

Public sector reform in Tonga—the show must go on

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Tonga, renowned as the ‘friendly islands’, recently succumbed to the allure of New Public Management (NPM)-oriented reforms. While this reform was seen as long overdue by some critics, it is evident that persuading the relevant authorities to reform the public service was no easy task, mainly because of the unique social and political settings of the Kingdom.

Two reforms central to the overall public sector reform are examined here: the reform of the public enterprises and the performance orientation reforms. It discusses the progress to date and briefly examines some of the key factors central to the effective continuation of the reform.

Background

Like most of its neighbours, Tonga has experienced a long period of low economic growth. The country has lacked private sector growth and has been mainly driven by remittances from relatives abroad. The public service is also perceived to be inefficient and ineffective. It is inefficient because there are more people than needed undertaking activities. It is ineffective because of the failure of government

agencies to deliver public services according to expectations.

These problems in the public service were clearly recognised in the country’s strategic development plans seven and eight, as well as in the collaborations with the Asian Development Bank (ADB) leading up to the approval of the Economic Public Sector Reform Program (EPSRP) loan—for more details see Strategic Development Plans 7 and 8 (Tonga, Prime Minister’s Office 2003, 2006a) and ADB 2002. A study by the ADB in 2004 on hardship in Tonga clearly outlined the inefficiency and ineffectiveness of the civil service in delivering key public services to the 16 communities consulted. Amongst the public services seen as deficient were water, health, transport, schools and communications (for more details, see ADB 2004). According to the survey, the water supply has the worst reputation due to its unreliability and the high cost of water tanks. In the health system there is a lack of qualified medical staff and inadequate medical supplies, with paracetamol being the prescription for just about every diagnosis. Roads are poor, the inter-islands services are costly and unreliable, and schools are becoming expensive for the poor.

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In the 2001 financial year the public service comprised 5,443 positions and an estimated 700 casual workers (ADB 2002). The salary and wage bill accounted for 57 per cent of current expenditure, thus restricting capital investment and private sector growth. A recent increase in the public service wage bill of 60–80 per cent for the three tiers of the civil service forced the government to suspend some of its services and capital expenditure in order to create room for the increase (Tonga, Prime Minister's Office 2006a).

In addition, the public service continues to be criticised for lacking principles of sound governance. The World Bank in 2004 reported poor ratings for Tonga on a wide range of key governance indicators as compared to its neighbours (Table 1). The government has admitted to such failings, noting that the 'governance environment in Tonga is relatively weak' (Tonga, Prime Minister's Office 2006a:50). Of particular concern are the indicators for 'voice and accountability' and 'control of corruption'.

It seems beyond contention that Tonga's public service needs to undergo considerable changes if it is to contribute effectively to the country's economic and social welfare. Fortunately, some progress was experienced in the late 1990s with the New Zealand Government's bilateral aid scheme assisting the Government of Tonga in establishing a database to record and review the performance of its public enterprises (ADB 2003). These changes were coupled

with the strengthening of the budget system in 2001 with AusAID assistance (AusAID 2004). While these piecemeal reforms deserve acknowledgment, more headway was made in 2001 when a comprehensive reform package, labeled as the Economic Public Sector Reform Program, which was devised by the Government of Tonga in consultation with the ADB was introduced following negotiations in 1998 (ADB 2003). This extensive reform plan constitutes the means to lead the country forward towards its national strategic vision, which is to attain a higher standard of living for all Tongans.

Public enterprise reform

The Government of Tonga has been heavily involved in commercial activities for various reasons. One reason was the lack of interest of the private sector; hence the government had no choice but to invest in activities critical to the everyday life of Tongans. As a result, the role of government in business activities proliferated over the years, making public enterprises a major component of the public sector with assets estimated at TOP\$188 million. This development was not confined to Tonga; the same behaviour was observed elsewhere in the region, as in the case of Samoa (Amosa 2005).

However, government business enterprises have performed very poorly, in part due to the lack of a constructive

Table 1 **Governance indicators, 2004**

	Voice and accountability	Political stability	Government effectiveness	Regulatory quality	Control of corruption
Tonga	-0.35	0.72	-0.73	-0.43	-0.68
Pacific average	0.58	0.24	-0.73	-0.31	-0.50

Source: World Bank, 2004. *Governance Indicators*, World Bank, Washington, DC.

Table 2 **Public enterprises under the Public Enterprise Act 2002**

1.	International Dateline Hotel Ltd
2.	Royal Tongan Airline Ltd
3.	Shipping Corporation of Polynesia Ltd
4.	Tonga Corporation
5.	Tonga Broadcasting Commission
6.	Tonga Electric Power Board
7.	Ports Authority
8.	Tonga Water Board
9.	Leiola Duty Free Ltd
10.	Tonga Timber Ltd
11.	Tonga Development Bank
12.	Tonga Communication Corporation Ltd
13.	Tonga Investment Ltd
	—Frisco Hardware
	—Pill Quarry
	—Home Gas

Source: Ministry of Public Enterprises, Government of Tonga, Nuku'alofa.

legislative framework that determined the key roles of government officials and ministers in charge of public enterprises. Of particular note was the absence of legislation that enforced financial discipline, good management practices, and accountability mechanisms for responsible personnel prior to 2002. Further, the presence on boards of directors of ministers with almost unlimited discretion as a result of inadequate legislation prior to 2002 also contributed significantly to the demise of public enterprises. This is evident in the case of the Sea Star Fishing Company. After years of poor management, the company is currently going through liquidation and it is most likely that the government will be required to cover some of the outstanding debts, given the poor condition of assets and the financial situation of the company (Ernst and Young 2005).

The Tongan Government has been involved in an array of commercial activities, including hotels, airlines, duty free stores, gas supplies, and hardware stores (Table 2).

Prior to the reforms of 2002, the majority failed to flourish and some accumulated substantial losses and debts. Government businesses have high salary structures and about 1,200 employees (ADB 2003:2). Most have not paid dividends to the government. Even worse, the government is obliged to bail out those with debts in order to keep them afloat, placing significant pressure on the government budget.

Fortunately, the authorities recognised the critical need to address the problem. This action came in the form of an extensive reform program for all public enterprises in 2002, which is funded by the Asian Development Bank. The main objectives were to

- improve the performance of public enterprises in terms of better service delivery and profitability
- reduce strain on the government's budget
- ignite private sector growth through privatisation.

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These objectives are to be achieved by strengthening corporate governance in the public enterprise sector through effective legislation and to corporatise and privatise selected government commercial activities (Tonga, Prime Minister's Office 2006a).

The first objective pushes for a vast improvement in the management structure of public enterprises. The second and third objectives seek to restructure public enterprises that have the potential to become corporations under the legal framework. Their financial operations would be better managed by adhering to accountability measures and the financial disciplines stated in the legislation. This process also identifies public enterprises that could be privatised. Some of these are identified in Strategic Development Plan 8, including Leiola Duty Free Ltd, Tonga Investment Ltd, Tonga Corporation and Tonga Timber Ltd.

It is evident that major progress has been achieved since 2002. Of note is the introduction of the Public Enterprise Act 2002 and the establishment of the Ministry of Public Enterprise in 2006 with its mandate to monitor and review the performance of public enterprises. A number of public enterprises have also been corporatised and their operations are now subject to the Act. These included the Waste Management Authority Ltd, Tonga Print, Tonga Machinery Pool, and the Tongatapu Market Authority. The Tonga Post Office will join the list in January 2008. The Tonga Corporation, Tonga Investment Ltd, and Leiola Duty Free Ltd are in the final stage of privatisation.

A remarkable turnaround in the performance of public enterprises in terms of profitability is also noted in the period after 2002 (Table 3). Dividends were paid to the government for the 2006/07 financial year—a rare event in the past. These included payments from Tonga Communication Corporations

(TOP\$1.1 million), Tonga Development Bank (TOP\$0.57 million), Leiola Duty Free Ltd (TOP\$1.04 million), and Tonga Water Board (TOP\$0.06 million). The results are encouraging and provide incentives for the responsible agencies to press on with the reform agenda, especially with the review of policies directing membership of boards of directors.

Performance-oriented reform

As with the public enterprise reform, performance-oriented reform attempts to iron out deficiencies in the performance of the core public sector in the hope of improving public service delivery. Two main areas are targeted: the performance of individual civil servants and the structure of the machinery of government. The first component attempts to establish a management environment that leads to sound individual performance by incorporating both the 'soft' and 'hard' model of human resource management. The latter focuses on the review of policies and procedures underpinning the management of human resources in order to engender motivation, commitment and loyalty through proper compensation and recognition of sound performance. It also includes the introduction of information and communication technology (ICT) systems (Tonga, Prime Minister's Office 2006a).

The second element of the reform focuses on rightsizing of the civil service by restructuring the machinery of government as well as strengthening the key mechanics of government that are central to its renewed mission. These measures are to ensure that the government is focusing on its core business while at the same time making its services cost effective. In Tonga's case, the structure of government was to be reduced from 24 ministries and departments

to 14 ministries and the size of the payroll to be slashed from 4,400 to 3,400 during the 2006/07 period (Tonga, Prime Minister's Office 2006a).

Major progress has been made in performance review, in particular the establishment of the Public Service Commission in 2004 to manage human resource activities directly. This was a major step forward from the previous setting in which Cabinet was largely in charge and was constantly condemned for malpractice including favouritism and nepotism. Recent changes provide a sound environment for managing human resources with the emphasis on the independence of the Commission. The current Prime Minister welcomed the idea, explaining the transformation as a 'win for good governance, the public service and the country as a whole' (Tonga, Prime Minister's Office 2006b).

Other developments included the introduction of fixed-term employment contracts and performance agreements for CEOs; performance management seminars and workshops for ministers and CEOs; review of policies on overtime, increments, leave entitlements, a code of conduct, and acting allowances; and the hefty general salary increase. A performance appraisal system, which was approved by Cabinet in 2005, will also be implemented before the end of 2007. While this is a critical component of the reform, it needs improvement in terms of comprehensiveness and consistency. These issues were raised by line agencies when the idea was initially introduced and have caused delays in its implementation.

The second feature of the reform encountered strong opposition and therefore minimal progress was made initially. The most difficult part proved to be the attempt to review salary levels for the whole of the public service through a job evaluation exercise at the same time as reducing the

number of civil servants through voluntary redundancy packages. The majority of the civil service went on strike for three consecutive months in 2005. However, once the situation was eventually resolved, hundreds of public servants applied for the redundancy packages and 820 were approved. The public service has been reduced from 5,558 posts in 2004 to 4,581 in 2006. That said, the salary and wage provisions have increased significantly from TOP\$40.3 million for the financial year 2002/03 to TOP\$63.6 million in the 2006/07 financial year as a result of the major salary increase following the strike.

Some progress is noticed in other areas, in particular in restructuring. So far, one new ministry has been established in an attempt to enhance service delivery—the Ministry for Public Enterprises. It is understood that the new Ministry is key to ensuring sound performance of public enterprises.

Key determining factors

Arguably, public sector reform in Tonga has achieved significant milestones despite the fact that it began badly. Indeed, there were stiff objections from the civil service itself and to some extent from the political sphere. However, progress has been substantial and certainly deserves commendation. Still, it is understood that a few factors that are critical to this early stage of the reform such as political commitment and stability, public servant support, and sound economic performance are not strong.

Political commitment and stability

Following consultations, it is evident that political commitment at the highest level, from His Majesty, Cabinet and the government is firm at this stage. There is genuine determination among these institutions to complete the reform

as planned. In addition, the recent substantial achievements would not have been happened without sound political assurance, especially with respect to the government's approval of institutional and legislative frameworks for public enterprise management and public service delivery—these involved unpopular political decisions at times, but the government persisted.

However, there are some areas that need attention. The ADB has underlined the need for government to set clear policy directions to determine activities that need to be assigned to the private sector and those that should remain under the jurisdiction of government. To compound matters, the government continues to invest in high-risk operations, justified as either to fill in for the frail private sector or to satisfy the national interest. Unfortunately, such decisions are normally obscure (ADB 2003). Other acts such as the hiring of personal advisors to the Prime Minister during a period of massive redundancy send a contradicting message to those who play a central role in the reforms, in particular the public servants. While such a practice is not new elsewhere, and particularly in New Zealand, the timing is considered poor.

The importance of political stability to this initial stage of the reform cannot be over-emphasised. Experience elsewhere, in particular within the region, proves it beyond contention. Neighbours such as Fiji and Solomon Islands that have encountered periods of political instability have been struggling to complete their reform agenda. The result has been unpleasant for both countries: public service delivery continues to be substandard and the enormous cost of the public service continues to impede economic investment. By comparison, societies such as Cook Islands and Samoa that have enjoyed long periods of political stability are well ahead in their reform agendas.

The situation in Tonga has improved substantially since the events of 2005 and late 2006, despite reports of a higher degree of vulnerability in the country, notably by the World Bank (2004) and the University of the South Pacific's Pacific Institute of Advanced Studies in Development and Governance (2007). It is evident that the way forward is heavily contingent on the current negotiations within a tripartite committee that consists of representatives of the government, the people, and the nobles on political changes demanded by the people.

Support of senior public servants

Senior public servants, especially those at the second level, play a significant role in the reform. They are in a good position to influence those in the lower ranks of their ministries with respect to the reform. Their years of experience also provide the sound feedback needed for those devising and implementing the reform. The reform is extensive and complex in scope; its success requires a concerted effort, commitment and full cooperation of everyone involved, not just senior officials at the central ministries. However, this seems to be the major concern at the moment. There is in fact a strong feeling of resentment among a majority of public servants about the reform, especially from those senior managers who are members of the Public Service Association. The three-month strike in 2005 changed their attitude towards the reform. Every change is now largely interpreted as superfluous and therefore met by strong challenges.

Unfortunately, the outcome of the 2005 strike has given this top echelon of the public service more confidence to challenge elements of the reform through the union. In addition, some senior officials prefer the *status quo*, presumably because they are better off under the current setting. This is the case for the public enterprise reform where those in charge of several

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public enterprises refused to be part of the corporatisation process. Obviously this is unhelpful in improving service delivery. It consumes enormous energy and resources, not to mention that it slows and diverts reform. While the other side of the story needs to be heard to generate change that is for the benefit of all, this conversation should be carried on having full regard for the economic and political situation.

Senior officials in central ministries who are instrumental in the design and the progress of the reform need sound judgment, commitment, and patience. This is going to be a long journey with some unpleasant twists. The parties opposing the reform are keeping a close watch on every minor detail. Frequent consultations with senior counterparts in line ministries and union members are critical. These should be conducted in good faith. Getting senior officials in line ministries on board is also a useful approach in 'cooling' down the situation and, importantly, in securing their much-needed support. Making them part of the design and implementation team through the various committees and sub-committees overseeing the reform should achieve this goal.

Further, senior officials in central and line department should take a dynamic role in leading the reform, especially with respect to its design, which should not be done by consultants from abroad. These local officials are well versed in the specifics of the public service in Tonga and are certainly in a better position to determine feasible changes. Local support is also critical in sustaining the reform in its later stages when expertise from abroad is no longer available. Sound judgment is badly needed at this stage as well. The decision to pay allowances to acting CEOs only and not for acting appointments at lower levels shows poor judgment. This decision is creating problems unnecessarily for the PSC

as the union is challenging on the ground of unfair treatment.

Sound economic performance

Reformers need to operate in an environment of good economic performance in order to keep things moving. Experience elsewhere, especially in countries such as Australia and New Zealand that made extensive and unpopular reforms, are classic examples. Normally, wide acceptance of reform is contingent on the end results. Indeed, sound economic performance is one of the ultimate goals of public sector reform. Once this is achieved, skepticism and resentment will fade and support will emerge.

Fortunately, some aspects of the reform could assist in achieving speedy economic recovery. Of essence, is the privatisation component. Privatisation will not only ease the pressure on the government budget but also generate revenue for the government for public investment. The attempt to improve corporate management in public enterprises and to corporatise several others is also commended with some positive outcomes already in sight.

Conclusions

The pace of public sector reform in Tonga to date deserves acknowledgment, considering that substantial headway has been made and a multitude of short-term achievements made within a short span of time despite strong opposition. Still, there is much that needs to be taken care of, but all depends on the political situation, especially with respect to stability. Obviously the government and other parties concerned cannot afford to be selfish and inflexible and should always have the best interest of the country at heart. But political commitment and moral support from senior public servants, and a quick economic recovery, are key factors.

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