEEP as a trigger for the first tranche of the 10th EDF budget support programme proved useful, as it served as the performance assessment framework for RE & EE initiatives. A similar process under the 11th EDF will benefit the sector and reinforce its policy framework as well as its monitoring and evaluation system.

7) Complementary actions/donor coordination

Regarding policy financing, as per government approach, the energy policy implementation continues to be financed by development partners and a series of projects is currently being implemented and/or considered for funding (see list in Annex 1 p°4).

Tonga also benefit from the EUR 3 million ADB / EU Energy Catalytic Programme which allows the upgrading of the existing power distribution networks in the outer islands which will eventually reduce network losses and will improve the fuel consumption of existing thermal generation plants. The additional support provided by the EU will contribute to greater energy efficiency.

Donor coordination in Tonga is facilitated through the Project and Aid Management Division of the Ministry of Finance and National Planning, the central authority which oversees all government and development assistance programmes and monitors progress towards development outcomes.

Among donors, coordination is ensured through the organisation of two development partners' roundtable meetings each year. This provides an opportunity for multinational donors, such as the European Union, World Bank, Asian Development Bank, UN agencies, DFAT, New Zealand Aid, Japan, to review progress and co-ordinate development assistance.

In addition, a joint government-donor policy matrix, focusing notably on macroeconomic development, public finance management and energy has been in place since 2013 to guide both the Government and budget support partners in terms of key reform policies and actions.

4. Communication and visibility

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated through exchange of letters between the NAO and the European Union for an exchange of events for EU visibility at the start of implementation and supported by the budget support initiatives.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

5. Cost and financing

Renewable Energy Sector Reform Contract	EUR 10 million
Total EU contribution to the measure	EUR 10 million

The Committee is invited to give its opinion on the attached Annual Action Programme 2015 in favour of Tonga.

This action is funded by the European Union

Action Document for General Budget Support Programme, Kingdom of Tonga

<table>
<tr><td>1. Title/basic act/ CRIS number</td><td colspan="4">Energy Sector Reform Contract II
CRIS number: 2015/038-504
Financed under European Development Fund</td></tr>
<tr><td>2. Zone benefiting from the action/location</td><td colspan="4">Country: Kingdom of Tonga
The action shall be carried out at the following location: Kingdom of Tonga</td></tr>
<tr><td>3. Programming document</td><td colspan="4">11th European Development Fund
National Indicative Programme For The Kingdom of Tonga</td></tr>
<tr><td>4. Sector of concentration/ thematic area</td><td colspan="4">Energy Sector Reform Contract II</td></tr>
<tr><td>5. Amounts concerned</td><td colspan="4">Total estimated cost: EUR 10 Million
Total amount of EDF contribution EUR 10 Million</td></tr>
<tr><td>6. Aid modality and implementation modality</td><td colspan="4">Direct management
Budget Support- Sector Reform Contract II</td></tr>
<tr><td>7. DAC code(s)</td><td colspan="4">23030 Power generation/renewable
23040 Electrical transmission and distribution</td></tr>
<tr><td rowspan="7">8. Markers (from CRIS DAC form)</td><td>General policy objective</td><td>Not targeted</td><td>Significant objective</td><td>Main objective</td></tr>
<tr><td>Participation development/good governance</td><td>☐</td><td>☐</td><td>☒</td></tr>
<tr><td>Aid to environment</td><td>☐</td><td>☐</td><td>☒</td></tr>
<tr><td>Gender equality (including Women In Development)</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Trade Development</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>Reproductive, Maternal, New born and child health</td><td>☒</td><td>☐</td><td>☐</td></tr>
<tr><td>RIO Convention markers</td><td>Not targeted</td><td>Significant objective</td><td>Main objective</td></tr>
</table>

	Biological diversity	☒	☐	☐
	Combat desertification	☒	☐	☐
	Climate change mitigation	☐	☐	☒
	Climate change adaptation	☒	☐	☐

SUMMARY

This Action meets the needs of the Kingdom of Tonga as identified in the National Indicative Programme 2014-2020 and is consistent with the country priorities as set out in the Tonga Strategic Development Framework (2015-2025). The proposed Sector Reform Contract on Energy builds on the successful 10th Budget Support initiatives and aims at improving energy efficiency, promoting renewable energy in the country and improving access to energy. Recent progress in the energy sector in Tonga, including the institutionalization of the TERM, improvement in renewable energy production and reduction of grid losses, bodes well for the further development and maturing of the sector in the coming years.

The total Programme allocation is EUR 10 million, of which EUR9.9 million to be disbursed over five years with 81 percent as fixed tranche and 19 percent as variable tranche. EUR 0.1 million is allocated for Audit and Evaluation. The first payment is a fixed tranche conditional to the cabinet adoption in early 2016 of the revised Tonga Energy Road Map 2010-2020 integrating the Renewable Energy and Energy Efficiency Action Plan and a Monitoring and Evaluation Framework for the Energy Sector. The variable tranches expected to be paid in the following years are linked to progress in the share of renewable energy in the total of energy production and the increasing energy efficiency. Technical Assistance may be provided through a parallel Technical Cooperation Facility Programme funded through separate decision. Focus of policy dialogue will be on coordination of the sector and sustainability/maintenance of renewable energy and energy efficiency investment.

1 CONTEXT

1.1 Sector/Country Context

Tonga, with a population of 105,000 has generally low poverty rates and high standards of education and health. Progressing steadily, Tonga ranks 101th (out of 187) in the 2014 UNDP Human Development Index, with a score above the regional average. With assistance from development partners 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.

Tonga has made good progress towards the Millennium Development Goals[1] (MDGs). Tonga is "on track" for all of the eight goals except MDG 1 (Eradicate Extreme Poverty and Hunger) and MDG 3 (Promote Gender Equality and Empower Women). Tonga's Energy Roadmap has contributed to the MDG Goal 7, Target A, integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources.

Slow progress is noted on gender, with very few women in politics and high incidence of violence against women. The government has indicated in 2015 its willingness to ratify CEDAW (Convention on the Elimination of all Forms of Discrimination against Women), despite some public protest. NCDs are the area of greatest concern with some of the highest incidence in the world. Tonga chooses to apply the MDG Acceleration Framework (MAF) to MDG 6 (combat NCDs) with applications to MDG1 and MDG3. The following key interventions are prioritised in the Tonga's MDG Acceleration Framework; 1) Increase local food supply/create income generating opportunities for women and vulnerable groups 2) provision of curative health service at hospital setting, screening of disease-specific risk factors 3) review of legislation, subsidiary legislation and policies affecting food 4) advocacy for healthy lifestyles and 5) support resources.

The second Tonga Strategic Development Framework (TSDF II) 2015-2025 carries the national vision of *"A more progressive Tonga supporting a higher quality of life for all"*. It comes with great optimism and with a renewed sense of purpose and confidence to improve the quality of life for all the people of Tonga. TSDFII has been prepared after wide consultations with communities, the private sector, community social organisations and development partners. Improving equality, justice, good governance and expanding the economic and social opportunities are the key focus areas. A sound governance framework including the development of the law on anti-corruption to protect the integrity of the government and gain the trust of the public will be put in place in 2015. Under the Anti-Corruption Commission Act the office of the Ombudsman was established, aiming to protect the integrity of the system. Government is also committed to implement a Performance Management System geared toward improvement of public servants performance in delivering results, an essential aspect of ensuring that government operations are more productive and responsive to the needs of the country.

Small size and remoteness combine to push up the cost of economic activity in Tonga, limiting competitiveness of its exports of goods and services in world markets. These factors also push up the cost of providing public services. In addition, the openness of Tonga's economy and the lack of diversification of its sources of foreign exchange make Tonga highly vulnerable to external economic shocks, while its geographical characteristics make it highly vulnerable to natural disasters. Against all odds, supported by remittances, aid flows and strong Government commitments to service delivery, Tonga's social indicators are among the strongest in the Pacific.

[1] Reported in the 2013 Pacific Regional MDGS tracking Report

1.1.1 *Public Policy Assessment and EU Policy Framework*

The Energy Sector in Tonga remains dominated by imported fossil fuels, the majority used for transport and an estimated 25percent used for electricity generation. The main island of Tongatapu alone constitutes 86 percent of the electricity load with almost 100percent electrification of international standard. Grid power is provided by the state-owned Tonga Power Ltd. which also operates small grids on the islands of Vava'u, Ha'apai, and 'Eua. The outer islands face high poverty rate, high out-migration, low population, low load and difficult access. The electrification is provided by small individual grids and off-grid solar installations. More solar installations and better service are expected to meet these challenges and to eventually reach 100 percent coverage. While in the outer islands the emphasis of renewal energy is on distribution, in grid connected areas it is on generation offering higher sustainability and lower cost. Yet, a current 8 percent of RE contribution has had no tangible impact on electricity price which remain pegged to the cost of imported oil.

The Tonga Energy Roadmap 2010-2020 (TERM) is the key policy document, representing the main priorities for the Government in the Energy sector. It sets an ambitious political target of supplying 50% of electricity generation through renewable resources. The TERM was implemented by a TERM Unit whose function are now gradually integrated in the newly created Department of Energy at the Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communication and Climate Change (MEIDECCC). The mandate of the Department of Energy includes also energy policy, planning, monitoring and off-grid electrification. The institutionalisation of the TERM is a concrete result of last year’s policy dialogue and a concrete sign of government increasing leadership in the sector.

The objectives of the Tonga Energy Roadmap 2010-2020 (TERM) are to achieve an increase in quality access to modern energy services in a financially and environmentally sustainable manner, to achieve 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 potential adverse environmental effects and ensuring climate resilience. Some of the main results of the TERM include: Improvements in petroleum supply chain; Improvements in efficiency of conversion of petroleum to electricity; Improvements in efficiency of conversion of electricity into consumer electricity services; Replacing a portion of current or future grid-based generation with renewable energy and Increasing access to good-quality electricity supply to meet the needs of consumers living in areas too remote to be connected to a grid-based supply.

The TERM strategy is coherent with the Government's development strategy, namely the TSDFII and the 11th EDF National Indicative Programme. It covers the years from 2010 till 2020 and takes into account needed improvements in the area of energy. The Renewable Energy and Energy Efficiency Plan (REEEP) runs for a period of three years ending in 2016 and it will be revised and integrated into the TERM document for the period until 2020. This will be adopted via cabinet approval. The revision of the REEEP will integrate the monitoring and evaluation framework for the sector. The Tonga Energy Roadmap and Renewable Energy and Energy Efficiency Plan are broadly credible and realistic policies and intended to be joined into a concise document by the end of 2015. They discuss objectives and orientations, timeframes and specific targets. The TERM has been highly successful in facilitating donor's investment in the sector since 2010, with key partners involved (New Zealand, Australia, United Arab Emirates, World Bank, JICA, Asian Development Bank and the EU). The REEEP provides explanations, plans, activities, projects and indicators specific to Renewable Energy and Energy Efficiency.

Tonga Power Limited (TPL) is the public enterprise owned by the Government of Tonga that has the concession to operate four independent grids in the four main islands of Tonga. TPL reliably and regularly monitors and reports on electricity data. The electricity tariff is determined by the Electricity Commission serving as Regulator. Tariff policy is to cross-subsidize high cost in the remote islands with the income from the main island of Tongatapu, where demand is higher. At currently TOP 0.80 /kWh (equivalent to EUR 0.346 /kWh) the price is at an average level for the region and follows the cost of imported oil.

The government strategy is for the Energy policy implementation to continue to be financed by development partners and a series of projects is currently being implemented and/or considered for funding. Administrative and implementation capacity remain thin in Tonga due to small staff numbers. Technical Assistance is provided by the World Bank, EU and the ADB to the Department of Energy. Technical Assistance from the EU will continue till 2016 to assist the energy department in implementing its sector coordination role.

Regarding policy financing, as per Government approach, the Energy policy implementation continues to be financed by development partners and a series of projects is currently being implemented and/or considered for funding. A summary of these is provided below;

Project	**Status**	**Cost**
Popua Solar Farm (Maama Mai)	Complete	NZ$7million
Vava’u Solar Farm(La’aLahi)	Complete	T$6.48million
MAK Generator	Complete	T$10.4million
Vaini Solar Farm(Mata ‘aeLa’a)	Complete	T$28million
Outer Island Renewable Energies Project	Committed	T$10.8million
ADB Outer Islands Energy Efficiency Project	Committed	US$5.2million
Tonga Village Network Upgrading Project Stage 2 and 3	In Progress	NZ$27million
Ha’apai Cyclone Ian Reconstruction Project	In progress	US$3million
Pacific Energy Efficient Project	In progress	T$600,000
Micro-Wind Project (Ha’apai & Nakolo)	In progress	T$600,000
Tongatapu Windfarm Project	Feasibility Stage	Est US$27million
Tidal Power Feasibility Study	Under Development	T$200,000
‘Eua Biomass	Seeking Funding	NZ$2.5million
Tongatapu Biomass	Seeking Funding	NZ$6.5million
Heat Recovery Generation	Seeking Funding	NZ$2.24million
Nuku’alofa Grid Upgrading Project	Seeking Funding	NZ$27million

The total cost of the above initiatives spread over roughly 5 years is equivalent to some EUR 110 million. In line with its policy to focus donors support to the Energy sector, the Government support to Energy is limited to its Department of Energy's budget.

The maintenance cost of past and future investment in renewable energy and energy efficiency may be considered by Tonga and the current work on tariffs and hand over of assets to TPL are conduits to discuss the sustainability of the sectors. This may include a phased approach to transfer asset development and operation & maintenance responsibilities to TPL for the Government-owned assets (such as on and off grid solar PV system) with asset investment targets and financing through tariffs.

The institutionalization of TERM in the Department of Energy, the tariff reviews with the assistance of development partners, the progress in renewable energy production with the commissioning of two large scale solar plants, namely the La'aLahi Solar Facility (in 2013) and the Mata e La'a Solar Facility (in March 2015), the progress in reducing line losses and the recruitment of a long term technical assistant to assist the new Department of Energy are recent positive developments which bode well for the 11th EDF Sector Reform Contract. The quality of data provided by Tonga Power Limited is considered sufficient to monitor progress.

There is a credible and relevant Energy policy in Tonga that supports the objectives of sustainable and inclusive growth. This policy is conducive to European Union providing Budget support.

1.1.2 Stakeholder analysis

The overall coordination of the 11th EDF Energy Sector Reform contract is with the Ministry of Finance and National Planning. The Department of Energy of the newly formed Ministry of Environment, Energy, Climate Change, Disaster Management, Meteorology, Information and Communication (MEIDECC) is the primary institutional unit. It also acts under the policy and planning provided by the Ministry of Finance and the Prime Minister's office. The Department of Energy's mandate includes energy policy, planning, monitoring and off-grid electrification as well as the gradual assumption of the functions of TERM. The current clarification process on concessions mandates all grid electricity is with Tonga Power Limited under the Ministry of Public Enterprise (MPE). Tonga Power Limited reliably and regularly monitors and reports electricity data, including renewable energy progress. Operation of Tonga Power Limited is regulated under a concession Agreement with the Government of Tonga and Tonga Power Limited.

A stronger involvement of private sector initiative and the involvement of the Non-Governmental Organisations remain to be encouraged and strengthened by a conducive economic and regulatory framework.

1.1.3 Priority areas for support/problem analysis

Energy will be the focal sector under the 11th EDF and 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. This Action will specially focus on the promotion of renewable energy in the country and improving energy efficiency, and at the same time, supporting progress in the sector through a policy dialogue on all the energy sector performance indicators. Continuous efforts to support Tonga through a budget support mechanism will ensure increased policy dialogue and facilitate the implementation of the energy policy framework.

Although electricity generation only consumes a quarter of the fuel imports, it is found to offer the most attractive saving potential. Utility size renewable energy facilities were proven to provide reliable generation at little maintenance requirement and are the priority for further RE development. Solar panels and wind generators also offer the most probable field for private sector involvement and the only option for attaining the TERM target of supplying 50 percent of electricity generation through renewable resources.

Smaller generation, whether fossil or renewable is troubled with poor service, frequent repair and high cost. This will be the challenge as well for other options of the TERM activity matrix such as biogas, gasification or biofuel which require logistics, continuous maintenance and service. The ratio of low generation output to high operational effort may be considered a reason for the slow progress of TERM in these options. Recent improvement in the operation of the solar systems in the Outer Islands is a positive indication of capacity development, so continued emphasis on capacity can be seen a trigger to a sustainable expansion of the country-wide energy service.

The REEE AP incorporated into the TERM document as an update of the sector plan will re-assess and prioritize the projects and activities of the TERM and constitute the basis for a performance assessment framework (PAF) up to 2020.

1.2 Other areas of assessment

1.2.1 Fundamental values

The Kingdom of Tonga has embarked on a reform process to become a more democratic and participative society. Elections in November 2014 saw the Hon. Akilisi Pohiva being elected as the Prime Minister and Minister for Education and Training and the Minister of Foreign Affairs and Trade.

Civil society generally operates without restriction from the Government and enjoys the freedom to investigate and report on human rights cases. Many Tongan civil society organizations that were traditionally community-based have evolved into registered organizations with an established organisational structure and improved access to donor funding.

Tonga was last reviewed under the Universal Periodic Review (UPR) in 2013. The country accepted a total of 66 recommendations, related to the adoption of various international instruments, the continued implementation of constitutional and democratic reforms, and the promotion of gender equality. 22 recommendations were rejected, related to the abolishment of the death penalty, granting rights to LGBT, advancing towards ratifying the CCPR[2] and abolishing corporal punishment.

[2] International Covenant on Civil and Political Rights

1.2.2 Macroeconomic policy

Tonga experienced real GDP growth from 0.5 percent in 2012 to 2.7 percent in 2014. Real GDP growth is expected to average between 2–3 percent in FY2014/15–FY2019/20 mainly driven by public expenditures in relation to the preparations for the 2019 Pacific Games.

Inflation remained moderate at less than 3 percent in recent years and is expected to remain low, reflecting the weak economic outlook. This is significantly lower than the current Consumer Price Index (CPI) inflation reference range of 6 to 8 percent set by the National Reserve Bank of Tonga (NRBT)

Tonga's external position continues to strengthen with gross official foreign reserves at TOP287.2 million (EUR 124.35 million) in January 2015, an equivalent of 8.7 months of import cover, well above the recommended 4 months. The nominal exchange rate declined by 2.5 percent on average in 2014, with the TOP (Tongan Pa'anga) depreciating against all major currencies except for the Australian dollar and Japanese yen.

While the growth outlook for Tonga is positive, there are a number of risks to be considered. These include: (i) a long period of slow growth in Tonga's major trading partners (Australia, New Zealand and the US) hosting Tongan overseas workers could weaken remittance inflows (remittances currently account for 25% of the GDP); (ii) project delays especially in the construction sector could weaken the overall growth profile; (iii) increase in global commodity prices will cause increase in cost of production, raise inflation, and could reduce household disposable income; (iv) vulnerability to climatic conditions and natural disasters; the impact of such events on growth in Tonga is evident in the effect of Cyclone Ian in 2014 and the recent drought; and (v) delays or lack of priority/will to implement relevant policies (TSDF, sector plans, etc.) and reform could reduce growth in the medium term.

Tonga's fiscal position has improved to a surplus of around 1 percent of GDP in 2013/14, partly due to grant inflows, but is expected to revert to a deficit in 2014/15. Spending pressures however (including the Pacific Games in 2019) will remain high in the near term. Most of the reconstruction work, which contributes to the ramp up in capital expenditure in 2014/15, has so far been met by strong grant inflows mainly from World Bank and Asian Development Bank, but strong projected tax revenue performance in 2014/15 is also expected to play a funding role.

Medium-term fiscal challenges centre on maintaining prudent debt management and implementing public financial management reforms. Total public debt is around 50 percent of GDP, an increase of 5 percent over a year mainly due to government efforts toward rehabilitating the island of Ha 'apai after the 2014 cyclone. External debt is at 45 percent of GDP of which nearly two thirds is owed to EXIM bank (People's Republic of China). EXIM bank however has agreed to defer repayment of principal for a period of five years. Given Tonga's vulnerability to external shocks, it is important to maintain a prudent debt policy and to formalise its Medium Debt Strategy. The joint IMF/World Bank Article IV conclusions in April 2015 maintain Tonga's rating of moderate risk level of debt distress over the medium term. Government is also maintaining a conservative borrowing policy (that is, no external commercial borrowing and only limited concessional borrowing). Government's plan to finance the Pacific Games using non-debt creating funds is fiscally prudent. Cost overruns could, however, necessitate borrowing, which could jeopardise fiscal sustainability.

Tonga has adopted a three year budgeting framework since 2008/9, a roadmap for public financial management reform in 2014 to address critical issues that have been identified for improvement and is committed to set a clear fiscal target for the medium term.

Development Partners such as the IMF and the Asian Development Bank (ADB) work closely in Tonga and have shared perspective on key macroeconomic and structural reform issues. The IMF and the World Bank jointly prepare the Debt Sustainability analysis for Tonga. The latest IMF mission to Tonga was in April 2015.

Despite macroeconomic challenges and debt issues, it is concluded that the authorities pursue a credible and relevant macroeconomic policy geared towards aiming at keeping fiscal and external stability and sustainability.

1.2.3 Public Financial Management (PFM)

PFM in Tonga has improved in the past decade, but weakness still exists. The latest 2014 self-assessment showed progress in PFM areas including revenue out-turn compared to budget, measures for tax assessment and taxpayer registration, and transparency of taxpayer obligations and liabilities. At the same time, areas including oversight of fiscal risks from public enterprises, composition of expenditure out-turn compared to budget, and quality and timeliness of in-year budget reports continued to progress.

Nonetheless, some PFM areas continue to be weak, such as the implementation of the three-year rolling medium-term budgeting framework, effectiveness of tax collection, internal and external audit and procurement. Challenges such as reduction in tax arrears; publication of internal and external audit documents, absence of a proper strategic action plan to facilitate greater centralization of procurement; improvements in the procurement legal and regulatory framework; continue to hamper progress while at the same time various measures are currently being implemented to address these challenges.

The Government of Tonga attaches high importance to PFM reform, which is considered critical to long-term growth. The PFM reform Roadmap 2014-2019 emphasizes strengthening priority areas such as tax collection, internal audit, Government Integrated Financial Management Information System (IFMIS), planning, budgeting, and aid management functions, and the Procurement Reform Strategy and its implementation plan.

The Roadmap also recognizes the importance of effective communication with stakeholders and proper sequencing of the reform actions. The PFM Reform Roadmap Committee and the PFM Reform Coordinating Unit will ensure progress of the monitoring and evaluation of the Roadmap.

With a strong political commitment to enhance PFM and the support of IMF Public Finance Technical Assistance Centre (PFTAC), Asian Development Bank (ADB) and the Australian Department of Foreign Affairs and Trade (DFAT) towards Public Finance Management, both in terms of budget support and through technical assistance, will allow public finance systems in Tonga to steadily improve in the coming years. The Asian Development Bank (ADB) policy grant allocated USD 5 million in FY2015/2016 to support PFM.

Despite challenges, good progress has been made in implementing PFM reforms in Tonga and concrete results were achieved. The overall direction is positive, with government committed to further address PFM weaknesses through the implementation of the PFM roadmap 2014-2019.

Based on the assessment above there is a credible and relevant PFM reform programme to improve public finance management.

1.2.4 Transparency and oversight of the budget

Positive developments have taken place in Tonga which further improves the transparency and oversight of the budget. The entry point is met with the budget estimates together with the budget statement for the current FY (2015/16) as well as the final TSDF-II (2015-2020) available at the Ministry of Finance website. The same documents together with ministries' corporate plans made a record in 2015, in comparison to earlier years, with an early submission to Parliament giving reasonable time for members of parliament to scrutinize before discussions in the House. The public accounts are now updated including auditing of the accounts for 2012/13 and 2013/14 which are being gazetted for public dissemination. The Parliament's Public Account Committee (PAC) is also tasked to review the government's budget estimates and associated documents only if parliament requires them to do so, usually if there are corrections or adjustments and any implications on both expenditure or revenue sides.

Other documents that are available on the website include economic reviews, 2010 PEFA Report, the PFM Roadmap, government financial statements, quarterly debt bulletin, Ministry of Finance annual report and corporate plans, treasury manuals and public enterprises' reports. Monthly and quarterly budget reports prepared are also available upon request.

The 2014 PEFA self-assessment has highlighted positive development in relevant indicators including improvements in the tabling and approval of annual reports by parliament. Efforts are being put in place to further strengthen independent auditing including the recent efforts to appoint an Auditor General. Government recognizes the need for a high quality independent audit as an essential requirement for creating transparency in the use of public funds. It is committed to further address weaknesses such as audit frequency and timeliness and improving response and follow-up to audit recommendations. The PFM Roadmap is further addressing and strengthening the above issues.

2 RISKS AND ASSUMPTIONS

Risks/potential adverse impacts	Risk level	Mitigating measures
Key risk associated with implementing the programme is government's ability to maintain its eligibility to receive EU budget support.	medium	Policy dialogue with partners helps Government to strengthen the energy sector, to ensure a stable macroeconomic environment and to improve public financial management and accountability and oversight.
TERM objectives may not rank high in the responsibilities of the new energy administration	medium	Intergovernmental and stakeholder consultation contributes to clarify mandate and emphasize needs
TERM financing by donors may slow down. GoT might not consider own financial buy-in relevant	high	Past success of the TERM is encouraging. Regular Development Partner coordination towards a continued TERM process with actions and milestones will be pursued. Additionality of the SRC will help increase government investment in the sector.
A constant risk for Tonga remains the high level of vulnerability to exogenous shocks and disaster, which have a large impact on the population and the economy	high	Disaster preparedness and resilience building efforts supported by development partners, including EU, at national and regional level in all aspects of development cooperation
Increased weather extremes and sea level rise are long-term threats to the island´s habitability	high, long term	Development partners and Climate Change financing to the region will support Tonga addressing climate change issues.
Electricity Generation, also from RE, may convey environmental risks e.g. to land use and waste management	low	Government commitment to conduct environmental/ social impact assessments on relevant initiatives and to improve existing recycling systems.
Assumptions		
Government of Tonga pursues its current path to strengthen and expand the renewable energy sector, to ensure a stable investment climate as well as macroeconomic environment and to improve public financial management. Government of Tonga creates a conducive framework with clear priority for sustainable renewable energy.		

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

Lessons learnt from the TERM review and the 10th EDF sector support programme include:

- The TERM has been cited as a model for long term strategic energy planning for the region and as a good development practice. Mobilising funding for technical assistance support and investment in the sector is one of the achievements of TERM, while coordination of the sector (involving all actors such as government agencies, development partners, NGO, private sector), maintenance and sustainability received less attention. Future sector orientation will address those shortcomings. .

- A key success factors for the TERM included high-level Government's commitment and leadership. Such approach is to be maintained and further comforted by the continuation of budget support in the sector.
- The importance of robust policy framework in the Energy has been demonstrated. A credible TERM is the key to allow Tonga to clearly establish and articulate its sustainable solutions to energy issues confronting the country. In this context, work on the regulation aspects of the power sector is critical.
- Local and decentralised solutions have proved their potential as a complement to centralized systems as a way to diversify sources of supply and thus increase the access to energy services.
- The experience of many energy access programmes has shown that despite the positive example in terms of institutional and organisational changes, many small and/or pilot projects are difficult to scale-up as they often rely on fully subsidised investments. Sustainability and up-scale ask for an efficient service structure, and for mobilisation of additional national resources.
- Level and quality of service from decentralized systems sometimes is poor, particularly in rural areas. The challenge of a nationwide access program is therefore not installation but sustainable operation and maintenance.
- Support for sustainable energy in Tonga continues to be strong but ambitions decline when there is limited resources available. Institutional and technical capacity of public/private stakeholders will be essential in forging a dynamic energy sector and take it to market maturity.
- Given the time requirement for Tonga Power Limited to compile and provide reporting the assessment has been moved to the end of calendar year to allow disbursement within the respective fiscal years.
- The adoption of the Renewable Energy and Energy Efficiency Plan (REEEP) as a trigger for the first tranche of the 10th EDF budget support programme proved useful, as it served as the performance assessment framework for RE & EE initiatives. A similar process under the 11th EDF will benefit the sector and reinforce its policy framework as well as its monitoring and evaluation system.
- The experience with variable tranches design under the 10th EDF Sector Reform Contract highlighted the need for all actors to be involved in the definition of indicators, to ensure availability and achievability. The NAO, the TERM and TPL have been fully engage in the design of the 11th EDF SRC.

3.2 Complementarity, synergy and donor coordination

Tonga also benefit from the EUR 3m ADB / EU Energy Catalytic Programme which allows the upgrading of the existing power distribution networks in the outer islands which will eventually reduce network losses and will improve the fuel consumption of existing thermal generation plants. The additional support provided by the EU will contribute to greater energy efficiency.

The 10th EDF Technical Corporation Facility II under its NSA component supported the Non State Actors through grants to promote economic development, build awareness on renewable energy and energy efficiency, on gender and on public finance management.

Donor coordination in Tonga is facilitated through the Project and Aid Management Division of the Ministry of Finance and National Planning, the central authority which oversees all government and development assistance programmes and monitors progress towards development outcomes.

Among donors, coordination is ensured through the organisation of two development partners' roundtable meetings each year. This provides an opportunity for multinational donors, such as the European Union, World Bank, Asian Development Bank, UN agencies, DFAT, New Zealand Aid, Japan, to review progress and co-ordinate development assistance.

In addition, a joint government-donor policy matrix, focusing notably on macroeconomic development, public finance management and energy has been in place since 2013 to guide both the Government and budget support partners in terms of key reform policies and actions. The 2015 Joint Government Donor Policy Matrix will be adopted in quarter four (Q4) of 2015. Energy policy dialogue takes place at the occasion of the budget support donors/Government meeting on the Matrix, twice a year on average, and at the occasion of the sector coordination meeting held once a year.

3.3 Cross-cutting issues

Climate Change is a priority area for Tonga. As for other pacific islands, Tonga is on the front line of global warming. The 11th EDF SRC continues to further help achieve the country objectives both on energy and on climate change. While it can be argued that cheaper electricity will ultimately facilitate access to energy for all population, women and children traditionally more vulnerable, are likely to benefit more from this enhanced access to energy. Gender aspects are crucial, notably in Tonga where progress on the gender front has been mixed. Policy dialogue in the energy sector will ensure that gender dimensions are considered and efforts will be made to ensure that gender desegregated data are made available in the future to allow for better analyses and evidence base policy making to take place.

4 DESCRIPTION OF THE ACTION

4.1 Objectives/ Results

The **overall** objective of the Action is to improve social and economic developments and provide sustainable living conditions for all Tongans, contributing to an environmentally sustainable and low carbon-development path.

The **specific** objective of the Action is to provide financial assistance to Tonga to support the implementation of Tonga Energy sector plan till 2020. This plan has as its objective to achieve an increase in quality access to modern energy services in a financially and environmentally sustainable manner.

This action will specially focus upon the Renewable Energy, Energy Efficiency and enhanced financial sustainability in the sector, notably by focusing policy dialogue on sector consolidation, coordination and sustainability issues (including maintenance of RE and EE investments).

The expected results are:

a) Improvements in petroleum supply chain.
b) Improvements in efficiency of conversion of petroleum to electricity.
c) Improvements in efficiency of conversion of electricity into consumer electricity services.
d) Replacing a portion of current or future grid-based generation with renewable energy.
e) Increasing access to good-quality electricity supply to meeting the needs of consumers too remote to be connected to a grid-based supply.

4.2 Main activities

4.2.1 Budget support

The main activities will include;

- Policy dialogue on energy with Government and alignment with Government priorities,
- Effort to reinforce Government capacities in the area of PFM in the context of existing technical assistance programmes supported by the EU and other donors,
- Coordination with other donors within the budget support donor group in place for Tonga (through the joint policy matrix) and the regular monitoring of budget support eligibility criteria and the energy sector performance through the annual review of the sector, ad hoc exchanges with sector stakeholders and through the dialogue established under the joint government donor reform matrix.
- Monitoring of macroeconomic conditions taking into account IMF missions and other relevant assessments,
- Monitoring of public finance management eligibility on the basis of government PFM reform strategy and related assessment as well as ad-hoc analyses.
- Analyses of budget transparency which will be undertaken through verification of publicly available appropriate documentation.

These activities will be supported by the transfer of EUR9.9 million over the next five fiscal years.

Financial additionality is a key element of the sector reform contract (SRC) as the energy sector is currently underfunded. The Programme will allow for increased level of spending in the sector in line with the policy financing needs. The level of public spending will be monitored through the annual review of the energy sector and of the joint government donor policy matrix.

4.2.2 Complementary support

Complementary support may be possible under this Action, as well as to both the PFM reform Programme and Macro Economic stability through the EU financed regional programme Pacific Financial Technical Assistance Centre of the IMF based in Suva, Fiji. There are also possibilities for assistance to be provided from Tonga's EU funded Technical Cooperation Facility (TCF). In the past Technical Assistance was provided to TERM by other donors such as the Asian Development Bank and the World Bank which complements the TA provided under the 10th EDF Budget Support programme.

4.3 Intervention logic

The overall objective of improving social and economic development and providing sustainable living conditions is addressed by the continuous efforts to support Tonga through a budget support mechanism. It will facilitate the development of a conducive energy policy framework and ensure increased policy dialogue. Continued cooperation will improve national ownership and ensure a stronger engagement of all actors. Focused on the energy sector, the EU supported efforts will lead to increased access to affordable energy services for the population, including in the outer islands, through increased use of renewable sources for the generation of energy and improve energy efficiency.

On the result level, the intervention is expected to facilitate the implementation of an energy sector policy and funding orientated towards a long term vision of a sustainable energy sector. This shall lead to a political, administrative and financial framework conducive for renewable energy and energy efficiency improvement.

Specific activities foreseen by the TERM aim at reducing reliance on imported petroleum, promoting the use of renewable energy and improving energy efficiency whilst taking into consideration potential environmental impacts.

In addition, Civil Society Support will allow for an increased cooperation between Tonga National Authorizing Officer and civil society actors, including private sector associations.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.1 will be carried out and the corresponding contracts and agreements implemented, is 72 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of the Annex to Regulation No 2015/322.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 9.9 Million. The complementary support is foreseen under the Technical Cooperation Facility (via separate decision, reference to 4.2.2 above) this amount is based on:

- EU commitment to maintain a financial engagement similar to that achieved under the 10th EDF Energy Sector Reform Contract from 2013 to 2015.
- The sector's high performance under the previous Budget Support programme
- Commitment of the partner country to allocate national budget resources (including EU budget support) in line with development strategy and objectives and to follow standard national budget procedures;
- Track record and absorption capacity of past disbursements and how effectively agreed objectives were achieved with budget support operations;
- Result orientation in the partner country's development strategy including a monitoring system.
- Under the Budget Support programme the Government of Tonga progress record and absorption capacity was high, at 93% (EUR 6.875 Million) over the entire programme. In addition undisbursed variable tranche funds were converted to technical assistance and studies.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Energy Policy, and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of Tonga PFM Reform Programme;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions that may be used for disbursement of variable tranches are the following:

- **First indicator: The renewable energy share in relation to overall electricity generation.**
  Target: From the baseline of 6.4% total RE share in 2014/15, total RE share shall rise to 9% (2016/17), rise to 12% (2017/18), rise to 16% (2018/19), rise to 20% (2019/20)

- **Second indicator: Improvements in overall station efficiency**
  Target: From a baseline of 4.04kWh/L in 2015/2016 rise to 4.06 kWh/L (2016/17), rise to 4.08 kWh/L (2017/18), rise to 4.10 kWh/L (2018/19), rise to 4.12 kWh/L (2019/20)

The indicators are consistent with the TERM and the Renewable Energy and Energy Efficiency Plan (REEEP). They have been agreed upon by National Authorising Officer, the Ministry of Energy, Information, Disaster Management, Environment, Communication and Climate Change (MEIDECCC) and Tonga Power Limited. Indicators are monitored regularly and will be integrated into the monitoring framework which will be integrated to the revised TERM in early 2016 (trigger for the first fixed tranche disbursement).

Indicators are relevant, credible and measured regularly and accurately. Accomplishment is determined by adding the first indicator result weighed 50% and the second indicator weighed 50%.

The first payment is a fixed tranche triggered by the cabinet adoption in early 2016 of the revised Tonga Energy Road Map 2010-2020 integrating the Renewable Energy and Energy Efficiency Action Plan and a Monitoring and Evaluation Framework for the Energy Sector.

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the Kingdom of Tonga may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, of increasing macroeconomic risks resulting from increasing external debt or significant changes of focus in the energy sector policy (TERM post 2016) budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The disbursements under this sector reform contract will consist of five fixed tranche of EUR 8 million in total, and four variable tranches of a total of EUR1.9 million.

Country fiscal year[3]	FY 2015/16*				FY 2016/17				FY 2017/18				FY 2018/19				FY 2019/20			
Type of	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4

[3] Tonga FY starts July until June (FY Q1 July, August, September / FY Q2 October , November, December / FY Q3 January, February, March, FY Q4 April, May, June)

tranche																				
Fixed tranche				2.5				1.5				1.5				1.5				1.0
Variable tranche								0.5				0.5				0.5				0.4
Total				**2.5**				**2.0**				**2.0**				**2.0**				**1.4**

*: Tonga Fiscal year starts on July 1st and ends on June 30th. Payment will be made in the last quarter of each Fiscal Year.

The following tentative schedule is proposed:

Annual review of the Energy Sector	**Disbursement Request submitted by NAO, latest**	**Monitoring Period of the disbursement of variable tranche**	**Planned disbursement**	**Budget Year**	**Tranches**
n/a	March 2016	n/a	June 2016	FY 2015/16	Fixed tranche of 2.5 M **Total: 2.5 M**
November 2016	March 2017	October 2015 - September 2016	June 2017	FY 2016/17	1 fixed tranche EUR 1.5M 1 variable tranche EUR 0.5 M **Total: 2 M**
November 2017	March 2018	October 2016 - September 2017	June 2018	FY 2017/18	1 fixed tranche EUR 1.5M 1 variable tranche EUR 0.5 M **Total: 2 M**
November 2018	March 2019	October 2017 - September 2018	June 2019	FY 2018/19	1 fixed tranche EUR 1.5M 1 variable tranche EUR 0.5 M **Total: 2 M**
November 2019	March 2020	October 2018 - September 2019	June 2020	FY 2019/20	1 fixed tranche EUR 1.M 1 variable tranche EUR 0.4M **Total: 1.4 M**

Budget Support is provided as direct untargeted budget support to the national treasury. The crediting of the Euro transfers disbursed into Tonga Pa'anga (TOP) will be undertaken at appropriate exchange rates in line with the relevant provisions of the financing agreement.

5.4 Implementation modalities for complementary support of budget support

Detailed under 4.2.2

5.5 Scope of geographical eligibility for procurement and grant:

(n.a.)

5.6 Indicative budget

Budget Support to the Kingdom of Tonga under the 11th EDF comprises of the following positions

	EU contribution (amount in EUR)	Indicative third party contribution, in currency identified
5.3 - Budget support Sector- Reform Contract Energy Sector Reform Contract	EUR 9.9 million	0
5.9 – Evaluation, 5.10 – Audit	EUR 0.1 million	N.A.
5.11 – Communication and visibility	0	N.A.
Totals	EUR 10 million	

5.7 Organisational set-up and responsibilities

The Ministry of Meteorology, Energy, Information, Disaster Management, Environment, Communication and Climate Change (MEIDECCC) which has oversight on the TERM Implementation Unit shall be responsible for the implementation of the programme, in accordance with the Energy sector plan. The monitoring by the EU and the NAO will be through government led sector coordination and through government/donor meetings, based on country reports and monitoring and evaluation systems, in line with Aid Effectiveness agenda.

Annual Energy Sector Coordination meetings are held with the European Union invited as a member. In addition, Energy Policy dialogue takes place at the occasion of six monthly meeting between government and budget support partners.

The disbursement schedule is aligned with the Tonga budget year July N to June N+1, the Development Partner/government annual meetings and the energy sector annual review process.

5.8 Performance monitoring and reporting

Annual Energy Sector meeting for the Kingdom of Tonga will be held on an annual basis with the European Union invited as a member. All sector Implementing Agencies, development partners supporting the sector will be invited to attend. The Annual Energy Sector Meeting will provide updated TERM implementation reports and review of progress made in the sector and progress in relation to the targets set for the variable tranches.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (outputs and direct outcomes) as measured by corresponding indicators, using as reference the list of result indicators (for budget support). The report shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake joint monitoring visits both through its own staff. The Commission may also undertaking adhoc monitoring through independent consultants recruited directly by the Commission for independent monitoring reviews.

5.9 Evaluation

Having regard to the nature of the action, one final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

The final evaluation will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the context of Tonga.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Indicatively, one contract for evaluation services shall be concluded in 2021.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this Action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements. The financing of the audit shall be covered by the Technical Cooperation Facility.

Indicatively, one Audit contract for audit services shall be concluded in 2021.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

This action shall contain communication and visibility measures which shall be based on a specific Communication and Visibility Plan of the Action, to be elaborated through exchange of letters between the NAO and the European Union for an exchange of events for EU visibility at the start of implementation and supported by the budget support initiatives.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities.

Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

The communication and visibility measures will be financed within the scope of the budget support disbursements.

APPENDIX - INDICATIVE LIST OF RESULT INDICATORS

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	The overall objective of the Action is to improve social and economic developments and provide sustainable living conditions for all Tongans, contributing to an environmentally sustainable and low carbon-development path.	HDI improvement as reflected in National Development Plan, DP assessment	Tonga Strategic Development Framework II	2015-2020	Performance Assessment Framework (PAF) to be developed
Specific objective(s) Outcome(s)	The specific objective of the Action is to provide financial assistance to Tonga to support the implementation of Tonga Energy sector plan till 2020. This plan has as its objective to achieve an increase in quality access to modern energy services in a financially and environmentally sustainable manner.	% Electricity from renewable energy EE Improvements in overall station efficiency	Baseline 2015 6.4% total RE share Baseline 2015 4.04kWh/L	Total RE share: 9% in 2016/17; 12% in 2017/18; 16% in 2018/19; and 20% in 2019/20 EE 4.06 kWh/L in 2016/17; 4.08 kWh/L in 2017/18; 4.10 kWh/L in 2018/19 ; and 4.12 kWh/L in 2019/20	Annual reporting Department of Energy, TPL.
Induced outputs	-Orientate policy and funding towards a long term vision of a sustainable energy sector. -Create a political, administrative and financial framework conducive for RE growth	Policy framework focussed on energy Increase national funding for energy objectives	Baseline 2015	Revision of the TERM 2016	Government of Tonga parliament, National budget plan

Direct outputs	-Universal access to modern, sustainable and environmentally sound energy services. Improvement in energy efficiency in distribution, generation and consumption -Increase of the renewable energy share in energy production	RE share to electricity production % EE Improvements in overall station efficiency	6.4% RE share Baseline 2015 4.04kWh/L	indicators met each year until 2020	annual report ED, TPL