

PACIFIC PRIVATE SECTOR DEVELOPMENT INITIATIVE (PSDI)

TONGA

COUNTRY OVERVIEW

APRIL 2020



IN TONGA, PSDI HAS WORKED TO:

- increase access to finance;
- strengthen the governance and operations of Tonga's public and private-sector retirement funds;
- simplify and modernize business and investment laws and streamline business registration processes;
- improve the performance of state-owned enterprises (SOEs) and assess public-private partnership (PPP) and privatization opportunities;
- support strong competition and consumer protection legislation and policy development;
- analyse and work to remove constraints to women's full economic participation; and
- support reforms through advocacy and analytical work.

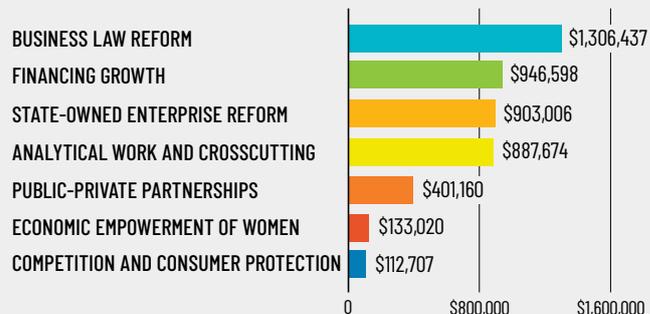
KEY PSDI ACTIVITIES AND OUTCOMES

- 2008:** *Transforming Tonga: A Private Sector Assessment* published
- 2011:** Secured transactions framework established
- 2012:** *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga* published
- 2013:** Tonga Investments privatized and Tonga Print Limited partially liquidated
- 2014:** Work with the Tonga Retirement Fund board to strengthen its governance, operations, and investment management frameworks commenced
- 2014:** Online companies, business names, and business licenses registry launched
- 2014:** SOE Ownership, Divestment, and Reform Policy adopted
- 2015:** Receiverships Bill passed
- 2015:** Tonga Water Board outsourced
- 2015:** Women's Business Leadership Program delivered
- 2016:** Movables financing product with Tongan vanilla farmers piloted
- 2018:** Foreign Investment Bill endorsed
- 2019:** Tonga Power Limited PPP completed

OVERVIEW AND SPENDING

Since 2007, Tonga has received \$4.7 million in PSDI assistance. 28% of this overall figure has been allocated to business law reform initiatives, which have included development of the Pacific's first multiple-entity registry and numerous legislative reforms. A broad state-owned enterprise (SOE) reform and public-private partnerships program has also received 28% of total funding. Financing growth initiatives have received 20% of the overall figure, including the development of a secured transactions framework and associated work to increase the provision of loans secured against movable assets.

SPENDING BY FOCUS AREA 2007-2019 (\$4,960,602)



FINANCING GROWTH

OUTCOME, RESULTS, AND FUTURE PROJECTS:

SECURED TRANSACTIONS REFORM

PSDI has worked to increase business access to finance through the development and implementation of a secured transactions framework—which allows lenders to accept non-land or movable assets as security—and by working with lending institutions to encourage its uptake.

The Personal Property Securities Bill was enacted in September 2010, and the associated online Personal Property Securities Registry went live in April 2011. PSDI later supported amendments to the act, which passed in December 2012, and a registry upgrade.

PSDI worked closely with Tonga Development Bank to develop a supply-chain financing product for the vanilla industry and has proposed several other product concepts. While the secured transactions framework is being used, more generally, it is not yet fulfilling its potential. PSDI continues to engage with Tongan lenders to increase their uptake of the secured transactions framework.

STRENGTHENING RETIREMENT FUNDS

PSDI is working to strengthen governance and operations of both the public-sector and private-sector employees' retirement funds in Tonga.

Since mid-2014, PSDI has been assisting the Retirement Fund Board (RFB), Tonga's public-sector employee fund, to strengthen its governance and operations. Initial work involved reviewing the board's policies and identifying revisions needed to make the policies consistent with generally accepted industry standards. Subsequent assistance was directed toward further improving the board's policies and drafting new policies where required; improving the investment management framework, including developing guidelines for investing in SOEs; and improving returns to fund members while preserving the fund's sustainability. PSDI continues to work with the RFB to develop its investment policy and investment guidelines, consistent with the overarching statement of investment beliefs, and in 2020 will assist RFB undertake an actuarial review of the fund.

Similar work has been undertaken with the National Retirement Benefits Fund (NRBF)—the private sector employees' fund. In the 2017/2018 financial year (FY), PSDI supported the drafting of new policies, which have now been approved by the NRBF's board. PSDI also worked with NRBF management to prepare guidelines for domestic property and equity investments, to review insurance protection offered to the fund's members, and to review the sustainability of the fund's crediting rate policy. In FY2018/2019, PSDI worked with NRBF to evaluate its methodology for calculating dividends and develop a crediting rate policy.

BUSINESS LAW REFORM

OUTCOME, RESULTS, AND FUTURE PROJECTS:

COMPANIES REGISTRY DEVELOPMENT AND LEGAL REFORM

PSDI has worked to create a modern, enabling legal environment in Tonga, through the development of updated legislation and an innovative new online registry.

In 2009, PSDI assisted the Government of Tonga in preparing the Companies (Amendment) Act. Approved by Cabinet and the Legislative Assembly in September 2009, the act streamlined the Companies Act 1995 and provided for an electronic registry. In 2014, PSDI supported the development of a new, innovative online registry, which allows users to file and access company records, business names, and business licenses all from the one integrated resource.

BUSINESS LICENSING, RECEIVERSHIPS AND FOREIGN INVESTMENT REFORM

PSDI is supporting the Government of Tonga to undertake business licensing, foreign investment, and receiverships reform.

PSDI's 2012 private sector assessment identified business licensing laws as one of the private sector's most significant constraints. PSDI subsequently assisted the government with business licensing reform, completing a diagnostic and drafting amendments to the Business License Act. Parliament passed the amendments in late 2012, which simplified the entire licensing regime and reduced transaction costs for business. PSDI also drafted regulations and assisted with advocacy.

A new PSDI-supported foreign investment policy, bill, and regulations have been drafted and are ready for implementation. PSDI supported consultations on the Foreign Investment Policy and drafted the Foreign Investment Bill, which was passed in 2019. The Government of Tonga requested assistance on policy design and drafting of the Foreign Investment Act regulations as well, which were completed in 2018. Implementation of the regulations may require changes and enhancements to Tonga's online companies registry.

PSDI also provided assistance policy design and drafting of a Receiverships Bill, which was passed by parliament in 2015, but is yet to be implemented. PSDI will provide support for this implementation during Phase IV.



Agricultural products sold by a roadside market in Tonga.

STATE-OWNED ENTERPRISE REFORM AND PUBLIC-PRIVATE PARTNERSHIPS

OUTCOME, RESULTS, AND FUTURE PROJECTS:

STATE-OWNED ENTERPRISE REFORM

PSDI has supported a broad based SOE reform program affecting all of Tonga's SOEs.

This has included:

- preparing an amended SOE Act and providing governance training;
- developing a director performance appraisal system and a skills-based director selection process;
- developing and implementing community service obligation guidelines; and
- providing training to assist with implementing the amended SOE Act.

PSDI has also worked closely with the Asian Development Bank and other development partners to design SOE reform policy actions for inclusion into a multi-donor policy-based grant. Through ongoing policy dialogue with PSDI, Tonga agreed, in 2015, to undertake further SOE restructuring and governance reforms. PSDI drafted an SOE ownership and divestment policy that identifies seven high priority divestments and includes reform plans for the balance of the SOEs. Cabinet endorsed the policy in the third quarter of 2015, and it was further updated in 2016.

PSDI has also supported the government's governance reforms and provided policy advice in the development of shared SOE boards. With PSDI's assistance, Tonga has become the first country in the Pacific to develop SOE-specific financial targets based on the ministry's assessment of risk and required return.

Tonga was the first Pacific developing member country to publish SOE financial and operational performance information in the local press, and has launched an online SOE information portal to make financial results, performance reporting, and other key information readily available for the first time.

PSDI is providing ongoing support to the Ministry of Public Enterprise for the development and implementation of SOE reform actions included in an Asian Development Bank policy-based grant. These reforms include the corporatization of the Tonga Broadcasting Corporation and preparation for the partial privatization of Tonga Communications Corporation.

PRIVATIZATION AND PUBLIC-PRIVATE PARTNERSHIP SUPPORT

PSDI has provided assistance for a number of privatization and public-private partnership projects in Tonga.

This has included:

- the partial liquidation of Tonga Print Limited in October 2013.

- the corporatization and commercialization process of the Small Industries Centre, which was commercialized in September 2012.
- restructuring recommendations for Tonga Communications Corporation, which Cabinet approved in August 2013, but has not implemented.
- an outsourcing scoping study for Tonga Water Board, which was implemented in 2015.
- providing advice on privatization options for Tonga Forest Products Limited, culminating in the government's agreement in May 2016 to enter into a 50-year concession contract with private sector interests to invest in, manage, harvest, and replant the SOE's forestry assets.
- transaction advisory for a 6MW solar farm on an independent-power-producer basis with Tonga Power Limited, which was signed on 23 March 2019. PSDI provided full support to the PPP transaction, including conducting a review of the initial tender process, supporting the technical evaluation of bids, reviewing the technical and commercial clauses of the Power Purchase Agreement (PPA), and assisting with the finalization of tender documents, tender evaluation and contract negotiation.
- the development of a performance improvement strategy for the Port Authority of Tonga, with an emphasis on identifying opportunities to mobilize private sector capital and expertise. The Port Strategic Review was endorsed by Tonga's Cabinet in November 2018. Since its endorsement, a Ports Authority of Tonga PPP Working Group has been established. In 2019, PSDI provided assistance to the working group on the preparation of a cargo handling concession. This included conducting a competitive tender process and reaching the final bid evaluation stage. After a pause in the tender process ordered by Cabinet in Q3 2019, PSDI will work to complete this tender in 2020.

PSDI also funded the placement of an SOE expert within the Ministry of Public Enterprises for 3 months during 2014 to provide transactional support and capacity building, to advise on Tonga Forest Products Limited's financial restructuring and privatization options, and to assist Tonga Broadcasting Commission to identify and cost community service obligations.



COMPETITION AND CONSUMER PROTECTION

OUTCOME, RESULTS, AND FUTURE PROJECTS:

REVIEW OF COMPETITION AND CONSUMER PROTECTION POLICY AND LEGAL NEEDS

PSDI has worked to review Tonga's competition framework and deliver options for competition policy reform and the establishment of a multi-sector regulator.

PSDI commenced a review of Tonga's competition framework in 2013. In 2014, the Government of Tonga requested that priority be given to the establishment of a multi-sector regulator, which PSDI agreed to support. Issues and options for a multi-sector regulator have been discussed with the government, and a proposal for a coordinated approach to regulatory and competition reform was provided to the government in the latter half of 2015. This work is currently on hold awaiting government re-engagement.

The government has also requested support for competition policy reform in 2015, however this work is currently on hold awaiting government re-engagement.

- providing training on leadership and management, including corporate governance, media management, and business networking;
- obtaining commitment from Tongan businesses to increase the participation and promotion of women employees, thereby instituting change in business culture and commitment to the professional advancement of women; and
- establishing links between Australian and Tongan businesswomen for theirs and their businesses' mutual development.

The project was enthusiastically embraced by leading Tongan companies and government organizations. Three, two-day training sessions were held in August and November 2015, and February 2016.

ECONOMIC EMPOWERMENT OF WOMEN

OUTCOME, RESULTS, AND FUTURE PROJECTS:

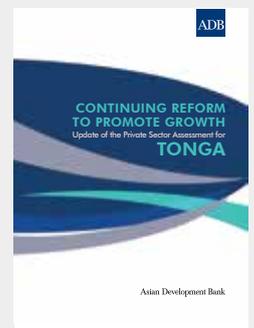
TARGETED PROJECTS TO ENHANCE WOMEN'S ECONOMIC EMPOWERMENT

PSDI has worked to develop and implement a targeted program aimed at increasing women's business leadership.

PSDI designed and implemented the Women's Business Leadership pilot project, which aimed to move women toward leadership positions by:

ANALYTICAL WORK

A private sector assessment, *Transforming Tonga: A Private Sector Assessment*, was published in 2008, and an update *Continuing Reform to Promote Growth: Update of the Private Sector Assessment for Tonga* was published in 2012.



Tonga has participated in all six of PSDI's *Finding Balance* regional SOE benchmarking studies and is also featured in PSDI's 2018 regional study on Pacific women's engagement in the private sector, *Women and Business in the Pacific*; and PSDI's 2016 report, *Digital Financial Services in the Pacific: Experiences and Regulatory Issues*.

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