

IEG ICR Review

Independent Evaluation Group

1. Project Data :		Date Posted : 01/27/2014	
Country:	Tonga		
	Is this Review for a Programmatic Series?	<input type="radio"/> Yes <input checked="" type="radio"/> No	
Series ID:			
First Project ID : P121877		Appraisal	Actual
Project Name : Tonga Energy Development Policy Operation	Project Costs (US\$M):	5.0	5.0
L/C Number:	Loan/Credit (US\$M):	5.0	5.0
Sector Board : Energy and Mining	Cofinancing (US\$M):		
Cofinanciers :	Board Approval Date :		10/19/2010
	Closing Date :	06/30/2011	06/30/2011
Sector(s):	Public administration- Energy and mining (50%); General energy sector (50%)		
Theme(s):	Public expenditure; financial management and procurement (60%); Infrastructure services for private sector development (30%); Other economic management (10%)		
Evaluator:	Panel Reviewer :	ICR Review Coordinator :	Group:
Nestor Ntungwanayo	Kristin Hallberg	Soniya Carvalho	IEGPS1

2. Project Objectives and Components:

a. Objectives:

The development objectives were to (i) provide budget support to contribute to reducing Tonga's fiscal deficit and (ii) support the Government's efforts in implementing reforms in the energy sector which will contribute to achieving steady and stable growth in the medium term. [Program Document (PD) p. 40]. There was no mention of the Development Policy Loan's (DPL) objectives in the Letter of Agreement (LA), which only emphasized prior actions to be completed before the approval of the loan (LA p.4).

b. If this is a single DPL operation (not part of a series), were the project objectives/ key associated outcome targets revised during implementation?

No

c. Policy Areas:

The DPL operation supported two policy areas:

1. Energy Sector Reforms: In support of the Government of Tonga's (GoT) program for tackling the weaknesses in the energy sector, the proposed operation included actions related to reducing Tonga's vulnerability to oil price rise and shocks, and to increase access to quality energy services. The reform program was divided into three phases, and the operation intended to support the first phase reform agenda, to address the immediate needs for improved energy sector data gathering, recording and analysis as the basis for further improvements.

2. Public Financial Management Reforms: In support of the GoT's program for implementing improvements in public financial management and reducing the fiscal deficit, the proposed operation

included actions related to public financial management (PFM) reforms, which aimed to formalize and make legally binding the required procedures for a number of key PFM processes. The most striking action consisted in the issuance of treasury instructions aimed to address areas related to corporate plans and annual management plans of government authorities, procurement instructions aligned with the draft public procurement regulations, rules governing changes to the personnel database and payroll, and controls and processes in respect of expenditure commitments.

d. Comments on Project Cost, Financing, Borrower Contribution, and Dates:

This operation was a single-tranche DPL in the amount of \$5 millions approved on October 19, 2010, made effective on November 10, 2010, and closed on schedule on June 30, 2011.

3. Relevance of Objectives & Design:

a. Relevance of Objectives:

Relevance of objectives was high

The DPL objectives were consistent with both the National Strategic Planning Framework adopted by the Tonga's cabinet in February 2009, and the Bank's Country Assistance Strategy (CAS) approved in FY11. The government vision was to create a society in which all Tongans enjoy higher living standards and a better quality of life, notably through good governance. To fulfill the above vision, the strategy identified key activities that could contribute to: (i) developing infrastructure and improving the everyday life of the people, and (ii) enhancing the effectiveness of revenue collection to ensure a level playing field, and to ensure that services to the people can be appropriately funded.

The DPL operation was drawn from the FY11-14 CAS that emphasized that the Tonga government should continue strengthen public financial management systems, make hard fiscal decisions to lower priority budget expenditures and strengthen revenue collection, and pursue further structural economic reform. To help the country build resilience against shocks, the Bank's CAS thought that strengthening oil supply chain management and opening the electricity market to new private sector generation investments, including in renewable energy, will reduce vulnerability to potential future oil price shocks.

The operation under review aimed to address key challenges in the fiscal and energy sectors of the country, and the planned policy reforms were consistent with the country's strategy. Moreover, the reforms were congruent with the CAS content at approval and at the operation closing.

b. Relevance of Design:

Relevance of design was modest .

There was a disconnect between the short-term nature of the operation (6 months) and the time needed to make tangible progress in the identified areas of PFM and energy sectors. To achieve the objectives, the Tonga Government would have been better assisted by a phased programmatic series of operations. A single tranche stand-alone operation could only launch the reforms, but these will take many years to be completed, and to achieve the expected objectives. The scope of the program was ambitious, and could only be completed in the context of a multi-year and programmatic series of DPLs.

The DPL had two objectives of equal importance, but the number of performance indicators were disproportionate in favor of the energy sector in the order of 4 to 1. The PFM reform agenda was light and less detailed; in contrast the energy reform plan was overly developed in the program document. This gives the impression that the reform in the energy sector was more important than progress in the

PFM sector, but this case was not discussed in the Program Document. Both indicators and prior actions were structural reforms and were very far from the targeted objective. The results matrix was in disconnect with the duration of the operation, and more consistent with a programmatic DPL.

In summary, the country needed a programmatic DPL instead of a one-off operation, the results chain was good for a programmatic operation, and not for an operation to be closed in seven months, and the reform agenda was unduly skewed toward energy sector reforms at the expense of PFM reforms.

4. Achievement of Objectives (Efficacy):

Achievement of objectives was substantial

PDO I: To provide budget support to contribute to reducing Tonga's fiscal deficit: High

Prior actions

Before the operation approval: (i) the Ministry of finance of Tonga issued treasury instructions pursuant to Article 45 of the Financial Management Act (2002) to the line ministries and (ii) the Tonga Cabinet approved the submission of the Public Procurement Regulations to the Law Committee.

Contribution to outcome

Performance toward the outcome included: (i) corporate plans and annual management plans of key ministries were submitted as part of the preparation process for the FY11/12 and subsequent budgets, and (ii) new public procurement regulations were adopted by the Government. Corporate and annual management plans further strengthened the annual budget development and planning process, while new procurement regulations were designed to help ensure more accountability and transparency.

The operation has also served as a vehicle to strengthen the Bank's dialogue with the GOT in areas of public expenditure and financial management, through more robust engagement in public finance management (PFM) in the area of joint public expenditure analysis. The dialogue led to the development and implementation of new lending and associated technical assistance projects. The operation provided short-term fiscal relief (\$5 million) to address the budget deficit projected for FY10/11 as government revenue, particularly remittances, was expected to fall as a result of the global economic slowdown. It also helped to implement recommendations from the 2010 Public Expenditure and Financial Accountability Assessment.

In conclusion, the country benefited from budget support, and reforms launched in the context of this operation were light and structural in nature, but they helped the Government to mobilize contributions from the donor community that supported the country's fiscal consolidation with some success. While the impact of the DPL on structural reforms and the determinants of the country's fiscal deficit was relatively limited, the operation ignited a virtuous circle of fiscal consolidation and donor contributions that resulted in the reduction of the overall fiscal deficit from 7.4 percent to 2.7 percent of GDP in FY 2011/12.

PDO II: To support the Government's efforts in implementing reforms in the energy sector: Substantial

Prior actions:

Before operation approval: (i) the Government adopted the Tonga Energy Roadmap (TERM) by a cabinet decision on August 20, 2010; (ii) an intra-governmental mechanism to coordinate energy sector activities across Tonga administration was operationalized, and (iii) the Tonga Power Limited FY08/09 Audit report was submitted to the Tonga's Auditor's General Office.

Contribution to outcome:

Toward outcome, six targets were achieved while one was missed as follows: (i) the TERM Committee membership was expanded to include all ministries and entities involved in the energy sector, thus facilitating collective decision-making and further development of the TERM and its implementation; (ii) an M&E framework to gauge progress in the energy sector (electricity and petroleum) reforms was established, (iii) the FY09/10 audit report was submitted on time, and with better quality than previous reports, (iv) a FY10/11 report (due after closing) was also submitted on time, (v) transactions involving private sector participation in the energy sector were handled transparently and in compliance with Tonga's new public procurement regulations and budget disclosure requirements, and (vi) testing and evaluation of petroleum price risk management program was on track when the operation closed. On the negative side, the TERM Implementation Unit was not adequately staffed and allocation of adequate resources was not sufficient for effective TERM implementation.

In summary, there was improved coordination in reforming the energy sector, with sustained audits, M&E and reporting. There was also increased transparency and compliance in the operations involving the private sector in the energy sector, as well as enhanced petroleum price risk management. But the project implementation unit remained understaffed until the project closure.

5. Efficiency (not applicable to DPLs):

6. Outcome:

The outcome was satisfactory

While the loan objectives were **highly** relevant, the design of the reform program was only **modestly** relevant. There was a substantial disconnect between the wide scope of pursued objectives and the one-off nature of the operation, the results chain was inadequate, and the PFM reform agenda was unduly scaled down compared to the energy sector reform agenda.

The country benefited from budget support, reforms launched in the context of this operation were light and structural in nature, but they helped the Government to mobilize contributions from the donor community that supported the country's fiscal consolidation with immediate impact on the country's fiscal deficit. While the impact of the DPL on the depth of structural reforms and the determinants of the country's fiscal deficit was relatively limited, the operation ignited a virtuous circle of fiscal consolidation that resulted in the reduction of the overall fiscal deficit from 7.4 percent to 2.7 percent of GDP in FY2011/12.

There was improved coordination in reforming the energy sector, with sustained audits, M&E and reporting, as well as increased transparency and compliance in the operations involving the private sector in the energy sector, and enhanced petroleum price risk management. But the project implementation unit remained understaffed until the project closure.

a. Outcome Rating: Satisfactory

7. Rationale for Risk to Development Outcome Rating:

Risk to development outcome is rated as negligible to low.

While islands and small countries remain vulnerable to internal and external shocks, achievements of this operation in the Tonga's PFM and energy sectors seem to be sustainable. First, the Government has displayed commitment to reforms by turning around its public finances rapidly, and making progress in setting up strong governance institutions to oversee the energy sector reforms. However, quick

improvements, especially for small countries mask the possibility for abrupt deterioration.

Most importantly, the Bank approved in favor of the country new lending that signal that the Bank and the country are in close cooperation to make sustainable impact in the PFM and energy sectors. In December 2011, the Bank approved a series of two programmatic DPLs aimed to strengthen public financial management and fiscal policy, and to further support structural reforms in the energy sector. The two DPLs have already been implemented and closed. Moreover, in November 2012, a technical assistance project for Institutional and Regulatory Framework Strengthening was approved and is currently being implemented, and is providing assistance to strengthen the core institutions and regulatory framework related to planned operations under the energy road map. The above developments are indicative of low risk to development outcome rating.

a. Risk to Development Outcome Rating : Negligible to Low

8. Assessment of Bank Performance:

a. Quality at entry:

Quality at entry was moderately satisfactory

The design of the DPL was underpinned by a solid analytic work in the key areas of PFM and energy sectors. PFM reforms supported by the operation followed the conclusion of a Public Expenditure and Financial Accountability (PEFA) report that pinpointed the structural reforms that needed to be undertaken as a way to reducing the country's fiscal deficit. In the energy sector, the operation followed an intense Bank dialogue with the Government and key stakeholders in Tonga, and on the basis of substantive analytic work conducted under the umbrella of the Tonga Energy Road Map. While the objectives were highly relevant, expected results to be achieved in seven months were limited. There were also shortcomings in the results chain of the operation and unequal coverage of policy areas (PFM and energy sector) as detailed under Section 3.b above.

The results chain comprised structural reforms (prior actions and indicators) that could not result in the immediate substantial reduction of the country's deficit and the revamping of the energy sector. Had not been a strong support from the donor community and the Government's commitment to reforms, the DPL could not have led to intended results. M&E arrangements were adequate, because the Ministry of finance that was acting as the implementation unit was committed to results and closely supported by the Prime Minister's Office.

Quality-at-Entry Rating : Moderately Satisfactory

b. Quality of supervision:

Quality of supervision was satisfactory

There was no formal supervision since this was a one-tranche operation disbursed on the basis of the completion of prior actions and which closed 7 months after approval. There was implicit supervision of the program during the preparation of the follow-on operation, the Tonga Energy Road Map Project. The Bank allocated sufficient budget and staff resources, and the operation was adequately supervised and closely monitored. The task team regularly advised the Government of Tonga and the Project Management Unit on adequate implementation of the operation and facilitated prompt corrective action. The Bank maintained very close interaction with the GoT throughout the

implementation of the DPO through frequent missions and close interactions with the counterparts. The Bank's liaison office in Tonga facilitated close dialogues with government officials on a regular basis.

Quality of Supervision Rating : Satisfactory

Overall Bank Performance Rating : Moderately Satisfactory

9. Assessment of Borrower Performance:

a. Government Performance:

Governance performance is rated as satisfactory

The Government's commitment to the objectives of the operation was high and satisfactory. The Ministry of Finance was requested by the Government of Tonga (GOT) to support implementation of policy reforms and programs outlined in the DPO. The Ministry of Finance, with adequate support from the Prime Minister's office served as the implementing agency and took full ownership of the operation development and implementation. The Ministry of Finance provided relevant documents and explanatory notes to the Bank needed to validate program implementation. It took full responsibility for overall coordination of supervision and monitoring of program implementation.

The overall support by the Prime Minister's office helped the implementing agency -the Ministry of Finance- in proper coordination and communication across ministries in TERM development and implementation. The Borrower's commitment was evident in their successful implementation of the prior actions and interest in implementation of the TERM and in the development of follow-up DPL and energy operations.

Government Performance Rating : Satisfactory

b. Implementing Agency Performance:

Implementing Agency Performance Rating : Not Applicable

Overall Borrower Performance Rating : Satisfactory

10. M&E Design, Implementation, & Utilization:

a. M&E Design:

The DPL results matrix was composed of 8 PDO indicators and one intermediate outcome indicator, and all indicators had baseline at the outset and target values, either in 18 months, 3 years, or 5 years. The DPL had two objectives of equal importance, but the number of prior actions and performance indicators were disproportionately larger in favor of the energy sector. No reason was given for having a lighter monitoring mechanism for the PFM reform agenda.

The main difficulty in the design of the M&E was that target values were set for the medium and long term, while the operation was going to close in seven months. M&E arrangements were adequate, because the Ministry of finance that was acting as the implementation unit was committed to results and closely supported by the Prime Minister's Office.

b. M&E Implementation:

Monitoring and evaluation activities were carried out by the task team in partnership with the Ministry of Finance on the basis of the agreed-upon activities and indicators. Since this was a single-tranche operation, there were no Implementation Status Reports (ISRs). However, the implementing agency provided all the information regarding disbursement and utilization of the funds disbursed. The implementing agency also provided documentation on progress in TERM implementation and the energy sector reform program. Even at the level of implementation, it appears that much attention was directed to the energy sector at the expense of the PFM reforms.

c. M&E Utilization:

Appropriate data collected by the government on the indicators were evaluated and used during supervision missions, and also for decision making on policy work. The information provided was used in dialogue with the government in further shaping the Energy Road Map, development of institutions for TERM implementation, and follow-up support projects in the energy sector.

M&E Quality Rating : Substantial

11. Other Issues

a. Safeguards:

No safeguards policies were triggered by this DPL. The proposed operation was not expected to have significant negative effects, and the overall effect on the environment, forests or other natural resources was expected to be positive. In the context of the energy sector development that could take place as the TERM was being implemented, a number of mitigation measures were built into the TERM approach to assure that any potential environmental issues are fully assessed and mitigated to avoid any negative effects. Similarly, investments in the TERM context would be made consistent with national policies such as the Tonga National Action Plan on Climate Change Adaptation and Disaster Risk Management 2010-15.

b. Fiduciary Compliance:

Not applicable

c. Unintended Impacts (positive or negative):

Two positive indirect impacts were identified by the ICR and are worth mentioning:

(i) This operation, being the first DPO in Tonga, allowed the government to understand the Bank's DPO type of instrument for policy dialogues. Based on this experience, the government has now become very comfortable with DPOs which are now the center piece of policy dialogue.

(ii) The implementation of the TERM supported by this DPO is expected to have significant, direct positive social impacts in the medium term. Such social impacts include access to off-grid electricity options from renewable sources to remote communities which otherwise were not connected to the grid.

d. Other:

12. Ratings:	ICR	IEG Review	Reason for Disagreement / Comments
Outcome:	Satisfactory	Satisfactory	
Risk to Development Outcome:	Negligible to Low	Negligible to Low	
Bank Performance:	Satisfactory	Moderately Satisfactory	Some weaknesses in the design of the operation, and limited Bank input in the supervision of this DPL operation
Borrower Performance:	Satisfactory	Satisfactory	
Quality of ICR:		Satisfactory	

NOTES:

- When insufficient information is provided by the Bank for IEG to arrive at a clear rating, IEG will downgrade the relevant ratings as warranted beginning July 1, 2006.
- The "Reason for Disagreement/Comments" column could cross-reference other sections of the ICR Review, as appropriate.

13. Lessons:

The ICR identified a number of sound lessons from this operation, but four of them are emphasized hereunder: (i) the feasibility of sectoral DPLs, (ii) the importance of early engagement before the design of a DPL operation, (iii) the donor coordination leverage, and (iv) the usefulness of a comprehensive approach.

(i) Sectoral development policy operations can be quickly mobilized and achieve good results in the context of a strong reform momentum. The Bank has the ability to respond quickly to provide budget support when facilitated by strong government ownership of a reform agenda. When a government displays commitment to a sector-specific reform agenda, this can form an adequate foundation for the operation supported by a development policy loan.

(ii) AAA is critical for operations supporting major reforms. Prior sector engagement and dialogue can provide vital foundation for identifying key policy reforms that can drive further progress in important sectors, dialogue and engagement. The Bank can draw on that engagement and related analytical work for the the preparation of a DPL, and subsequent operations.

(iii) Close coordination and engagement with other development partners in the identification of policy priorities are useful in sectors where the Bank has limited knowledge and engagement. The Bank did not have sufficient presence and knowledge of the procurement and treasury instruction actions where other development partners had taken the lead. Close coordination with the Asian Development helped the GoT to spearhead reforms in the procurement area.

(iv) The importance of a total sector approach, as opposed to isolated interventions in the sector, yields better results. Both technical assistance and investment support are more effective when there are real plans and opportunities to provide a comprehensive support to a sector.

14. Assessment Recommended? Yes No

15. Comments on Quality of ICR:

The ICR provided adequate information related to the DPL design and implementation. However, it had some weaknesses including the following: (i) while the operation had two objectives related to PFM and energy, in many instances, energy issues were better covered and discussed in the ICR at the expense of PFM issues, (ii) while the content of the ICR was relevant, its presentation could have been improved, notably through better organization and sequencing of the information. One main problem of the ICR was that it was repetitive at many instances.

a. Quality of ICR Rating : Satisfactory