

TONGA PRIVATE SECTOR DEVELOPMENT LEADERSHIP SCAN

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PACIFICLEADERSHIP
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EXECUTIVE SUMMARY

This report considers the role, and potential, of the Tongan private sector to act as a developmental leader to support a reform agenda leading to private sector growth and economic development.

Tonga's private sector is very diverse, ranging from a small number of large, regionally integrated enterprises and a large number of small, oftentimes informal and semi-formal enterprises working in a broad range of sectors. Tonga's private sector faces significant challenges associated with the scale and isolation of the Tongan economy. Tonga's private sector also faces additional burdens imposed by poor government regulation, and structural challenges with the economy including access to finance and the cost of key inputs.

The election of a new government in 2014 provides a potential window of opportunity for Tonga's private sector to progress a targeted reform agenda to support private sector development. However, Tonga's private sector faces a number of challenges if it is to exercise effective developmental leadership and capitalise on emerging opportunities.

The Tongan private sector is represented by a range of representative bodies positioned, to varying degrees, to engage in policy reform discussions. The Tongan Chamber of Commerce and Industry is the peak private sector body and is potentially well placed to progress a reform agenda. The private sector is also represented in Tonga's sector growth committees. Individual enterprises are also seeking to progress reforms relevant to their own interests.

While there are a range of private sector representative bodies, their capacity to progress a targeted reform agenda is sometimes limited. Private sector representatives are not always clearly focused on implementing a reform agenda. Coordination within the private sector is not always as strong as it might be, and there is scope to strengthen norms of trust and collaboration based on a recognition of the mutual benefits businesses may realise in pursuit of a strategic reform program.

There is significant overlap between reform priorities identified by private sector interlocutors interviewed for this report and priorities identified by the Tongan Government and development partners. Key reform issues identified include improving business access to land, improving access to finance, supporting foreign investment, reducing energy costs (and other business inputs) and improving market access for exporters (and broadening the export base). Shared acceptance of reform imperatives provides a good basis to build reform coalitions and support growth-enhancing collective action.

In order to capitalise on the opportunities provided by a changing political environment, private sector leaders could: focus on identifying a more specific reform agenda; work to build engaged reform coalitions (including the donor community) interested in progressing identified reforms; and develop effective political engagement strategies to progress identified reform issues. PLP could support its private sector partners to exercise effective developmental leadership by:

- supporting its private sector partners to develop a prioritised reform agenda focused on a small number of propitious reform issues;
- supporting its private sector partners to develop political engagement strategies to help secure concrete policy change;
- help its private sector partners cultivate broader community awareness of the benefits of private sector development, including by building the economic reform literacy of key civil society and media organisations so they can support a more informed public debate on the importance of reform;
- support improved donor coordination and coordinated engagement with private sector representatives to build a greater constituency for private sector reform.

This report considers the role and potential of the private sector in Tonga to act as a developmental leader to support a reform agenda leading to economic growth and development. The report applies the Pacific Leadership Program's developmental leadership analytical framework (Barbara and Haley 2014) to review the private sector in Tonga, assess the degree to which it placed to exercise developmental leadership in Tonga to support economic reform, and to consider possible reform issues which are both substantive in terms of the possible benefits of reform and which the private sector is well positioned to play an important role in supporting an effective reform process. In this context, the report makes recommendations to PLP about where it might best provide program support for the private sector, the form such support might take, and the ends to which such support might be focused.

The report has six parts. Part 1 considers the private sector context in Tonga, including its structure and the business-operating environment. Part 2 considers how the private sector is positioned to act as a developmental leader, capable of supporting a strategic reform program that might result in substantive development change. It reviews the various private sector representative organisations in Tonga and their organizational positioning as prospective developmental leaders. Part 3 considers the political system in Tonga, and the opportunities and challenges the country's formal and informal institutions present to the private sector as it seeks to progress specific reforms. Part 4 acknowledges the work of other donors in Tonga currently supporting the private sector or working on relevant private sector reform issues. Prospects for donor collaboration on private sector reform issues will be briefly assessed. Part 5 considers potential reform issues that could form the focus of a program of support provided by PLP. These issues were identified as a result of consultations with private sector and other stakeholders, as both substantive in terms of impact, and as potentially amenable to a focused reform program. Part 6 makes a set of recommendations regarding support PLP could provide to private sector partners in Tonga to support a targeted reform program. The recommendations are based on the previous analysis of how the private sector works as a developmental actor in the context of Tonga's political economy, and seek to respond to the political economy of reform prevailing in Tonga.

1. PRIVATE SECTOR CONTEXT

Tonga faces many economic development challenges. Its economy is fragile and has experienced several significant shocks over the last decade. These include the impact of the global financial crisis, which significantly reduced remittance income, political tensions and the democratization process, and climate events (ADB 2013, p.5). Since the new millennium, economic growth has been volatile and generally lower than in preceding decades. While aid and remittances will remain an important part of the national economy, private sector development will be important to realising the country's growth potential and underpinning improvements in living standards.

1.1 Structure of the private sector

Tonga's private sector is diverse with broad, sometimes competing, enterprise, sector and national interests. Understanding the structure of the private sector in Tonga is an important first step in understanding options for supporting private sector actors to become effective developmental leaders able to progress significant reform issues.

Tonga's private sector can in the first instance be grouped into key productive sectors. According to the ADB (2013, p.7), in 2011 the service sector accounted for 60.2 per cent of the economy, the industrial sector (mining, manufacturing, utilities, construction) 22.4 per cent, and the primary sector (agriculture, forestry, fishing) 19.3 per cent. These sectors face different market environments, have different cost structures and engage with the formal and international economy in various ways.

Developments in agriculture, fishing and forestry sectors impact significantly on the broader economy, being important to rural growth, employment and livelihoods (ADB 2013, p.7). In 2010-11, this sector accounted for some 60 per cent of national exports and 40 per cent of employment. Importantly, the sector is very diverse. While it includes some large scale producers who engage with export markets, the sector also has many smallholder producers who face significant impediments to growth including their size and fragmentation.

The telecommunications sector, on the other hand, is characterised by two major firms – Digicel and the state-owned Tonga Communications Sector. This is a highly formalized sector with significant foreign investment. Sector reforms undertaken over the last decade have improved competition in some areas, leading to cheaper mobile telephony charges benefitting consumers. However, sector reforms have not led to cheaper internet, which remains a significant impediment to economic growth.

Tourism is another key sector which will be important to Tonga's future growth prospects (ADB 2013, p.8). Tourism contracted significantly following the global financial crisis but has increased subsequently. However, Tonga's tourism sector is currently poorly placed to support growth in tourist numbers. The sector is dominated by small and medium sized firms and lacks established high-end tourism providers.

The structure of Tonga's private sector is important to its capacity to act as an effective developmental leader. The predominance of small and medium sized enterprises, oftentimes operating in quasi-formal markets and providing owners/ employees with subsistence and precarious incomes, makes the political organisation of this private sector sub-group difficult and limits its capacity to play a constructive role in technical policy debates. At the same time, Tonga has a small number of large businesses who have some experience in working with government and engaging with reform issues, and who can mobilise significant resources in support of reform agendas. Most private sector representative organisations have focused on the needs of this later private sector group. Tensions can exist between this small number of large firms and the interests of small-scale enterprises, with the former sometimes criticised as elitist and self-interested.

Ownership is a significant issue when considering the private sector reform proclivities, and its capacity to act as a developmental leader. The relatively small scale of the private sector means that personal relationships and the commercial interests of a small number of individuals can be decisive in progressing reform. The role of the nobility in the private sector is complex. Some nobles have significant private sector interests and use their power to support these interests. The nobility is also a significant economic stakeholder through its ownership of land. But the nobility can be also surprisingly disconnected from key sectors, giving commoner business owners some latitude to pursue reform. Foreign investment is important to key sectors such as tourism, with partnerships between local and international investors important. However, the ability of foreign investors to engage in private sector reform debates is complex, with partnerships with local private sector organisations important.

One emerging private sector group which is poorly incorporated into extant private sector structures is the Chinese business community. At one level the Chinese community is a significant contributor to the Tongan economy through small and medium sized enterprises. Chinese firms have also had a significant role in supporting the reconstruction of Nuku'alofa. But Chinese-owned firms have not played a constructive role in engaging with reform debates in Tonga. While it is beyond the scope of this report to provide a detailed analysis of the web of private sector interests in Tonga, understanding the complex personal relationships and the nature of private sector business relations is important to understanding opportunities for, and pathways to reform.

How reform happens?

- Tongan stakeholders, including the private sector, have demonstrated a capacity to introduce high-impact reform in certain instances, but reform implementation remains a key issue of particular relevance to PLP. The ADB (2008, p.6) noted that Tonga faced particular challenges in implementing reform: '[Identifying the constraints to growth is only a first step. Doing something about them usually requires building a consensus for change and establishing a process that often extends over several years.]'
- Notable examples include reform of the telecommunications sector and, most recently, incremental reforms to business licensing arrangements. In the case of telecommunications reform, 'Ofa (2011) has identified five key factors that enabled telecommunications reform which led to mobile phone competition in 2002: the identification of a specific reform agenda, reflected in clear policies; strong government commitment for reform, reflected in the establishment of an independent regulator under law; the strong commitment of the King of Tonga to telecommunications liberalization, including his divestment of personal interests in TONFON; the importance of WTO membership in underwriting the reform process; and the role of Tonga's diaspora with interests in cheap mobile telephony, forming a strong public constituency for reform.
- The fact that significant reform can happen is heartening, but PLP should be clear on key lessons learned from successful reform processes. These include:
 - 1 The need for effective coalition building: Successful reform requires engaging key stakeholders early on and fostering effective dialogue between them to identify common interests, reform challenges and inclusive reform processes. Coalition building needs to consider both the role of senior leaders including politicians, the nobility and business. It also needs to consider the broader role of the public in building a broad-based constituency for reform;
 - 2 The need for appropriate technical support: Many successful reforms have benefitted from the provision of specific technical support to provide an evidence base (including cost-benefit analysis) for reform. Ideally, such a base would be developed through an inclusive process, increasing its legitimacy within the broader policy system). If used properly, compelling policy evidence can be a powerful tool for motivating action and galvanizing reform;
 - 3 Strategic engagement of the right decision-makers: Tonga's small size means that many key decision-makers already enjoy personal relations. This means that significant reform can potentially occur as a result of the actions of a small number of strategically placed individuals and organisations. Understanding who these individuals are, and when they should be engaged, has been important in opening up reform pathways.

1.2 Business operating environment

According to the ADB, Tonga has failed to realise its economic potential (ADB 2008, p.1). One reason for Tonga's underperformance is the existence of certain constraints which impede private sector productivity and investment. The ADB (2008, pp.4-6) identified three binding constraints which have undermined private sector development in Tonga:

- 1 Constraints of size and distance: Tonga's small size and remoteness from markets imposes high fixed costs on the private sector;
- 2 Constraints arising from perceptions of risk: Political instability, including that associated with the process of democratisation, has undermined investor confidence. Conversely, inclusive reform processes can build investor confidence;
- 3 Constraints that limit productivity: The dominance of the state sector, weak and opaque commercial laws and regulations, poor infrastructure (energy, telecommunications, roads, ports), and poor access to finance are some of the problems that inhibit private sector development.

The small scale of Tonga's economy makes it vulnerable to economic shocks. But it also presents opportunities that might be used to advantage to support significant reform. For example, there is a degree of familiarity amongst key development actors that can be used to support targeted reforms. Well-targeted, individual reforms can also potentially have a significant economic impact.

Understanding the opportunities and challenges arising from the particular private sector context in Tonga is important for the identification of significant reform issues PLP may wish to support parts of the private sector engage with, prospects and issues for consideration for PLP in supporting the formation of reform coalitions within and beyond the private sector, and the forms of support that may be required from PLP and other donors.

2. THE PRIVATE SECTOR AS A DEVELOPMENTAL LEADER

How well placed is the private sector to act as a developmental leader in Tonga? This section assesses the various private sector representative organisations and the degree to which they are positioned to exercise developmental leadership.

2.1 The Tonga Chamber of Commerce and Industry (TCCI)

The most significant formal private sector organisation in Tonga is the TCCI, which is the peak private sector organisation. The TCCI has played an important role in supporting reform initiatives in Tonga. For example, members of the TCCI were active in the National Economic Summit process and developed an eight-point reform plan submitted to the Sevele government.

The TCCI has the potential to assume a strong leadership position on private sector development issues, but is not there yet. It enjoys general legitimacy within the private sector, although has been criticized as being too elitist and overly focused on the interests of the medium and large sized enterprises. The current TCCI board is aware of this and is committed to broadening its membership base and strengthening its focus on gender issues.

The ability of TCCI to pursue a strategic reform agenda has arguably suffered from a lack of adequate long-term resourcing. TCCI advocacy and reform activism has depended predominantly on the personal commitment of key members. TCCI also needs to build internal capacity to systematically engage with policy reform and business advocacy issues. While TCCI will benefit greatly from additional support recently provided by PLP for the recruitment of a full-time CEO, this will not of itself strengthen the organisation's capacity to exercise developmental leadership. The Chamber will need to develop expertise on specific reform priorities and complement this with a long-term political mobilisation and engagement strategy. Nevertheless, there is an opportunity for TCCI to institutionalize a more systematic political engagement strategy.

2.2 Sector Level Representative Organisations

In addition to the TCCI, there are a number of sector-level representative bodies in Tonga. For example, there is a Manufacturing Association representing manufacturing interests and a Tonga Tourism Authority representing tourism interests. In addition, there are sub-sector organisations. For example, the agriculture sector has producer representative bodies and an organization representing wholesalers and retailers.

Engaging with sector level bodies, who enjoy general legitimacy and have sector-specific expertise, is important when attempting to engage with sector-specific reform issues. However, the capacity of such bodies to exercise developmental leadership to secure reform has been impeded in the past by organisational fragmentation, with multiple organisations exist at the sector level.

A key developmental leadership is the relationship between sector organisations and the TCCI, so that both organizational tiers pursue complementary reform agendas and do not work at cross-purposes. Whereas sector organisations are best placed to engage with sector specific issues, the latter with national economic reform issues of interest to all economic sectors. The TCCI is currently working to strengthen its relationships with the sector level groups.

2.3 Growth Committees

In addition to independent representative organisations, there is a broader policy dialogue infrastructure in Tonga in which business plays an important role.

Tonga has tried in various ways to foster partnerships between the public and private sectors to support economic reform, with various degrees of success. For example, the Sevele Government (2006-10) established a National Economic Development Council, which was effectively set aside by the Tu'ivakano Government (2010-14).

Under the Tonga Strategic Development Framework 2011-14, six sector growth committees were established (tourism, agriculture, construction, manufacturing, commerce, fisheries). Chaired by relevant ministries, the Committees are structured as "public-private partnerships" designed to include business in strategic planning and decision-making.

The Tongan Government is now finalising the Tonga Strategic Development Framework II, 2015-2025. The draft framework affirms a commitment to support private sector development, including through strengthened public-private partnerships, an improved business enabling environment and public enterprise reform. The draft framework includes a commitment to support effective consultation mechanisms between government and the private sector, including retaining the six sector growth committees. However, the draft framework notes the need 'ensure as wide a participation as possible to avoid it being dominated by the larger formal businesses' (p.46). How the government will engage will smaller firms and those working in the informal sector remains to be seen.

Membership of the growth committees potentially gives the private sector a significant entry-point into reform discussions and an opportunity to shape reform priorities. However, the growth committees have struggled to realise their potential. According to a review of the Tongan private sector conducted in 2012, a key challenge impeding the effectiveness of the sector committees was the lack of strategic sector plans to inform the prioritization of activities (Tu'itahi 20012, p.11). Many interlocutors consulted in preparing this report complained that growth committees have been moribund and have failed to strategically engage with reform issues. Inadequate sector committee resourcing, and limited committee control of existing resourcing (currently, government support is controlled by the Ministry of Finance, making it difficult for the growth committees to plan) was also identified as an obstacle to growth committee effectiveness (although the World Bank has funded an adviser to provide technical assistance to the agriculture and fisheries committees to develop sector plans). Most interlocutors said these growth committees needed more resourcing to build cohesive and unified memberships and develop and prosecute informed reform agendas.

Sector level reform engagement

Following the development of the Tonga Strategic Development Framework 2011-14, the Tu'ivakano Government established six sector growth committees covering major sectors (agriculture, manufacturing, tourism, construction, fisheries and commerce). The Committees were required to report to a National Growth Committee, comprised of representatives from the private sector and government ministries, who in turn were to report to a Cabinet only Economic Development Committee.

While most growth committees have struggled to progress a substantive reform agenda, Tonga's agriculture growth committee offers a good example of an effective sector committee. That committee has benefited from reasonably strong engagement from the ministry of Agriculture, and strong private sector engagement. Importantly, private sector participation in the committee has benefited from the significant efforts of the private sector itself to foster cohesive representative arrangements so the sector could speak authoritatively to government on reform issues. The growth committee is now developing a comprehensive strategic sector plan which will inform government policy and concentrate limited resources and reform activities in areas of greatest sector potential. The sector has benefited from the provision of dedicated technical assistance by the World Bank and the sustained support of PHAMA, which has provided a level of technical support and resourcing necessary to revitalize the committee.

The draft Tonga Strategic Development Framework II, 2015-2025 includes a commitment to improve the operation of the sector growth committees, with the development of 'effective consultative mechanisms for engaging with stakeholders to help address constraints to growth, including the six Sector Growth Committees ...' (p.66). The draft Framework also includes a commitment to 'make particular effort to ensure effective outreach to weaker groups and less connected groups (including outer islands, women groups, poorer groups). How this latter objective will be achieved, for example through support for more inclusive committee memberships or the creation of additional growth committees, remains to be seen.

2.5 Individual enterprises

In addition to their representative organisations, large enterprises can be developmentally significant actors in their own right. Large-scale firms are well placed to direct significant resources to strategic policy engagement in favor of firm-specific reforms. Nautilus provides a good example of a sophisticated and well-resourced private sector enterprise which is able to mobilise significant technical expertise to engage with complex regulatory reform issues.

3. THE POLITICAL SYSTEM WITHIN WHICH THE PRIVATE SECTOR OPERATES

PLP's analytical framework notes the need to understand the institutional context within which developmental leadership must be exercised (rules of the game), and the nature of politics which developmental leaders must engage in to progress reform (games within the rules). The following section considers briefly the political system within which the private sector in Tonga must operate.

3.1 Rules of the Game

Legislature

There is an established institutional framework in Tonga creating a clear procedural rules which the private sector will need to work within to progress reform issues. Key formal institutions include the Cabinet, parliament and bureaucracy. These institutions are broadly functional, although face challenges in terms of capacity, resourcing and what might be called reform culture.

These institutions sustain basic policy processes that can be used to progress technical reforms. However, such processes are not always clear or functional. While ministries have traditionally played a key role in devising and progressing reform (legislative or regulatory), policy processes have also depended significantly on key individuals and the culture of particular ministries. Some ministers have in the past also played a significant leadership role in promoting reform, but at other times senior bureaucrats have been more influential. Connections between political, bureaucratic and private sector elites are important determinants of policy directions. The interests of the king and nobility have also been important in shaping policy processes (or in preventing certain reform issues being tackled). The King has also be a key force driving particular reforms, such as democratic deepening over the last decade.

Legislative and Regulatory Framework

Tonga has a basic business regulatory environment, but rules governing business operations are not always clear, and sometimes impose regulatory burdens. In some cases, there are significant gaps in the regulatory framework – such as the absence of laws for arbitration, bankruptcy and electronic transactions (ADB 2012, p.34). Public sector reforms, including in partnership with donors – led by the ADB and World Bank – have sought to improve the business-enabling environment, with mixed results. Significant reform has happened, such as with telecommunication liberalisation and some movement on business licensing, but in other areas reform has been slow despite acknowledged reform imperatives.

Bureaucracy

Within this context, the bureaucracy is a key development partner – a role which it has not always exercised in a forward looking and productive manner. There are some highly skilled public servants in Tonga, capable of driving good governance and supporting a strategic development agenda. A major impediment to developmental leadership in Tonga has been the unresponsive nature of the bureaucracy – to the community and private sector – and what some have described as its siloed approach to policy issues and limited engagement. Some sections of the bureaucracy have sometimes adopted a narrow understanding of the national interest (for example, approaching business licensing as a revenue raising issue without recognizing broader economic consequences of heavy licensing burdens).

The new Pohiva Government has marked public sector reform a priority, including challenging the culture of the public service so it is more responsive to supporting the national interest. In his inaugural address, Pohiva (2015) said: 'Today, sadly, the reputation of the civil service is appalling representing waywardness, lack of moral courage to withstand the pressures and temptations of the calling to public service ... It is an unacceptable and unsustainable state and today, we all need to understand that change must occur.' The public service will be under increasing pressure to be more responsive to citizens and stakeholders such as the private sector. Indeed, senior public servants interviewed for this report explicitly noted the need to engage proactively with, and respond to, community concerns, including those of the private sector, for reform and a competent and efficient public service capable of delivering public goods and services to improve living standards.

State Owned Enterprises

The state also exercises considerable influence on the economy and private sector through its state owned enterprises, many of which occupy strategic positions in the economy such as Tonga Communications Corporation and Tonga Power. According to the ADB (2012, p.10), it is estimated that 'SOE's tie up 15% - 31% of the total fixed capital stock of the whole Tongan economy ... [and] it is clear that the state owns and controls a substantial proportion of the capital stock in Tonga.' While Tonga's SOE's are comparatively well run by regional standards, they nevertheless crowd out the private sector and impose productivity burdens on the private sector. SOE's are influential institutions which have direct interests in economic reform agendas. Improving public enterprise performance has been identified as a key development priority under the draft Tongan Strategic Development Framework 2015-2025.

Public Committees

As noted above, there is an established, although not particularly functional, policy dialogue process, reflecting efforts of successive governments to improve policy dialogue with key sections of the community. These are generally chaired by Chief Executive Officers from relevant ministries and include senior industry / private sector representation. These committees generally provide a direct conduit for private sector engagement.

3.2 Games within the Rules

PLP's Tonga country scan (Barbara and Hailey 2014) noted the political conservatism resulting from Tonga's hierarchical and collective social structure on economic reform and development. Consistent with this, the 2010 democratic reforms have been described as introducing a 'cautious democracy' that left a significant amount of power in the hands of the nobility. While strong traditional structures such as the monarchy, churches and village-level governance structures have provided for relative political stability and reasonably functional government, such structures have also had the effect of stifling economic reform. At the same time, close personal relationships between senior decision-makers across government and the private sector have allowed for opportunistic reform. From the perspective of developmental leadership and prospects for significant reform, one consequence of this political culture was a certain degree of conservatism amongst significant developmental actors including the private sector. Reform proponents have been careful and cautious in pushing reform agendas.

The Tonga country scan noted the consolidation of democracy as an important development that could unsettle Tonga's existing political order. The election of the Pohiva Government appears to have had a significant impact on political culture and potentially the reform environment in Tonga. Democratic reforms are arguably changing the tenor of politics and the nature of relationships between the executive, parliament and bureaucracy (see 3.2). One Tongan journalist described the mood of the country following Pohiva's election as 'excited' (Fainga'a 2014) and the government appears to be viewed as a progressive force for change. Most interlocutors interviewed for this report spoke positively of the reform possibilities emerging with the new government, which has shown an early proclivity to progress reforms. Many commented that the new Cabinet is comprised of a good combination of experienced senior bureaucrats and business people, and dynamic younger people. Pohiva's quick move to finalise a contract with the Tanoa Hotel Group to refurbish the International Dateline Hotel, a few months after its election, and following several earlier attempts to resurrect the hotel since it went under liquidation in 2012, has been taken as a significant indication of the Government's economic reform credentials.

A key political question, then, is how well positioned is the private sector to capitalize on a potentially more reformist and accommodating government, and a changing culture of public administration? Progressing a more robust reform agenda in Tonga will continue to require the private sector to build effective reform coalitions, and to capitalize on the web of personal relationships that span the bureaucracy, nobility and the private sector. A new opportunity following the 2014 national elections is for the private sector to more proactively and publicly engage in reform debates, consistent with the Pohiva Government's commitment to support more responsive government.

4. THE ROLE OF DONORS

Tonga receives significant development assistance and donors have an established and broadly accepted role in the formal policy process. Tonga has strong partnerships with donors and established policy dialogue processes. Most notable is the policy reform matrix process in which donor aid/budget support is provided in support of an agreed reform agenda, with disbursements made according to progress on reform implementation. There are a variety of regional and bilateral development programs that seek to support the private sector either directly or indirectly. While there are established government-donor coordination arrangements in Tonga, including six-monthly donor coordination meetings.

All major donors in Tonga have identified private sector development as a priority and are providing support for private sector development in a variety of ways. Donor assistance for the private sector has generally been delivered through government-to-government channels. Policy dialogue is largely conducted at the government-to-government level also.

The following section briefly reviews the range of donor activities directed to supporting the private sector, with a view to considering how the private sector might better collaborate with donors to progress private sector reform priorities.

4.1 Multilateral support for the private sector

Multilateral development support for the private sector in Tonga has focused predominantly on providing technical assistance to support a reform agenda to underpin economic growth and private sector development.

The Asian Development Bank (ADB) established the Pacific Private Sector Development Initiative (PSDI) in 2006 (with co-financing from Australia) to support private sector-led economic growth, with an emphasis on state-owned enterprise reform and public-private partnerships (PLCO 2015).

The ADB, along with the World Bank and International Monetary Fund, have undertaken significant technical analysis of impediments to growth, and supported policy reform dialogue processes, such as the reform matrix process. The ADB chairs the Pacific Private Sector Growth Initiative whose role is to analyse constraints to private sector growth and provide technical advice on reform options. ADB's private sector assessment and review reports of 2008 and 2012 played an important role in catalysing private sector reform debates in Tonga. The ADB also leads the Nuku'alofa Urban Development Consolidation Project which seeks to improve urban planning regulatory capacity and strengthen water supply and waste management services in the capital.

The World Bank leads a number of multi-donor sector strengthening programs. The Transport Consolidation Program seeks to build institutional capacity to manage and regulate transport infrastructure and to build private sector road maintenance capacity. The Tonga Energy Road Map Institutional Regulatory and Framework Strengthening Project seeks to support the introduction of a "least cost" energy reforms to reduce Tonga's vulnerability to oil shocks and improve efficiencies in energy regulation leading to lower costs.

4.2 Bilateral assistance for the private sector

New Zealand is a key bilateral donor supporting the private sector. New Zealand assistance includes support for the Tongan Energy Road Map with funding for village and peri-urban power distribution upgrades. It also supports the Tonga Business Development Centre which provides training, advisory and mentoring services for business. New Zealand is also supporting the tourism sector with a sector support program and air transport infrastructure upgrades.

Australia's bilateral support for the private sector is delivered through a variety of programs including: governance support to improve the business-enabling environment; assistance for vocational training; and support for infrastructure development (through World Bank and ADB-led sector programs).

The EU contributes to the Tonga Energy Road Map process. Japan, through JICA, provides support for energy and climate resilience. Following the Nuku'alofa riots in 2006, China has provided significant concessional financing to Tonga including for the reconstruction of the capital.

4.3 Regional Assistance for the private sector

There are a number of regional sector initiatives of direct benefit to the private sector in Tonga. The Pacific Regional Infrastructure Facility is a multi-partner regional initiative (Australia, New Zealand, ADB, World Bank) supports infrastructure investment and maintenance through coordination, research and technical assistance in five priority sectors: energy, ICT, urban development, water and sanitation.

The Australian-supported Australia-Pacific Technical College is a regional initiative that seeks to improve Pacific qualification standards (in line with Australian qualification standards).

The Pacific Horticultural & Agriculture Market Access Program is supported by the Australian and New Zealand aid programs and seeks to support agriculture development but facilitating access to markets for local producers and works by supporting strong public-private partnerships.

5. REFORM ISSUES AND OPPORTUNITIES

PLP's analytical framework (Barbara and Haley 2014) encourages an issues-based approach to developmental leadership that seeks to identify development "fault-lines" (substantive reform issues capable of motivating collective action) upon which PLP might work with reform-oriented individuals, organisations and coalition to progress reform.

In terms of issues identification, there is a reasonable degree of analytical clarity about priority reform issues facing Tonga and the private sector. The country has benefitted from a substantive, long-term body of technical analysis on key reform issues, led by multilateral development partners (see ADB 2008, 2012, 2013; World Bank 2012, IMF 2014). Key private sector groups such as the TCCI have also been actively involved, at various points in time and to varying degrees, in contributing to reform discussions.

While there is good understanding of the reform challenges, progress on implementing reforms in Tonga has been patchy. A decisive factor in effective developmental leadership is the ability to capitalise on opportunistic changes or 'critical junctures' (Pierson 2000) in the political environment (Leftwich and Wheeler 2011). Interlocutors interviewed for this report noted a degree of reform fatigue in Tonga, reflecting protracted reform debates over the last decade and cynicism at the slow pace of change. Nevertheless, there is an opportunity with the new Pohiva Government and its apparent commitment to reform to rejuvenate policy discussions. Importantly, the Tongan Government has listed the establishment of a dynamic partnership between the public and private sector as a key priority under the TSDF II (Government of Tonga 2015).

Moreover, there is significant overlap between reform priorities identified by private sector interlocutors interviewed for this report and priorities identified by the Tongan Government (Government of Tonga 2015) and development partners. Key reform issues identified by TCCI include improving business access to land, improving access to finance, supporting foreign investment, reducing energy costs (and other business inputs) and improving market access for exporters (and broadening the export base). Shared acceptance of reform imperatives provides a good basis to build reform coalitions and support growth-enhancing collective action.

Less apparent in discussions with interlocutors was a clear sense of prioritisation of reform issues to be supported, and how to translate existing technical analysis into concrete change. A key challenge in this respect is for developmental leaders within the private sector to think about the political obstacles to, and opportunities for reform. A key challenge for a program like PLP, with modest resources, will be to narrow the focus of its support to those areas most propitious for reform. PLP should help the private sector actors with whom it works agree to a very limited number of propitious reform issues and to development effective political engagement strategies that responds to the distinctive politics activated by each issue.

While each issue will have its own politics which should be assessed as part of the process of mobilizing reform coalitions, as a starting point it may be useful for PLP to distinguish reform issues and opportunities according to their general importance to the private sector as a whole and those that are more significant to specific sectors. The politics of national reform will be different to that of sector-based issues (in some case more politically manageable, in others less).

The main reform priorities identified by interlocutors during the country scan were:

Land reform: Constrained access to land – particularly for women – impacts upon access to capital. While it is possible to lease land from the nobility for economic development, land-leasing arrangements for business remain difficult. Expiry of leases after a fixed period and poor land record management systems reduce investor confidence, increase the investment risk and deter foreign investment, particularly in tourism.

Improving access to finance: Access to finance was the most common issue raised by interlocutors. Paradoxically, greater banking competition has meant there is an abundance of liquidity in Tonga but small and medium-sized firms struggle to access it. There are a range of issues which impede small business access to finance including having adequate collateral (including land), the ability to prepare credible business cases, and a generally poor reputation for repaying credit. The Tongan Government has recently provided subsidies to the Tongan Development Bank to support low cost loans but business requires broad-fronted support to be able to access finance.

Improving infrastructure: Improving the quality of Tonga's infrastructure is a major issue. Tonga energy costs are high in a regional context and its reliance on imported diesel to generate electricity is a major burden financial burden. National plans to improve diesel importation efficiencies, such as by investing in adequate storage facilities, have struggled to progress despite being on the policy agenda for many years. Tonga is committed to increase the proportion of energy derived from renewable sources by 50 per cent by 2020, but current investments in renewable have yet to realize the anticipated benefits due to capacity and regulatory impediments. Tonga has developed a strategic plan to inform energy sector reform – the Tonga Energy Road Map -- but the political economy of energy reform has impeded progress.

Tonga has benefited from telecommunications reform/competition undertaken over the last decade, which has resulted in some of the cheapest mobile telephony charges in the Pacific. However, the country still faces high Internet costs that impede developments of the service sector.

Tonga requires significant investments in port, air and road infrastructure to reduce local production costs, facilitate improved exports and tourism.

Improving the business-enabling environment: Tonga has recently implemented reforms to business licensing through the Business Licensing (Amendment) Act 2012 which passed Parliament in late 2012 (ADB 2013, p.60). These reforms will go some way to reducing licensing costs and timeframes, and provide for electronic business registration. But licensing arrangements remain an impediment to private sector investment, including the requirement for annual license renewals and a high discretionary element within the licensing process.

Gaps in commercial law mean the contracting framework in Tonga is very problematic. Tonga does not have a valid Sale of Goods Act or Insolvency Act, which constitutes a significant impediment for businesses seeking to obtain business credit. The Ministry of Labour, Commerce and Industry has developed a business reform road map to inform the business reform agenda (ADB 2013, p.62).

6. RECOMMENDATIONS

The following recommendations do not identify specific reform issues for PLP to support, as these must be identified by the private sector itself. Rather, the recommendations are designed to assist PLP help the private sector identify reform priorities and in the formation of reform coalitions to progress agreed priorities.

1 Support issues-based policy engagement

While Tonga benefits from having available to it significant technical analysis of issues impeding private sector development, it was not always clear from discussions with private sector interlocutors undertaken for this report that they themselves had a strong technical understanding of key reform issues they had identified as important. For example, most identified energy reform and access to finance as important issues of concern to the private sector, but many struggled to detail specific regulatory issues requiring change or why progress in implementing reform on these issues had been so difficult.

PLP is well placed as a development partner to support private sector partners undertake an issues-based approach to reform. It can support its private sector partners foster policy dialogue, help them broker reform strategic partnerships to build reform coalitions, help the private sector deepen its policy knowledge of specific reform issues and understand reform blockages and pathways (through political economy analysis of specific reform).

There are a number of national reform issues – such as land and energy – which potentially have big economic pay-offs but which the reform politics has proven too difficult to secure change. An ambitious PLP could work primarily with TCCI to revitalize relevant dialogue structures, such as the growth committees, to undertake specific policy research to deepen private sector knowledge of technical and political impediments to reforms in these areas, and to develop reform political engagement strategies.

A key challenge facing the private sector, its representative organisations and PLP is to prioritise the reform issues it wishes to focus on. While general private sector support provided by PLP remains important in sustaining a basic private sector representative infrastructure, it would be timely for PLP – in conjunction with its private sector partners – to identify one or two specific issues to take forward. This will allow it to focus its resources and take a strategic, sequenced approach to supporting a reform process. It will also help build the organizational and strategic capacity of these organisations.

In deciding which reform issue/s to help the private sector engage with, PLP should consider the potential the issue/s has to mobilise a politically-engaged reform coalition. A key challenge is to choose a substantive issue of sufficient importance to a range of stakeholders to catalyse collective action. To this end, the following principles may be considered in selecting an issue:

- one which is sufficiently important to a motivated group of stakeholders drawn from the private sector and the broader community. The number of stakeholders does not necessarily have to be large, but rather politically inclusive – encompassing important decision-makers – and committed to working to secure reform;
- one which has broader community benefit (e.g. energy costs, access to finance) to increase the likelihood of building a broad-based reform coalition beyond the private sector;
- an issue which the TCCI, as PLP's principle private sector partner, can legitimately engage with, and, potentially use, to build its own organisational legitimacy as a key policy actor within the context of the broader reform process in Tonga. This might include a high profile national economic reform issue or a sectoral reform issue in a key economic sector;
- an issue in which there exists political interest, ideally at the ministerial level. For example, the new Pohiva Government has identified public enterprise reform as a priority in its draft Tonga Strategic Development Framework 2015-2025.

Recommendation: Following consultations with the TCCI and private sector, identify a substantive private sector issue and develop a political engagement and reform strategy as a core mobilising activity for the TCCI.

Nominating specific issues which could be taken forward is fraught. However, based on discussions undertaken for this report, access to finance could be considered. This issue is of relevance to small and medium sized firms, a private sector sub-sector which TCCI has said it wants to engage with and which is a priority of the Pohiva Government. But the issue is also broad-fronted – requiring a wide range of reform actions – and involves a sub-sector of the private sector that is fragmented and will be difficult to organise and work with. The cost of energy could be another issue which is of relevance to both the private sector nationally and the wider community. Finally, business licensing is an issue which has a more specific technical focus, is of concern to a wide range of stakeholders, and lends itself to a focused engagement strategy.

2 Support a national reform debate

One of the consequences of having a protracted reform debate in Tonga has been reform fatigue. A number of private sector interlocutors expressed some cynicism at the prospect of future reform, noting that many of the reform priorities have been consistently discussed for over a decade, but with little progress. With the change in government, it may be timely for Tongan policy stakeholders to reconvene to reassess the reform priorities, and to take stock of lessons learned from past reform efforts. The TCCI could display leadership on this front by convening a reform “summit” or activity designed to reinvigorate private sector reform debate. Supporting such an event could help underline the TCCI’s reform credentials as a key reform partner and potentially allow it to help frame the reform agenda so the government prioritizes issues of most relevance to the private sector. Such an event would ideally require ministerial sponsorship.

Recommendation: PLP should consider supporting a focused event on private sector reform to capitalise on the opportunity provided by the new Pohiva government.

3 Support the political organisational capacity of private sector organisations

There is a basic private sector representational infrastructure in Tonga, but it currently lacks capacity and/or resources to support a strategic and politically-engaged reform agenda.

Tonga Chamber of Commerce and Industry

The principle private sector representative organization – the TCCI – is potentially well placed to lead a strategic reform agenda but needs to think carefully about which reform issues it could best engage with. As a peak private sector body, the TCCI faces a number of challenges which impact upon its capacity to lead an effective reform agenda. The major one is resourcing. PLP’s support for a full-time CEO is an important contribution, but the Chamber will remain hard pressed to support detailed technical policy research and a sustained strategic advocacy program without further resourcing focused on technical (issues-oriented) capacity building. Donors expressed an interest in providing further support to TCCI but this will depend on evidence of constructive engagement with reform issues. Support should be provided to assist the TCCI with strategic planning, with a focus on issues identification and the development of a political engagement strategy would also be useful. Such support could include support for joint political economy analysis on reform blockages around specific issues. For its part, TCCI must show a clear commitment to engage with the politics of reform, as opposed to a more passive agenda to build its membership, as a basis for issues-based PLP support.

A key challenge for TCCI is to better engage with formal reform dialogue which is currently conducted between donors and the Tongan Government. For example, TCCI is not currently involved in reform discussions conducted under the Joint Policy Reform Matrix process supported by the development partners, but it should be (not directly but through parallel engagement processes). To this end, PLP should support TCCI to establish stronger partnerships with key donor organisations (particularly the ADB and World Bank) who are well placed to advise on technical reform options on key development issues.

The TCCI acknowledged it faces challenges in building its organisational legitimacy. The Chamber is aware of a public perception that it is an elite organisation representing big business. The Chamber said it intends as a priority to engage with, and increase membership of small and medium sized businesses and to focus on gender issues. This is welcome but care should be taken in how the Chamber seeks to broaden its membership. In particular, it should be recognised that many of the needs of small business will be very different to that of its larger membership, and TCCI should develop a nuanced strategy for reconciling what might be competing organisational objectives around advocacy and membership representation. There are some national issues that will be of relevance to small and big businesses which TCCI could use to build broad-based membership. Such issues might include energy costs, infrastructure quality and business regulation.

A common theme identified in discussions held for this scan was an underlying lack of trust within the private sector itself, both at the sector and national level. Several interlocutors said that members of the private sector don't always recognise their common interests in supporting reform processes. Recognition of the potential of collective action to support mutually beneficial reforms are not as developed as one would hope in a small community like Tonga. TCCI should consider how it might better foster stronger norms of trust and collaboration amongst the business community to progress mutually beneficial reforms.

Sector Growth Committees

In addition to the TCCI, Tonga has an established policy dialogue infrastructure based on sector growth committees. In practice, most sector committees have been moribund and have struggled to build momentum behind significant reform. This partly reflects the limited resourcing provided to sector committees, which makes them heavily dependent on the energy and commitment of individual members. It also has something to do with the public sector leadership of sector committees. It is arguably no coincidence that the most effective committee – the agriculture committee – has benefitted greatly from donor support including Technical Assistance from the World Bank and Australia's PHAMA program. PLP should consider providing targeted support at the sector level, focused on priority sector growth committees. As with the TCCI, such support could include focused technical assistance to identify specific reform issues and to support the growth committees to play an active role in prosecuting a reform agenda. Specific support could be provided for the development of sector strategic plans, where there is evidence of private sector commitment to collaborate at the sector level to support reform. In providing sector-level support, PLP should be careful not to spread its assistance too thin (tourism is one sector with growth potential and which has seen recent policy movement with progress on redevelopment of the International Dateline Hotel).

Recommendation: Based on priority issues identified under recommendation 1, PLP should consider provision of targeted technical support to TCCI and relevant sector bodies to develop a strategic sector engagement program. Such support should include analytical support to inform a political engagement strategy for private sector actors.

4 Cultivation of broader community support for private sector reform

Presently in Tonga reform coalitions do not appear very deep. In the main, reform has relied on the personal relationships of a few key stakeholders. While this is one of the ways change occurs in Tonga, there is scope to broaden community support for reform to build greater momentum for reform progress at the national level.

Lack of community awareness of the benefits of reform means it is hard for the private sector to build broad-based support for specific reform proposals. The new government appears to be particularly responsive to community concerns and one way for the private sector to raise pressure for specific reforms may be to enlist broader community support for private sector reform.

A challenge in Tonga is to improve the private sector literacy of key civil society organisations and other institutions (that is, how private sector development can be beneficial to the community in terms of employment and economic growth). For example, the media could arguably do more to move beyond its current focus on politics to increase reporting on economic reform issues. Similarly, certain sectors of civil society, including some trade unions, could be educated in the mutual benefits of certain economic reforms in terms of job and income growth. PLP could consider providing targeted support to these actors to increase general literacy in reform issues, with the expectation that such actors may become public advocates for reform.

Recommendation: PLP could consider options for improving the private sector/economic literacy of key civil society and non-government actors who can contribute to a more informed public debate in Tonga. One option would be to support media economic literacy through dedicated training for journalists and other commentators in Tonga. Similar support could be provided for peak NGO and trade union bodies.

5 Improved coordination with donors

All major donors in the Tonga have identified support for private sector development as a priority. Donor support has focused predominantly on technical analysis of policy priorities and technically focused sector-specific support (e.g New Zealand support for tourism or PHAMA support for market access issues). Most of this support has not engaged directly with the political economy of reform, and how to better overcome obstacles to reform. PLP's programmatic focus on reform coalitions and developmental leadership, combined with its support for influential developmental organisations, means it can potentially usefully complement technically-focused reform discussions currently being supported by the donor community, and perhaps help stakeholders (the private sector, donors) identify constructive ways of engaging with political obstacles currently impeding reform progress on certain issues. To this end, PLP should work to actively strengthen its relationships with other donors (beyond Australia) to identify opportunities for strengthening partnerships and coordination in support of key reform priorities.

Recommendation: There is a large number of donor activities focused on the private sector but coordination of donor efforts, and engagement with the private sector, does not appear particularly strong. PLP should support TCCI to exercise a leadership role in strengthening donor dialogue with the private sector.

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APPENDIX 1 – LIST OF MEETINGS

Date	Time	Meetings
17 March 2015	9:00am	Mr Viliami Takau, Tonga Chamber of Commerce & Industry Inc
	10:30am	Mr Edgar Cocker, Manufacturing Association of Tonga
	12.00pm	Mr Tom Nakao, PAMA Project
18 March 2015	9.00am	Ms Moana Taukolo, MCTL
	10.30am	
	12.00pm	Mr Paula Taumoepeau, Nautilus Minerals
	2.30pm	Mr Tatafu Moeaki, MOFNP
	3.30pm	Mandy Finau (Acting CEO), MOI
19 March 2015	7.30am	Ms. Aloma Johansson
	9.00am	Ms Leta Kami, Tonga Development Bank
	10.30am	
	12.00pm	Ms. Moana Taukolo
	2.00pm	Dr Ngongo Kioa, Reserve Bank of Tonga
	3.30 pm	Ms 'Ofa Tu'ikolovatu, WISE
20 March 2015	9.00am	Ms Adele Plummer, NZAID
	10.00am	Hon.Lupepau'u
	11.00am	Mr Saia Faletau, ADB World Bank Country Focal Point
	12.00pm	Ms Sophie, Ms Lilika Fusimalohi, DFAT
	3.00pm	TCCI Executive Committee

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