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SPECIAL ECONOMIC AND DISASTER RELIEF ASSISTANCE:
SPECIAL PROGRAMMES OF ECONOMIC ASSISTANCE

Summary report on Assistance to Tonga

Report of the Secretary-General

CONTENTS

	<u>Paragraphs</u>	<u>Page</u>
I. BACKGROUND	1 - 5	2
II. ECONOMIC SITUATION	6 - 22	2
III. SPECIAL PROGRAMME OF ECONOMIC ASSISTANCE	23 - 25	10

I. BACKGROUND

1. In its resolution 34/132 of 14 December 1979, the General Assembly drew the attention of the international community to the special problems confronting Tonga as a developing island country with a small population. The Assembly, inter alia, appealed to the international community to provide financial, material and technical assistance to Tonga to enable it to establish essential social and economic infrastructure. Furthermore, the Assembly requested the Secretary-General to mobilize the necessary resources for an effective programme of assistance to Tonga.
2. Information supplied by the various specialized agencies and organizations of the United Nations system on the nature and extent of their assistance to Tonga was provided to the General Assembly in the report of the Secretary-General contained in document A/35/497. In addition, in the report of the Secretary-General contained in document A/35/490, the General Assembly was informed of the steps taken by the Secretary-General in response to resolution 34/132.
3. Arrangements were made for an inter-agency mission, led by the Joint Co-ordinator of Special Economic Assistance Programmes in the Office for Special Political Questions, to visit Tonga from 12 to 21 October 1982. The mission's report was contained in the report of the Secretary-General.
4. At its thirty-seventh session, the General Assembly adopted resolution 37/164 of 17 December 1982, in which, inter alia, it requested the Secretary-General to report to the Assembly at its thirty-ninth session on the progress made in the economic situation of Tonga and in organizing and implementing the special programme of economic assistance for that country.
5. At the request of the Government of Tonga the present report, prepared in response to General Assembly resolution 37/164, is a summary report. It is based on information provided by the Government of Tonga drawn from the mid-term review of the Kingdom's Fourth Development Plan, 1980-1985. Background information on Tonga's development needs and strategies is contained in the report of the Secretary-General (A/37/583, sect. II).

II. ECONOMIC SITUATION

6. The effects of the cyclone that struck Tonga in March 1982 and the subsequent drought that stretched into late 1983 continued to affect adversely the Tongan economy during the period under review. The effects of these natural disasters are still being felt in 1984.
7. The physical devastation caused by the cyclone and the loss of agricultural production resulting from the combination of cyclone and drought led to a significant slowing down in the pace of development in Tonga. A large proportion of the available aid resources had to be diverted into rehabilitation and reconstruction, necessitating adjustment to development priorities. By late 1983, however, most of the cyclone-related projects had been completed and it was possible for the Government to resume consideration of needs and priorities under

normal conditions for the forward planning of the second half of the Plan period. It was also possible for the Government to resume consideration of the need for improved aid programming, monitoring and review, and for stronger focus on regional and rural development.

8. In order to overcome the economic slow-down that had occurred following the cyclone and drought, the Government proposed a series of measures in 1983 both to liberalize the economy and to stimulate economic activity. These measures include:

- (a) The liberalization of wage, price and export controls;
- (b) The promotion of leasing of agricultural land;
- (c) Amendment of the Income Tax Act to increase disposable income while also limiting tax-avoidance opportunities;
- (d) Revision of import duties to encourage tourism;
- (e) Amendment of legislation to provide additional incentives for the establishment of industrial enterprises;
- (f) The raising of additional local revenues for development purposes;
- (g) The introduction of savings in Government expenditures.

These policy incentives were subsequently reinforced with further incentives to private sector development. This is now a key aspect of the Government's overall development strategy.

Gross domestic product

9. In the period 1980/1981 to 1982/1983, total GDP increased by 6.9 per cent in real terms. With an estimated population increase of 1.7 per cent per annum, the net per capita increase in GDP in that period was 5.2 per cent compared to the target rate of 4.2 per cent.

10. At the sectoral level, however, there was wide variation in performance, with the productive sectors all showing rates of growth below planned targets while the service sectors all exceeded their targets. In the light of the sectoral performance, the Government sees a need for policy initiatives to provide stimulus to the productive sectors, in particular to agriculture, fisheries and manufacturing.

External trade

11. The external trade accounts show an ever-widening trade gap. Between 1978 and 1982, the import bill almost doubled, while export revenues have been falling off since 1980 (see table 1). The trade deficit has, to some extent, been offset by income from invisible items in the current account (see table 2). However, the Government is concerned both with the trade deficit and the potential volatility of remittance income and other transfer payments.

Table 1
Structure of trade
(Thousands of Tongan dollars a/)

	1978	1979	1980	1981	1982
Exports	5 078	7 012	7 168	6 330 b/	3 646
Imports	22 318	26 210	30 135	35 089	41 205
<u>Trade balance</u>	<u>-17 240</u>	<u>-19 198</u>	<u>-22 967</u>	<u>-28 759</u>	<u>-37 559</u>
<u>Principal exports</u>					
Coconuts	55	44	60	74	46
Dessicated coconut	741	1 083	688	729	240
Copra	2 980	1 687	943	2 052	-
Coconut oil	-	1 871	3 046	1 172	1 291
Coconut meal	-	78	198	97	126
Subtotal, coconut products	<u>3 776</u>	<u>4 763</u>	<u>4 935</u>	<u>4 191</u>	<u>1 705</u>
Bananas and plantain	193	315	414	516	89
Water-melon	154	212	150	161	253
Root crops	151	683	675	530	283
Vanilla	181	47	261	276	629
Other agricultural produce	94	142	224	149	58
Subtotal, other agricultural products	<u>773</u>	<u>1 399</u>	<u>1 724</u>	<u>1 632</u>	<u>1 312</u>
Other exports	201	105	251	567	631
Re-exports c/	328	745	258	1 157	642
<u>Total exports</u>	<u>5 078</u>	<u>7 012</u>	<u>7 168</u>	<u>7 487</u>	<u>4 288</u>

/...

Table 1 (continued)

	1978	1979	1980	1981	1982
<u>Principal imports</u>					
Food products	7 805	8 667	9 049	9 448	8 936
Manufactured goods	6 085	6 649	8 202	9 391	9 418
Machinery and transport equipment	3 786	5 769	5 100	5 242	6 029
Fuels and lubricants	2 311	2 635	4 291	5 777	5 715
Other d/	2 332	2 491	3 492	5 231	11 107
<u>Total imports</u>	<u>22 318</u>	<u>26 210</u>	<u>30 135</u>	<u>35 089</u>	<u>41 205</u>

a/ Exchange rate of pa'anga, or Tongan dollar, against one United States dollar:

1978 - 0.908
1979 - 0.885
1980 - 0.904
1981 - 0.943
1982 - 0.865
1983 - 1.006
October 1984 - 1.19

b/ Excludes re-exports.

c/ Including jet aviation fuel.

d/ Largely agricultural chemicals and fertilizers.

Table 2
Balance of payments, 1981/1982-1982/1983
(Thousands of Tongan dollars)

	1981/1982	1982/1983
<u>Trade balance</u>	<u>-27 636.6</u>	<u>-28 008.8</u>
Export	7 140.6	5 419.0
Import	34 777.2	33 427.8
<u>Non-factor services</u>	<u>4 972.5</u>	<u>1 369.8</u>
Freight, insurance and other transportation	-337.1	-806.4
Tourist and other travel	4 263.1	2 093.5
Other non-factor services	1 046.5	82.7
<u>Factor services</u>	<u>3 006.9</u>	<u>3 228.2</u>
Interest, dividends and rents, etc.	2 433.1	-0.8
Other factor services	573.8	3 229.0
<u>Current transfers</u>	<u>23 018.6</u>	<u>21 755.9</u>
Remittances for residents	12 337.7	15 862.7
Remittances for non-residents	362.0	-688.4
Gifts, donations, contributions, etc.	10 734.8	10 515.0
Other current transfers	-411.9	-3 933.4
<u>Current account balance</u>	<u>-3 361.4</u>	<u>-1 654.9</u>

Government budget

(a) Recurrent budget

12. During the period under review, the Government budget position was brought within the Plan target. Expenditures, while increasing at a slightly faster rate in real terms than revenue - 10.9 per cent per annum against 9.1 per cent per annum for revenue - remain below the Plan level of 28 per cent of GDP. Nevertheless, measures have been introduced to try to contain expenditure growth whilst at the same time raising departmental efficiency and additional revenue (see table 3).

(b) Development budget

13. The development budget has continued to be dominated by external aid resources (see table 4). Allocations from the recurrent budget to development aid remained very much a residual and have been negligible in comparison with external flows. On occasions, local development loans financed by public subscriptions have supplemented other local resources allocated to development. The lack of local resources has been a constraint since these resources can be used in a very much more flexible manner than external aid funds to meet priority needs.

14. For the foreseeable future, Tonga will be dependent on external aid flows for its development programme. Fortunately, levels of assistance from major bilateral and multilateral donors have, on the whole, been maintained in real terms despite the problems caused by the world recession of 1980-1983.

Rural and regional development

15. In accordance with the objectives of the Fourth Development Plan, regional and rural development has been given much greater attention than in the past. Almost 200 rural projects have been sponsored by the Rural Development Unit through its Rural Development Fund and Small Project Fund.

16. The emphasis on rural and regional development is also helping to overcome past problems arising from lack of communication with the population and their participation in the development process. The Government feels, however, that more needs to be done to make development workshops effective vehicles for mobilizing funds to implement the regional development programmes.

17. One objective of the rural development programme was to assist in the spread of development to the more isolated islands and to regions other than Tongatapu. During the period under review, whilst Tongatapu received the largest proportion of development funds (58.9 per cent), this was less than its proportionate share on the basis of population.

Manpower and employment

18. The Government continues to be concerned about the apparent level of unemployment. There is also concern over the apparent continuing population drift to Tongatapu, although lack of definitive data on internal and external migration preclude a detailed analysis of this phenomenon.

Table 3Government recurrent budget

(Thousands of Tongan dollars)

	Year ended 30 June		
	1980/1981	1981/1982	1982/1983
<u>Revenue</u>			
Income tax	1 661	1 910	2 404
Indirect taxes	228	262	254
Taxes on imports	7 037	8 203	9 337
Income from services plus sale of Government commodities	2 907	4 491	5 203
Interest	596	755	940
Other income	142	103	122
Total revenue	12 571	15 724	18 260
<u>Recurrent expenditures</u>			
Economic services	1 469	1 748	1 652
Social services	3 735	4 748	4 966
Administrative services	3 728	5 477 a/	5 084
Transport and works	1 591	2 761	3 248
Communications	577	722	920
Other b/	656	810	1 115
Total recurrent expenditure	11 758	16 266	16 985
<u>Current balance</u>	813	-542	1 275

a/ Includes \$T 1 million for disaster relief.

b/ Includes transfers to development budget.

Table 4

Development (capital) budget

(Thousands of Tongan dollars)

	Year ended 30 June		
	1979/1980	1980/1981	1981/1982
Economic services	1 261	2 393	1 340
Infrastructure	791	1 545	1 531
Social services	392	467	323
Administrative services	435	356	615
<u>Total expenditure</u>	<u>2 880</u>	<u>4 762</u>	<u>3 809</u>
<u>Receipts a/</u> (of which from domestic sources)	2 692 (424)	5 034 (450)	3 073 (156)
<u>Balance</u>	<u>-188</u>	<u>+272</u>	<u>-44</u>
<u>Estimated value of external assistance not passing through budget b/</u>	19 362	n.a.	n.a.
<u>Estimated percentage of development expenditures funded from external sources</u>	98	n.a.	n.a.

a/ Includes only external financial assistance (grants or loans).

b/ In kind, or directly disbursed by donor.

n.a. = not available.

19. A number of studies are to be undertaken in the second half of the Plan period to provide data on the population manpower and employment situation in the country so that a realistic manpower planning exercise can be carried out as part of the input to the Fifth Development Plan.

Plan implementation

20. As a result of the cyclone of March 1982, the sectoral allocation of development funds was distorted through the need to divert funding to reconstruction and relief operations. Although this was a short-term development, there was a marked fall in the amount of resources being spent on productive or infrastructure projects and a corresponding increase in expenditures on social services and administration. This short-term trend was in contradiction with Plan objectives.

21. In the latter part of the review period, a greater degree of forward programming of projects has been adopted. This has been facilitated by a higher level of staffing in the Central Planning Department and through more frequent contact and liaison with aid donors. Improved forward programming is expected to result in a more co-ordinated approach to sectoral resources allocation so that the apparent trend away from the productive sectors can be halted.

22. A major constraint in Tonga's planning activities is the lack of comprehensive, accurate and timely data. While some progress has been made, there still remain large gaps in the national statistical base. The Government is continuing its efforts to strengthen this area.

III. SPECIAL PROGRAMME OF ECONOMIC ASSISTANCE

23. In October 1982, the Government of Tonga presented the inter-agency mission with 48 projects for which assistance was urgently needed. The total cost of the projects was \$58.1 million and they were oriented in the main to short-term and medium-term development needs, in conformity with the priorities of the current five-year development plan (as modified by the economic impact of the March 1982 hurricane).

24. While the projects focus mainly on development needs, several projects relating to post-hurricane reconstruction were included.

25. The status of the funding and implementation of the projects in the recommended special programme of economic assistance is shown in table 5 below.

Table 5

Projects in the special programme of economic assistance

(Thousands of United States dollars)

Project	Estimated cost	Status as at 30 September 1984
1. <u>Agriculture</u>		
A-1 Revitalization of the coconut industry	3 185)	Continues under New Zealand funding
A-2 Revitalization of the banana industry	32)	
A-3 Livestock development	331)	
A-4 Support for agricultural extension services	297	FAO Technical Co-operation Programme funded; started May 1984
A-5 Replacement of agricultural machinery	213	Limited assistance under New Zealand funding
2. <u>Fisheries</u>		
F-1 Assistance to worst-affected areas	1 000	Implemented by national disaster relief office with multilateral funds
F-2 Improvements in fish marketing	300	Continues under Australian funding, Asian Development Bank loan and Commonwealth Fund for Technical Co-operation assistance
F-3 Fisheries development adviser	95	Extended one year with Commonwealth Fund for Technical Co-operation funding
F-4 Commercial fisheries development	2 500	Under review
3. <u>Transport</u>		
T-1 Improvement of the road system	1 650	Continues under Australia/New Zealand funding

Table 5 (continued)

Project		Estimated cost	Status as at 30 September 1984
T-2	Improvements to outer-island airports	4 117	Continues under Australia/European Economic Community funding
T-3	Upgrading of Fua'amotu Airport, Tongatapu	8 160	Terminal extension completed under regional United Nations least developed country funding, continuation proposed for Australian funding
T-4	Construction of a new slipway	4 300	Considered for European Economic Community funding
4. <u>Communications</u>			
C-1	Inter-island telecommunications	2 575	Proposed for Australia/Japan funding
C-2	Ship-to-shore coast station	400	Proposed for Japanese funding
C-3	Meteorological/air traffic control link with Fiji	350	No developments
C-4	Upgrading of radio broadcasting	620	No funding identified
C-5	Extension of telecommunications training school	35	Funded by Australia
C-6	Expansion of telephone network, Tongatapu	75	Funded by New Zealand
5. <u>Manufacturing and commerce</u>			
M-1	Additional buildings at Small Industries Centre	685	Asian Development Bank loan funded
M-2	Expansion of area of Small Industries Centre	175	No developments
M-3	Tool room/service centre at Small Industries Centre	75	Asian Development Bank approached

Table 5 (continued)

Project	Estimated cost	Status as at 30 September 1984
M-4 Establishment of a small industries centre on Vava'u	390	Japan and Asian Development Bank approached
M-5 Food Technology and Pilot Production Centre	200)	Continues under New Zealand funding
)	
)	
M-6 Upgrading of Government printing facilities	96)	
)	
M-7 Establishment of handicrafts centre, Nuku'alofa	500	
6. <u>Health</u>		
H-1 Urban sewerage and drainage	196	Continues under WHO/UNICEF funding, extension proposed for United States AID/Australia/Federal Republic of Germany
H-2 Upgrading of Niuatoputapu Dispensary	90	Continues under New Zealand funding, extension proposed for Agfund co-funding
H-3 Extension of Niu'eiki Hospital, 'Eua	166	Continues under Australian funding, extension proposed for Agfund co-funding
H-4 Nutrition planner	102	Continues under limited UNICEF funding
7. <u>Disaster preparedness</u>		
D-1 Storage facilities for emergency supplies	94)	No developments
)	
)	
D-2 Public disaster-awareness programme	70)	
)	
D-3 Construction of foreshore protection, Tongatapu	10 300	Continues with Federal Republic of Germany soft loan

Table 5 (continued)

Project	Estimated cost	Status as at 30 September 1984
8. <u>Reconstruction/construction of buildings</u>		
B-1 Reconstruction of low-cost housing	2 960	Implemented under Australian/ New Zealand/European Economic Community funding
B-2 Reconstruction of damaged schools	3 576	Implemented with Asian Development Bank loan
B-3 Building for storage of vital statistics	69	No developments
B-4 Reconstruction of public buildings in Ha'apai and Vava'u	600	Continues under partial Australian funding
B-5 Niuatoputapu Secondary School	630	Implemented under Australian funding
B-6 Construction of bonded warehouse/cold store	450))) No funding identified
B-7 Construction of tourist hotel	3 250))
9. <u>Economic development</u>		
E-1 Rural and regional development programme	750	Continues under Australia/ New Zealand funding, Agfund co-funding proposed
E-2 Assistance to Tonga Development Bank	1 200	Implemented with grants from Australia/New Zealand and loans from International Fund for Agricultural Development/Asian Development Bank
E-3 Manpower planning	75	No developments, considered for associate expert scheme (United Nations Department of Technical Co-operation for Development)
E-4 Energy co-ordination unit	300	Starting under UNDP energy account funding

Table 5 (continued)

Project		Estimated cost	Status as at 30 September 1984
E-5	Strengthening the Ministry of Labour, Commerce and Industries	450	Continues under limited Commonwealth Fund for Technical Co-operation funding
E-6	Upgrading of Government unit	94	Continues under Commonwealth Fund for Technical Co-operation funding
10.	<u>Support for regional projects</u>		
R-1	Rural Development Centre, Tongatapu	250	Continues under European Economic Community funding
R-2	Fellowships in agriculture, fisheries and forestry	36	Continues under Australia/ New Zealand/UNDP/FAO funding
	Total	<u>58 064</u>	