

Statement by Hon Tevita Lavemaau, Minister for Finance & National Planning, Tonga

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Ms Shamshad Akhtar, the Under-Secretary-General and Executive Secretary of UNESCAP

Hon Ministers

Distinguished Delegates

Ladies and Gentleman.

It is indeed my honour and great pleasure to attend and participate in the 4th High Level Dialogue on Financing for Development in Asia and the Pacific, and to deliver this statement on behalf of the Government of Tonga.

From the outset, I would like to thank UNESCAP for organizing this important meeting, and also to the Government of Thailand for hosting us here in Bangkok.

As we commence implementing the 2030 sustainable development agenda, it is important that we have all the relevant tools in our hands for this challenging task. We must also engage all relevant key players in mobilising sufficient financial resources to implement the sustainable development goals (SDGs).

Tonga, as similar to most countries, has its own development agenda as prescribed in Tonga's Strategic Development Framework (TSDFI): 2015 - 2025, where our National Vision is ***"A more progressive Tonga supporting a higher quality of life for all."*** This high level impact is supported by 7 national outcomes through more inclusive and sustainable growth and development, which should ensure long term progress that is broad based and fair to all. These 7 national outcomes are in the areas of:

- (i) knowledge-based economy;
- (ii) urban and rural development;
- (iii) human development & gender equality;
- (iv) good governance;
- (v) infrastructure & technology;

- (vi) land, environment & resilience to climate and risk; and
- (vii) advancement of our external interests, security and sovereignty.

Our one tool corporate planning and budgeting process requires all Government Ministries to link each of their Corporate Plans to the TSDF organizational and national outcomes. This, in turn, allows each Ministry to take the lead and ownership in implementing relevant SDGs. In this process, we have map the SDGs and our TSDF goals, together with our Medium Term Budgetary Framework (MTBF). The integration of the SDGs through our corporate planning and budgeting process allows us to mainstream the implementation and monitoring of the SDGs into our own strategic development framework. This approach is adopted to avoid creating a parallel system for implementing the SDG agenda, and to minimize any extra burden on us in terms of administrative cost.

In terms of financing for development, Tonga has two main sources: (i) our recurrent budget; and (ii) our development budget.

Our recurrent budget consists largely of tax revenue with a relatively smaller contribution from non-tax revenue. Our tax to GDP ratio is about 22%, which is within the fiscal anchor that government has approved. Major sources of tax revenue are mobilised from tax on goods and services (69%), tax on income and profit (17%), and tax on international trade (13%). Non-tax revenue, on the other hand, is sourced mainly from sales of goods and services (45%) and entrepreneurial & property income tax (41%).

While trying to mobilise domestic revenue for implementing our sustainable development agenda, Government has also implemented various revenue reforms to combat the issue of Non Communicable Diseases or NCDs, which is a major issue in Tonga. These reforms will also contribute towards SDG3 which is “ensuring healthy lives and promoting the wellbeing for all at all ages.” In an attempt to reduce the consumption of unhealthy food and promote healthy lifestyle in Tonga, government has recently approved to increase the excise rates on alcohol and tobacco and, secondly, various NCD related goods have been shifted from import dutiable goods to excise taxable goods, particularly on products that have high sugar and fat content. These revenue reforms are expected to strike a balance between generating revenue streams for development and promoting healthy lives by combating the issue of NCDs in Tonga.

Other policy efforts on mobilizing domestic resources include a recent approval by government to increase the departure tax for all departing passengers from Tonga, from \$65 to \$100 Tongan Pa'anga, to be effective as of 1st July 2017. In addition, a levy is also charged on all commercial banks and non-financial institutions who receive remittances inflows from overseas. This is a source of revenue to assist with the Pacific Games to be hosted in Tonga in 2019. Parliament has also approved the Pacific Games 2019 Taxation Incentives Act 2017 to encourage businesses and private sector players to implement projects related to the 2019 Pacific Games, which should, in turn, contribute to domestic revenue sources in the long run. A review of all government fees and charges is also a priority to be implemented in the upcoming financial year, with a view to recover appropriate costs to assist with Tonga's revenue base.

We are aware that our domestic sources of revenue is not sufficient to finance our development agenda, particularly with the promotion of free trade under WTO and regional trade agreements such as PACER Plus, which will have an impact on our domestic revenue.

We therefore have no choice but to engage in partnership with our development partners in financing our sustainable development agenda. Development financing is very critical in this aspect, and I would like, at this stage, to acknowledge all the assistance over the years that have been provided by our development partners towards Tonga's development, as well as in years to come.

While we are appreciative of the assistance from our development partners, there are still challenges we face in accessing relevant development funds such as the Green Climate Fund (GCF) and other global funds. This is usually associated with very high demanding and stringent criteria together with capacity constraints that we have to meet these requirements. We are hoping that our applications this year for adaptation and energy projects will be considered favourably by the GCF Board, and I thank ADB, UNDP and SPREP in assisting us with our GCF applications.

The 2nd challenge that we face is the need for IMF to broaden their definition of "fragility" to include "vulnerability," particularly to natural disasters and external shocks. Tonga has been rated by the World Bank as the 2nd most vulnerable country in the world to natural disasters, and one intense cyclone can wipe out decades of development.

It is therefore critical that work is done on our vulnerability index to be taken as part of the consideration of the terms and conditions of development assistance, and not to merely base this on the IMF's debt sustainability analysis (DSA). Tonga currently receives assistance from WB and ADB on a 50:50% ratio grant: concessional credit, due to our DSA status. I urge IMF, World Bank and ADB to consider the vulnerability aspect of Small Island Development States (SIDs), including Tonga, in their terms and conditions of assistance.

Last but not the least, I would like to emphasize the importance of monitoring and evaluation as an important tool in keeping track of where we are in terms of progress towards implementing our sustainable development agenda. Monitoring and evaluation must take place at all levels to ensure that we are taking the "right path" towards achieving our SDGs in 2030.

Collective effort and strong collaboration must also take place between government and all relevant key stakeholders, including tax payers, civil society organisations, private sector and development partners, in order to successfully implement and achieve our sustainable development agenda going forward.

Thank you very much.