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## **ANNEX I**

of the Commission Implementing Decision on the financing of the annual action plan  
in favour of the Pacific Region for 2021

### **Action Document for Support to the energy sector in Tonga**

#### **ANNUAL PLAN**

This document constitutes an annual work programme in the sense of Article 110(2) of the Financial Regulation, and an action plan in the sense of Article 23(2) of the NDICI-Global Europe Regulation.

## 1. SYNOPSIS

### 1.1. Action Summary Table

<b>1. Title CRIS/OPSYS business reference Basic Act</b>	Support to the energy sector in Tonga CRIS number: NDICI ASIA/2021/043-384 Financed under the Neighbourhood, Development and International Cooperation Instrument (NDICI-Global Europe)
<b>2. Team Europe Initiative</b>	Yes. This action will contribute to the TEI “Green-Blue Alliance for the Pacific”.
<b>3. Zone benefiting from the action</b>	The action shall be carried out in the Kingdom of Tonga.
<b>4. Programming document</b>	Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027
<b>5. Link with relevant MIP(s) objectives/expected results</b>	Priority Area 1 – Climate Action and Environmental Sustainability Priority Area 2 – Inclusive and Sustainable Economic Development
<b>PRIORITY AREAS AND SECTOR INFORMATION</b>	
<b>6. Priority Area(s), sectors</b>	510 – General Budget Support 230 – Energy
<b>7. Sustainable Development Goals (SDGs)</b>	Main SDG: SDG 13 “Climate Action” Other significant SDGs and where appropriate, targets: SDG 5 “Gender equality” SDG 7 “Affordable and clean energy”, SDG 12 “Sustainable consumption and production” SDG 17 “Sustainable Development”
<b>8 a) DAC code(s)</b>	15110 – Public sector policy and administrative management 25% 23110 – Energy policy and administrative management 40% 23210 – Energy generation, renewable sources – multiple technologies 15%

	23040 – Electrical transmission and distribution 20%			
<b>8 b) Main Delivery Channel</b>	Channel 1 – 12001 – Central Government Channel 2 – 46004 – Asian Development Bank Channel 3 – 60000 – Private sector institution			
<b>9. Targets</b>	<input type="checkbox"/> Migration <input checked="" type="checkbox"/> Climate <input checked="" type="checkbox"/> Social inclusion and Human Development <input checked="" type="checkbox"/> Gender <input type="checkbox"/> Biodiversity <input type="checkbox"/> Education <input checked="" type="checkbox"/> Human Rights, Democracy and Governance			
<b>10. Markers (from DAC form)</b>	<b>General policy objective</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Participation development/good governance	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Aid to environment	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Gender equality and women's and girl's empowerment	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Trade development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reproductive, maternal, new-born and child health	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Disaster Risk Reduction	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	Inclusion of persons with Disabilities	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Nutrition	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	<b>RIO Convention markers</b>	<b>Not targeted</b>	<b>Significant objective</b>	<b>Principal objective</b>
	Biological diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Combat desertification	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Climate change mitigation	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
	Climate change adaptation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	<b>11. Internal and markers Tags:</b>	<b>Policy objectives</b>	<b>Not targeted</b>	<b>Significant objective</b>
Digitalisation Tags: digital connectivity digital governance digital entrepreneurship job creation digital skills/literacy digital services		<input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Connectivity Tags: transport people2people energy		<input type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input checked="" type="checkbox"/>	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

	digital connectivity		<input type="checkbox"/>	<input type="checkbox"/>
	Migration (methodology for tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Reduction of Inequalities (methodology for marker and tagging under development)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	Covid-19	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
BUDGET INFORMATION				
12. Amounts concerned	Budget line(s) (article, item): BGUE-B2021-14.020132-C1-INTPA Total estimated cost: EUR 14 205 900 million Total amount of EU budget contribution: EUR 10 million, of which EUR 6.65 million for budget support and EUR 3.35 million for complementary support. This action is co-financed in joint co-financing by: – Asian Development Bank for an amount of USD 5 million.			
MANAGEMENT AND IMPLEMENTATION				
13. Type of financing	Direct management through: – Budget Support: Sector Reform Performance Contract – Procurement Indirect management with Asian Development Bank			

## 1.2. Summary of the Action

The proposed action intends to contribute mainly to priority area 1 “Climate Action and Environmental Sustainability” and priority area 2 “Inclusive and Sustainable Economic Development” of the Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027.

In particular, this action is expected to contribute to achieving the following results:

- PICs implement the Paris Climate Change Agreement through coordinated and coherent actions that promote resilience, reduce climate risk, and contribute to reduced GHG emissions;
- PICs increase their energy efficiency and renewable energy generation;
- PICs ensure macro-economic stability and progress on PFM reforms, budget transparency and accountability, including climate readiness measures;
- PICs have strengthened domestic and other revenue mobilisation, public expenditure management and increased efficiency and effectiveness of public expenditure.

The action is aligned with the European Consensus on Development principles and priorities (in particular related to People, Planet and Partnership) as well as with the new European Commission’s 5-year political priorities. It tackles SDG 13 (climate action), SDG 7 (affordable and clean energy), SDG 17 (sustainable development) and – to some extent – SDG 12 (responsible consumption and production) of the 2030 Agenda for Sustainable Development. It is also aligned with the 2050 Strategy for the Blue Pacific Continent and the new post-Cotonou Pacific Regional Protocol. It is designed to be aligned with the Green Deal and to support the implementation of the Paris Agreement. This action will contribute to the Team Europe Initiative ‘Green-Blue Alliance for the Pacific’, being closely linked to its ‘climate ambition & resilience’ pillar through the ambitious targets in terms of renewable energy and energy efficiency that will be supported by the action. It also promotes good governance and contributes to the Gender Action Plan III (2021-2025) in relation to the thematic objective focused on green economy.

The action intends to contribute to Tonga’s sustainable and inclusive low carbon development. Its specific objective is to improve the enabling environment and governance of the energy sector in Tonga in order to sustainably enhance

access to modern, sustainable, reliable, safe and affordable energy services and increase energy efficiency for all, which is essential to achieve “a more progressive Tonga supporting higher quality of life for all”. The means envisaged are i) budget support, ii) technical assistance and iii) contribution to the upgrade of the Nuku’alofa electricity network project to be implemented by Asian Development Bank (indirect management).

## 2. RATIONALE

### 2.1. Context

#### 1. Political and Financial Outlook

The Kingdom of Tonga, a Polynesian country, is an archipelago located in the Pacific of 176 islands comprising 36 inhabited islands scattered over 1,000 km of ocean. Its Exclusive Economic Zone is of about 700,000 km<sup>2</sup>. Tonga transitioned from an absolute to a constitutional monarchy in which substantial powers are assigned to the King in late 2010. It is a parliamentary democracy with a unicameral Legislative Assembly.

Like many other small Pacific island nations, Tonga’s economic growth potential is constrained by structurally high costs of production and public service delivery and exposure to economic and environmental shocks. Tonga is one of the world’s most exposed countries to climate change and natural disasters and is especially vulnerable to these hazards. Its infrastructure and public services are largely not climate resilient and the population lives in places highly exposed to natural disasters. Therefore, climate resilience and economic development needs to go hand-in-hand. Tonga has made good progress on being prepared for natural disasters and climate change at the national, strategic, level but these strategic plans need to be more consistently implemented. Tonga shares a number of characteristics with other island economies such as remoteness, limited diversification, small domestic market, narrow resource base, and scarcity of skilled labour. Given the diseconomies of scale, private sector opportunities and job creation remain a challenge, resulting in a significant public sector role in the economy and for service delivery.

Although Tonga has negligible contributions to global greenhouse gas emissions with low per capita emissions, it has taken a holistic approach and looks at mitigation, adaptation and disaster risk reduction as building resilience for the whole of Tonga. Tonga submitted its enhanced (second) Nationally Determined Contribution (NDC) on 9 December 2020 to the United Nations Framework Convention on Climate Change (UNFCCC) Secretariat in line with the Paris Agreement. Tonga aims to reduce emissions and channel in increased investments in climate resilience.

While today, energy supply in Tonga still relies significantly on petroleum, Tonga’s electricity sector has been undergoing a transformation with the integration of renewable electricity at an increasing pace. The share of renewable energy in total electricity generation is expected to have reached 14% in 2019 (against 6.4% in 2015). Increasing demand for power is creating an additional challenge to reach the targets. Thanks to strong efforts of the state-owned Tonga Power Limited (TPL) and considerable external investments, the losses from the electricity transmission and distribution systems have been reduced significantly to below 9% over the past decade, notably through improvements to the network infrastructure. Achieving the 70% electricity generation from renewable sources by 2030 target is considered technically achievable with today’s technology of solar and wind power systems in combination with sizeable, long-duration battery storage. Investments required to achieve 50% are identified and are at different stages of development. Achieving this target will also require further upgrading of network infrastructure to accommodate the additions of intermittent solar and wind sources. Additional external sources of finance will also be needed (according to the SDG 7 roadmap, USD 93.4 million investments are required to decarbonize the power sector). Tonga is on-track to achieve universal access to electricity. In order to further decrease the country’s dependence on fossil fuels, final consumption also needs to be addressed (increased vehicle efficiency, the transport sector accounting for approximately 80% of total final consumption, and introduction of energy efficiency measures for buildings and appliances). Recognizing that oil products are going to continue to account for a large share of Tonga’s total primary energy supply for the foreseeable future (over one-third of fossil fuel supply is used for electricity generation, while approximately two thirds are used for direct final consumption), security of supply of oil products will continue to play an important role. Electricity tariffs are high in Tonga compared with those in other countries that import fossil fuel for power generation. This is because of its remote location and the high cost of transport.

Tonga’s slow recovery from the devastating 2018 Tropical Cyclone Gita has been derailed by twin shocks from the Covid-19 pandemic and Cyclone Harold. Proactive and timely actions, including the early closure of external borders and prompt economic support, have helped avoid a worse economic outcome. According to the International Monetary Fund (IMF), the economy contracted by 0.5% in 2020 and the GDP is expected to further contract by 2.5% in 2021. In 2022, the annual growth is projected to recover to 2.5%. Underlying assumption is that borders will remain

closed until January 2022. Fiscal consolidation continued through FY 2020 as a result of donor support and investment delays. However, a fiscal deficit is unavoidable in FY 2021 given the need to support the economy and healthcare through the pandemic. In response to the pandemic, the authorities have put together a strong policy package, with fiscal support for health care and affected businesses and households, and provision of liquidity to the financial sector. In January 2021, Tonga benefitted from International Monetary Fund (IMF) financial assistance under the Rapid Credit Facility to meet its urgent balance of payments and fiscal needs arising.

The medium-term outlook is modest and fragile. Tonga's growth potential is low due to its heavy reliance on labour exports, and the pandemic has worsened pre-existing vulnerabilities. Over the longer-term, growth is expected to reach a rate of 1.8 percent as Tonga remains locked in a low-growth remittance-dependent equilibrium. Tonga is highly vulnerable to natural disasters and is at a high risk of external debt distress.

## 2. Rationale and Assessment

This action builds on the EU-Tonga shared ambition for a transition into a modern, resource-efficient and competitive economy and addresses the challenge of decarbonising the energy sector. The action will support Tonga to achieve its renewed targets in terms of reduction of greenhouse gas (GHG) emissions (from 112.3 kt CO<sub>2</sub> in 2018 to 90 kt CO<sub>2</sub> in 2035) will contribute to reducing fossil fuel dependency will strengthen the capacity of the public sector to facilitate an inclusive and sustainable transition, will promote partnerships and will incentivise further to improve macroeconomic and public financial reforms as well as the business environment.

The proposed budget support operation, in combination with targeted support to strengthen the public financial management of the Pacific Island Countries (under the Pacific Regional Annual Action Plan 2021), represents an important contribution towards increased fiscal space which is essential to allow Tonga to pursue its COVID response plans as well as stability-oriented macro-economic policies while implementing its reform agenda.

The use of a sector reform performance contract will allow the continued participation of the EU in the high-level policy dialogue and coordination framework, named the Joint Policy Reform Matrix (JPRM), in place between the Tongan authorities and the donors providing budget support (Australia, New Zealand, Asian Development Bank and World Bank). The JPRM process is an effective vehicle to support economic and public sector reform in Tonga, the Government having demonstrated a strong track record in implementing an ambitious and consistent reform agenda supported by budget support operations.

This action will demonstrate continued build-up and impact as it will consolidate gains achieved thanks to the two previous budget support operations and will incentivise the implementation of a comprehensive Energy Bill, about to be adopted following EU support. It will also demonstrate the position of the EU as a key international partner of the Kingdom of Tonga and a leader on climate action in the region.

The proposed action is in line with the policy priorities set out in the EU strategy for cooperation in the Indo-Pacific. In line with the Indo-Pacific Strategy and the European Commission's priorities, the action will support in particular the green transition.

## 3. List of actions

This action will be adequately complemented by the Pacific Regional Programme entitled "Strengthening Public Finance Management (PFM), Oversight and Accountability in the Pacific region", whose purpose is to strengthen PFM systems and governance of key domestic institutions at the national levels as well as by priority policy actions supported by other development partners through the JPRM and by additional investments in the energy sector.

## 2.2. Problem Analysis

The Government of Tonga has embarked on ambitious policies for energy efficiency, renewable energy and climate change mitigation and is about to adopt a comprehensive and supportive institutional and regulatory framework. However, given Tonga's limited human and financial capacity, support is required to assist Tonga with its transition to low carbon economy in the long run.

Among the problems faced by the energy sector: scattered institutional set-up, outdated regulation, limited capacity and efficiency of stakeholders, growing complexity of the sector, under-developed power sector, reliance of the sector on donor support, capacity installed insufficient to meet growing demand which is holding growth, reliance on emergency power provision drains TPL resources, power sector is an important emitter of greenhouse gas, limited grid capacity to absorb renewable energy power, limited attractiveness of the sector for private sector investment, high vulnerability to climate shocks. In addition, the energy sector lacks the systematic and consistent application of a gender lens. As the energy sector in Tonga transforms to meet renewable energy and energy efficiency targets, it is

important that national authorities ensure that both women and men have equal access to the new opportunities created. From an energy access perspective, it is also important to ensure that both men and women are benefitting from energy that is affordable and accessible for all.

This action, therefore, envisages to:

- Facilitate and incentivize the implementation of the reforms envisaged under the Energy Bill while improving service delivery;
- Contribute to progress towards the targets set in Tonga's comprehensive and coherent policy framework in terms of renewable energy and energy efficiency, such as in the energy sector roadmap;
- Create an enabling environment that supports/increases private sector investments in sustainable energy;
- Increase resilience and absorption capacity of the grid;
- Contribute to ensuring that gender is adequately mainstreamed in the energy sector;
- Promote improved public financial management and macroeconomic stability as well as sustainable and inclusive growth;
- Contribute to a conducive framework to mobilize additional financing resources;
- Strengthen the capacity of the public sector to facilitate an inclusive transition and reduce the cost towards a low carbon development;
- Directly support poverty reduction and shared prosperity;
- Contribute to creating an enabling environment for mainstreaming gender in the energy sector and to increasing women's participation and access to opportunities in the sector.

This action, developed under the Pacific Multi-Country Multi-Annual Indicative Programme 2021-2027, will contribute to illustrate the transformative power of the Team Europe Initiative "Green-Blue Alliance for the Pacific".

Identification of main stakeholders and corresponding institutional and/or organisational issues (mandates, potential roles, and capacities) to be covered by the action:

The overall coordination of the 'Support to Energy in Tonga' programme is with the Ministry of Finance and National Planning (MFNP) (duty bearer), which is also leading the policy dialogue between the Government and the development partners providing budget support (New Zealand, Australia, Asian Development Bank (ADB), World Bank, EU). This policy dialogue focuses notably on macroeconomic development, public finance management, fiscal policy, private sector development and energy. It also leads the overall aid coordination and monitors progress towards development outcomes. Technical assistance is being provided by the development partners to support key reforms.

The Ministry of Environment, Energy, Climate Change, Disaster Management, Meteorology, Information and Communication (MEIDECC) (duty bearer) is the ministry responsible for energy. It was established in 2014. It acts under the policy and planning provided by the Ministry of Finance and the Prime Minister's office. The Department of Energy's (DoE) is responsible for developing the national energy policy, setting standards and developing regulations, ensuring coordination within the energy sector and providing support to the Minister on energy-related matters.. The Energy Bill will provide clarity regarding the role and responsibilities of the Ministry responsible for energy, the Department of Energy, the Energy Commission and key stakeholders. The DoE will need to be adequately resourced to perform its new statutory functions and lead organisational restructuring. The main governing bodies established by the Energy Bill, when passed, are (duty bearer):

- the Ministry responsible for energy – responsible for policy and strategic oversight for the energy sector in Tonga and has the primary and statutory responsibility for establishing national objectives and targets for the sector;
- the Department of Energy – responsible for the day-to-day implementation, administration and enforcement of the Bill;
- the Energy Advisory Committee and its Technical Committees – responsible for advising the Ministry on energy related matters and providing input from key government line Ministries, industry groups and civil society;
- the Energy Commission – a newly established regulator for the energy sector, responsible for the regulation of electricity, petroleum, gas and other energy sources (it will take over the responsibilities of the Electricity Commission such as regulation of tariffs, establishment of consumer service standards, management of electrical safety, licensing of electricians, and regulations for major electrical works). Although the Bill establishes the Commission as an independent body, the Commission has reporting obligations to the Minister.

These governing bodies will benefit from targeted technical assistance.

Tonga's energy company, Tonga Power Limited (TPL), is a government-owned, public enterprise under the oversight of the Ministry of Public Enterprises and the Cabinet. TPL has its own Company Constitution and operates under the Public Enterprises Act 2010, which provides commercialization incentives for state-owned corporate entities. It is entrusted with enforcing the Electricity Act and regulations. TPL has been established with an independent Board of Directors drawn from the commercial sector of Tonga, appointed by the Government. TPL reliably and regularly monitors and reports electricity data, including renewable energy progress. TPL's core business is generating, distributing and retailing electric power across four-grid system within Tonga as well as the sale of gas through its subsidiary Tonga Gas. It operates under a strict regulatory framework through the Electricity Concession Contract (ECC) in which tariffs, operational efficiency benchmarks, consumer service standards and penalties are specified between the Electricity Commission, the Government and TPL. TPL will benefit from the investments made (in particular by EU and ADB) and could benefit from technical assistance to improve its internal policies and processes to improve efficiency and from capacity building to develop the skills of those who control and maintain the increasingly complex electricity system. TPL's investment plans are submitted to the Electricity Commission for review and final approval.

The Women's Affairs Division (WAD) of the Ministry of Internal Affairs is the national agency responsible for coordinating, monitoring and evaluating implementation of the national Women's Empowerment and Gender Equality Tonga (WEGET) policy and its Strategic Plan of Action 2019-2025. The goal of the WEGET is to advance gender equality ensuring the active contribution and meaningful participation of both women and men in all spheres, and at all levels, of development and decision-making for the well-being of the family and for the benefit of the whole society. Two priorities of this policy are particularly relevant for this action and the sector: i) enabling environment for mainstreaming gender across government policies, programmes, services, corporate budgeting and monitoring and evaluation and ii) equitable access to economic assets and employment. The WAD will be a key stakeholder to ensure that gender is adequately mainstreamed in the sector but will also benefit from this action.

The private sector will benefit from an enhanced institutional and regulatory framework and facilitated dialogue with relevant authorities. In addition, it will benefit from synergies sought with other initiatives supported by EU such as ElectriFI and Get.Invest.

The final beneficiaries are the people of the Kingdom of Tonga who benefit from an enhanced access to clean and secure energy and energy efficiency measures but also from enhanced public service delivery and new opportunities created. Meaningful engagement with Civil Society Organisations will be promoted throughout the action.

## 2.3. Additional Areas of Assessment

### 2.3.1. Pre-condition on Fundamental Values

No need to assess Fundamental Values since this is a sector reform performance contract.

### 2.3.2. Public Policy

The Government of Tonga has developed a comprehensive and relevant policy framework in a consultative manner assessed as adequate. This framework is updated in a consistent and timely manner.

- The Tonga Strategic Development Framework<sup>1</sup> 2015–2025 (TSDFII) provides an overarching framework for the long-term development of the Kingdom of Tonga aligned with global commitments. The intended impact, *“a more progressive Tonga supporting higher quality of life for all”*, is to be supported by a more inclusive and sustainable growth and development. One of the outcomes of the first inputs pillar (infrastructure & technology) is *“More reliable, safe, affordable and widely available energy services built on an appropriate energy mix moving towards increased use of renewable energy”*. This framework includes indicators with targets to facilitate high-level progress monitoring as well as guiding principles and directions for the formulation of sector plans, ministries corporate plans and the medium term budgetary framework, facilitating a more consistent and integrated planning. It also clearly emphasizes the importance of governance to facilitate effective public service provision.

<sup>1</sup> <http://www.finance.gov.to/node/299>

- Tonga has ratified the Paris Agreement<sup>2</sup> and is committed to ensuring the rapid progression of achieving its Nationally Determined Contributions<sup>3</sup> (NDC), which have been reviewed in 2020. Tonga's targets for mitigation include “*Energy: 13% (16 Gg) reduction in greenhouse gas (GHG) emissions by 2030 compared to 2006 through a transition to 70% renewable electricity as well as energy efficiency measures*”;
- The revised Tonga Climate Change Policy and the Joint National Action Plan 2<sup>4</sup> (JNAP2) on Climate Change and Disaster Management (2018-2028) further complement the policy framework. Both policy documents relate, among others, to Tonga's commitment to reduce GHG emissions from the energy sector by increasing the use of renewable energy end energy efficient solutions and cover climate change adaptation and disaster risk management.
- The Tonga National Infrastructure Investment Plan<sup>5</sup> (NIIP) outlines priorities and plans for major infrastructure initiative for the period 2013 - 2023. It focuses on energy supply systems, telecommunications, water and waste management and transportation. It adopts a vision of leveraging infrastructure as a catalyst and enabling factor for economic and inclusive development and is underpinned with the principle of sustainability, safety and resilience. It focuses on three important themes: i) Connecting Tonga, ii) Infrastructure for Communities and iii) Reliable and Affordable Energy. It recognises that a major challenge in the energy sector is to diversify sources of energy used and simultaneously improve energy efficiency.
- The SDG 7 Roadmap for Tonga<sup>6</sup> presents a detailed assessment aimed at helping the country to reach a clean and green energy future and in particular achieve its national energy targets under NDC and TERM Plus (see below). It presents a range of technical opportunities and policy options for reducing emissions, saving energy and lowering costs. It offers an opportunity to leverage a least-cost sustainable energy development pathway, and to direct the investment savings to other critical sectors. It is expected to guide the development of enabling policy measures for achieving the SDG 7 targets.
- The Tonga Energy Efficiency Master Plan<sup>7</sup> (TEEMP: 2020 – 2030) is the key guiding document on energy efficiency in Tonga. It aims to reduce energy use in transport and buildings by more than 50% in 2030.
- The overarching Tonga Energy Road Map 2021-2035 Framework (the ‘Framework’) was launched on 28 April 2021. This framework provides guidance on the development and implementation of the Tonga Energy Road Map Plus 2021-2035 (TERM Plus, under preparation). Its targets are aligned with the 2020 NDC targets. The Framework takes into account the impact of climate change on Tonga's energy system and energy needs. Building on TERM 2010-2020 and reflecting key lessons learned, it covers the entire energy sector: supply, final consumption, electricity generation, crosscutting issues (regulations, data collection, climate change and gender). In addition, it seeks to expand from the electricity sector to include transport while integrating aspects of climate resilience and gender inclusion. It lays out sections on Energy Supply and Consumption, Electricity Generation and Distribution, Adaptation to Climate Change, Gender and Data Collection and Dissemination. Each section entails an overview of the situation, identifies targets, measures to be put forward, requirements and enablers. It is consistent with relevant sector strategy papers and investment plans (ex: SDG 7 roadmap, Energy Efficiency Master Plan, Low Emission Development strategy).

This strategic framework is coherent and consistent and expected to contribute to sustainable and inclusive growth but these strategic plans need to be more consistently implemented. So far, strategic plans have only partly been used to inform sector-specific plans and annual budgets, which remain largely project-based. This reflects Tonga's limited human and financial capacity, but it is also exacerbated by frequent natural disasters, gaps in coordination, and changes in priorities. Nevertheless, the Government has demonstrated a strong track record in implementing an ambitious and consistent reform agenda supported by budget support operations, as demonstrated by the successful implementation of the two previous EU Sector Reform Performance Contracts.

The new Energy Bill, when passed, will provide the necessary policy to establish a coherent institutional and regulatory framework for coordination of the energy sector. It will also provide for relevant standards and regulations.

<sup>2</sup> The Paris Agreement is a legally binding international treaty on climate change. It was adopted by 196 Parties at COP 21 in Paris, on 12 December 2015 and entered into force on 4 November 2016. <https://unfccc.int/process-and-meetings/the-paris-agreement/the-paris-agreement>

<sup>3</sup> <https://www4.unfccc.int/sites/ndcstaging/PublishedDocuments/Tonga%20Second/Tonga%27s%20Second%20NDC.pdf>

<sup>4</sup> <https://tonga-data.sprep.org/dataset/tonga-joint-national-action-plans-jnaps>

<sup>5</sup> [https://pacificdata.org/data/sr\\_Latn/dataset/national-infrastructure-investment-plan-2013-20236b467907-dc0a-4285-9db8-06c9b9b7d093](https://pacificdata.org/data/sr_Latn/dataset/national-infrastructure-investment-plan-2013-20236b467907-dc0a-4285-9db8-06c9b9b7d093)

<sup>6</sup> <https://www.unescap.org/sites/default/d8files/knowledge-products/SDG7%20roadmap%20Tonga%20FINAL.pdf#page=4&zoom=auto,-5,753>

<sup>7</sup> [https://www.ctc-n.org/system/files/dossier/3b/deliverable\\_3.3\\_final\\_teemp.pdf](https://www.ctc-n.org/system/files/dossier/3b/deliverable_3.3_final_teemp.pdf)



It will establish clear national objectives as well as promote private sector incentives and research initiatives. By facilitating private sector investments, it will contribute to achieving Tonga's renewable electricity goals and alleviate challenges faced by Independent Power Producers. It is anticipated, that by adopting coherent and comprehensive energy authorities and policies included in the Bill, Tonga will clear the path to their renewable electricity goals and national energy objectives. Several rounds of consultations have been performed to finalize the Energy Bill and the process is considered as inclusive. The requirements related to the implementation of Energy Bill (staff, technical assistance, equipment) are identified.

A yearly review process led by the Government and involving development partners and non-state actors is in place.

In conclusion, the policy is sufficiently relevant and credible for budget support contract objectives to be largely achieved. Therefore the policy can be supported by the Commission with the proposed budget support contract.

### 2.3.3. Macroeconomic Policy

Already prior to the pandemic, Tonga's growth potential was constrained by its natural endowments. Economic activity is hampered by remoteness, leading to structurally high production costs, a narrow production base and low economies of scale. Tonga is also highly prone to natural disasters, which generate large economic costs and set back growth potential by destroying infrastructure and agricultural land. These constraints are aggravated by the impact of the pandemic. Nevertheless, political commitment to economic stability and private sector-led growth remains strong.

Tonga's slow recovery from the devastating 2018 Tropical Cyclone Gita has been derailed by twin shocks from the Covid-19 pandemic and Cyclone Harold. Proactive and timely actions, including the early closure of external borders and prompt economic support, have helped avoid a worse economic outcome<sup>8</sup>. According to the IMF<sup>9</sup>, the economy contracted by 0.5% in 2020 and the GDP is expected to further contract by 2.5% in 2021. In 2022, the annual growth is projected to recover to 2.5 %. Underlying assumption is that borders will remain closed until January 2022.

High international reserves have been recorded, driven by delayed aid spending, additional donor support and import compression. External balances are anticipated to deteriorate due to the drop in tourism and remittance inflows combined with higher pandemic- and reconstruction-related imports. This is expected to generate a large external financing gap and sharply reduce reserves below desirable levels in FY 2021.

Fiscal consolidation continued through FY 2020 as a result of donor support and investment delays. However, a fiscal deficit is unavoidable in FY 2021 given the need to support the economy and healthcare throughout the pandemic. In response to COVID-19, the authorities have put together a strong policy package, with fiscal support for health care and affected businesses and households, and provision of liquidity to the financial sector. In January 2021, Tonga has benefitted from IMF financial assistance under the Rapid Credit Facility to meet its urgent balance of payments and fiscal needs arising. While monetary stability has been maintained and inflation is expected to remain low, financial sector risks are elevated even though banks are still profitable and well capitalized. The authorities are committed to enhancing the Anti-Money Laundering/Combating the Financing of Terrorism framework and are considering developing macro prudential tools.

The medium-term outlook<sup>10</sup> is modest and fragile. Tonga's growth potential is low due to its heavy reliance on labour exports, and the pandemic has worsened pre-existing vulnerabilities. Assuming that travel and remittances normalize, the economy could gradually bounce back to 3–4 % growth in FY 2022–23 in line with the global recovery. Over the longer-term, growth is expected to decline to an estimated potential rate of 1.8 percent as Tonga remains locked in a low-growth remittance-dependent equilibrium. A weaker global recovery that weighs on exports, aid, and remittances, and further disruptions in correspondent banking relations pose significant downside risks, as does the possibility of a local outbreak. Tonga is highly vulnerable to natural disasters and is at a high risk of external debt distress. Large external debt repayments come due starting in 2024, while current account deficits are also likely to remain large, reflecting persistently weak export competitiveness and heavy import dependence, a pickup in reconstruction and the implementation of delayed infrastructure projects reflecting Tonga's large investment needs. Together, these forces are likely to further reduce international reserves below desirable levels.

Post-pandemic, high-quality fiscal adjustment will be important to ensure debt sustainability while achieving climate and development goals. Continued efforts are needed to broaden the tax base, improve spending efficiency and the targeting of fiscal support (for example by applying the subsidy on the electricity tariff only to those with consumption

<sup>8</sup> IMF Executive Directors commended the authorities for their swift actions to prevent a local outbreak of the pandemic, and for prudent policy management, which has preserved macro-financial stability (2020 Article IV Consultation)

<sup>9</sup> <https://www.imf.org/en/Countries/TON>

<sup>10</sup> <https://www.imf.org/en/Publications/CR/Issues/2021/01/28/Tonga-2020-Article-IV-Consultation-and-Request-for-Disbursement-Under-the-Rapid-Credit-50048>

below the threshold of the lifeline tariff or by introducing higher excise tax on older vehicles, or, alternatively, 'feebates' to encourage uptake of fuel-efficient vehicles), strengthen transparency and accountability in public financial management, and ensure effective debt management strategies. Financial supervision warrants further improvements in light of rising risks to financial stability (in particular through enhanced supervision of nonbank financial intermediaries by the National Reserve Bank of Tonga, strengthened regulations (insolvency and insurance), strengthen stress testing and enhancement and enforcement of the Anti-money laundering and countering the financing of terrorism (AML/CFT) framework). Over the medium-term, structural reforms to promote private sector-led growth will help Tonga meet fiscal and development challenges. Continued support from the international community, through grant financing and debt relief (from China Exim Bank), would be essential. In conclusion, the authorities are pursuing a stability-oriented macroeconomic policy and the eligibility criterion is met.

#### 2.3.4. Public Financial Management

The 2019 Public Expenditure and Financial Accountability (PEFA) performance report published in 2020 and covering FY 2018/19, 2017/18, and 2016/17 showed that the PFM legal and regulatory framework provides a solid basis for budgeting, management of assets and liabilities and accountability. However, there are weaknesses in budget reliability, external scrutiny and audit, some expenditure controls (including wage bill) and debt management.

The Cabinet has approved in December 2020 a new PFM reform plan, the PFMAP, developed with the support from the IMF's Pacific Regional Technical Assistance Centre (PFTAC), which will guide further PFM reform priorities over the coming years. The PFMAP presents and sequences a set of realistic, achievable PFM improvement initiatives that address key weaknesses of the PFM systems identified by the latest PEFA.

The Government of Tonga is addressing some of these weaknesses. Indeed, measures to enhance payroll controls (particularly overtime spending) to improve revenue compliance and increase the efficiency and transparency of the tax system (Revenue Services Administration Bill and related regulations) and boost debt and guarantee management (new medium-term debt strategy, government guarantee policy) are being taken. The Government is also preparing a public service fraud policy and disciplinary regulations to improve the governance of public resources. Efforts are underway to enhance the planning and recording of project and in-kind grants and to improve macroeconomic and fiscal forecasting. This should contribute to increased budget reliability. Budget preparation documentation is generally comprehensive and timely.

The findings of the PEFA Gender Responsive Budgeting Assessment 2019 is envisaged to serve as an input to the Government's existing efforts to mainstream gender. The Women Affairs Division (WAD) - a government agency within the Ministry of Internal Affairs - is responsible for coordinating, monitoring, and providing advisory service to the development of gender and gender equality in Tonga. WAD developed a Gender Mainstreaming Handbook in April 2019 assist and guide ministries on ways to mainstream gender and undertake gender analysis in their respective plans as well as how to design gender specific indicators in corporate plans of line ministries by capitalizing on sex-disaggregated data.

The Government has also already made progress towards the implementation of some of the key recommendations included in the 2020 Climate Change Policy Assessment such as the preparation of a bill to amend the Emergency Management Act 2007 or of a National Disaster Risk Financing Strategy.

In conclusion, the public finance management reform strategy is sufficiently relevant and credible, including on domestic revenue mobilisation, and the eligibility criterion is met.

#### 2.3.5. Transparency and Oversight of the Budget

The budget documentation submitted to the parliament is quite comprehensive and includes most of the key elements. While the budget documents are tabled in parliament, these are generally not uploaded to the Ministry of Finance's website until sometime after the budget has been approved, making access difficult. Nevertheless, the Parliament has adequate time to review the budget and its scrutiny, with the support of the Public Account Committee (PAC) is generally comprehensive.

While the budget documents include estimates of all projects and activities funded by development partners, including in-kind funding, only those funds that flow through the treasury are recorded in the accounts and included within the coverage of annual financial statements.

Key budget documents, for example the Executive Budget proposal, the Enacted Budget, the Annual budget execution report, the Audit report, the Citizen budget, and performance audits, are publicly available. This could be enhanced

by establishing procedures that would guide the process of determining which budget documents should be made publicly available, when, and by whom. Standard Operating Procedures are expected to be developed to contribute ensuring timely upload of budget documents (mid-year, end of year budget performance reports-recurrent and development). The development of a new Ministry of Finance's website has already resulted in some improvement in transparency. The audited financial statements are now published and available for up to FY 2018/2019<sup>11</sup>.

Ministries prepare as part of the annual budget, three-year corporate plans that identify key programs, related outcomes, and outputs, targets, and performance indicators. Performance information in corporate plans could be simplified to capture the key service delivery outputs and outcomes planned and achieved. Since December 2018, corporate plans are coordinated and submitted to the National Planning Division (NPD) in the Prime Minister's Office and published on their website. Adherence to the preparation and publication of annual reports is variable (some ministries have a backlog in preparing annual reports (for example the Ministry of Health), information on the outcomes achieved is sometimes missing but information on activities performed is available). Since FY 2017/18 these reports are aligned with the fiscal year.

Currently, external scrutiny is performed primarily through the Auditor General. The Legislative Assembly through the PAC (of which the Auditor General is a member) has a follow up role.. The Auditor General is independent of Government, being appointed by the Speaker and only being able to be dismissed by a two thirds majority. The Auditor General outlines that Audits are conducted in accordance with ISSAI standards and these are undertaken in a timely manner and almost meet the three-month requirement of submission to the legislature after receipt. Nevertheless, as per the PFM roadmap, efforts will be made to verify and facilitate the adoption of ISSAI compliant methodology. In the last four completed fiscal years, the Legislative Assembly of Tonga has not finalized the scrutiny of annual financial reports. The Legislative Assembly does not conduct any hearings on audit reports which receive a qualified or adverse audit opinion or a disclaimer. The upcoming EU-funded programme 'Strengthening Public Finance Management (PFM), Oversight and Accountability in the Pacific Region' will, among others, help achieve greater public finance oversight and accountability role of Legislative Assembly and other oversight institutions with engagement of civil society organisations.

Compliance audits<sup>12</sup> are undertaken of agencies with recommendations being made and the opportunity for agencies to respond. A coherent approach is taken to following up recommendations from previous years and these are documented in the compliance report provided annually to Parliament.

The Office of the Audit General has so far carried out and published three performance audits<sup>13</sup>: Tonga's readiness for SDGs implementation in June 2019, Management of Government Asset in June 2019 and Administration of Public Procurement in June 2020.

Internal control systems are generally sound with clear segregation of duties and the Treasury has a rigorous process of assessing for compliance all expenditure vouchers prior to their release. However, commitment controls apply to less than half of expenditure by value and are often recorded after the obligation is incurred, thus limiting the effectiveness of commitments in avoiding overspending or arrears. The internal audit function is focusing only on expenditure (compliance) and there is uncertainty regarding the application of internal audit to line ministries. Work plan is only partly delivered. Capacity is limited. It is worth noting that the PFMAP includes a broad range of initiatives to improve the functioning of internal audit.

In conclusion, the relevant budget documentation has been published and the eligibility criterion is met.

### 3. DESCRIPTION OF THE ACTION

#### 3.1. Objectives and Expected Outputs

The Overall Objective (Impact) of this action is to contribute to the Kingdom of Tonga's sustainable and inclusive low carbon development.

The Specific Objective (Outcome) of this action is to improve the enabling environment and governance of the energy sector in Tonga in order to sustainably enhance access to modern, sustainable, reliable, safe and affordable energy services and increase energy efficiency for all.

<sup>11</sup> Audited Government's financial Statement 2018-19 <http://www.finance.gov.to/sites/default/files/2020-09/Public%20Accounts%202018-%202019.pdf>

<sup>12</sup> [https://www.audit.gov.to/index.php?option=com\\_content&view=article&id=69&Itemid=288](https://www.audit.gov.to/index.php?option=com_content&view=article&id=69&Itemid=288)

<sup>13</sup> [https://www.audit.gov.to/index.php?option=com\\_content&view=article&id=72&Itemid=295](https://www.audit.gov.to/index.php?option=com_content&view=article&id=72&Itemid=295)

The *induced outputs* to be delivered by this action contributing to the corresponding Specific Objective (Outcome) are:

1. The institutional, regulatory and policy framework of the energy sector is more coherent, strengthened and conducive to the implementation of reforms;
2. The electricity supply network of Nuku'alofa is further upgraded and more resilient to natural disasters.

The *direct outputs* to be delivered by this action are:

- 1.1. Additional fiscal space created by the transfer of funds and increased predictability of funds;
- 1.2. Strengthened capacities conducive to the implementation of reforms and sectorial policy and increased operations efficiency of TPL;
- 1.3. Improved policy dialogue and coordination;
- 1.4. Improved policy performance assessment and monitoring;
- 1.5. Enhanced gender mainstreaming in the energy sector;
- 2.1. Investment in energy infrastructure contributes to overall performance of the sector and reduces the transition cost.

### 3.2. Indicative Activities

Planned indicative activities related to Output 1 entail:

- Financial transfers;
- Policy dialogue and donor coordination;
- Performance and Capacity assessment;
- Gender-responsive capacity building and complementary support in the form of technical assistance;
- Awareness raising campaign and consultations.

Planned indicative activities related to Output 2 entail:

- Partial rehabilitation of Nuku'alofa's electricity network;
- Gender responsive capacity building and complementary support in the form of technical assistance;
- Awareness raising campaign and consultations.

The commitment of the EU's contribution to the Team Europe Initiatives foreseen under this action plan will be complemented by other contributions from Team Europe partners. It is subject to the formal confirmation of each respective partners' meaningful contribution as early as possible. In the event that the TEIs and/or these contributions do not materialise the EU action may continue outside a TEI framework.

### 3.3. Mainstreaming

#### **Environmental Protection & Climate Change**

**Outcomes of the SEA screening** (relevant for budget support and strategic-level interventions)

The Strategic Environmental Assessment (SEA) screening concluded that no further action was required.

**Outcomes of the EIA (Environmental Impact Assessment) screening** (relevant for projects and/or specific interventions within a project)

The EIA (Environment Impact Assessment) screening classified the action as Category B (not requiring an EIA, but for which environment aspects will be addressed during design). Tonga has a well-established environmental impact assessment process administered by MEIDECC.

**Outcome of the CRA (Climate Risk Assessment) screening** (relevant for projects and/or specific interventions within a project)

The Climate Risk Assessment (CRA) screening concluded that this action is no or low risk (no need for further assessment).

The project will develop a management plan for the disposal and treatment of the waste generated to enhance the performance and sustainability of the energy sector.

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### **Gender equality and empowerment of women and girls**

As per OECD Gender DAC codes identified in section 1.1, this action is labelled as G1. This implies that, this action will ensure that gender is adequately and effectively mainstreamed in particular within the energy institutions and in the energy sector. Indeed, this action will promote the collection of gender-disaggregated data for better informed planning and policies, will promote the capacity building of women and seek for opportunities to increase the engagement on policy decision making of women and to offer jobs opportunities in the energy sector. In addition, through policy dialogue, key findings of the PEFA supplementary assessment of gender responsive budgeting will be addressed. This is deemed feasible as Tonga's legal framework is progressive and relatively liberal with regards to the promotion of gender equality and has a goal Gender equity by 2025. In addition, the Women Affairs Division (WAD) – a government agency within the Ministry of Internal Affairs, developed a Gender Mainstreaming Handbook in April 2019.

Domestic violence has been identified by the Government as a major impediment to gender equality. Since 2019, WAD, together with civil society and partners, is leading on developing Tonga's National Service Delivery Protocol for Responding to Gender Based Violence. This will be monitored and incorporated in the dialogue with the Government and the rehabilitation works will put measure to avoid Gender Based Violence and Sexual Harassment

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### **Human Rights**

A right-based approach will be followed in this project. The action is based on the conception that sustainable energy powers sustainable development. The provision of reliable and affordable energy will reinforce other rights such as water, education, jobs, health, food, etc. The project will respect the following principles: Respect for all rights, Participation, Accountability, Non-discrimination and Transparency. The project will focus the support on the duty-bearers (public institutions), but it will ensure that the right holders (women, men, children, etc.) with a special attention on people living in vulnerable situations, profit and can participate from the project outputs and be able to claim their rights (putting in place a complaint system) from the project outputs.

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### **Disability**

As per OECD Disability DAC codes identified in section 1.1, this action is labelled as D0. This implies that this action is not considered relevant for inclusion of persons with disabilities. However, this action will mainstream disability as a right-based approach will be followed. The needs of people living with disabilities will be addressed. It is expected that they will benefit from a better access to affordable, reliable, sustainable and modern energy for all. In addition the inclusion of persons with disabilities will be promoted through policy dialogue. Finally, indirectly, this action may contribute to enhancing decent work opportunities for persons with disabilities.

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### **Democracy**

This action is based on a mutual commitment to the fundamental values of human rights, democracy and rule of law. The compliance with the political criteria to have stable institutions guaranteeing democracy will be monitored and regular dialogue will be held. Political risks are assessed as moderate. Worldwide Governance Indicators of Tonga are improving. The Political stability score is relatively high as well as with regards to Voice and Accountability and Rule of Law. Under the 2010 constitution, Tonga is a constitutional monarchy and a parliamentary democracy with a unicameral Legislative Assembly consisting of 26 elected members, nine of whom are elected by and from among the country's 33 hereditary nobles, and 17 on the basis of universal suffrage in a general election which must take place at intervals of no longer than four years. The Prime Minister is chosen by the Legislative Assembly and appointed by the monarch. The Prime Minister selects his cabinet who are then appointed by the monarch. The king retains important powers including the authority to veto legislation, dissolve the parliament and appoint judicial officials. The next general elections are scheduled by the end of 2021.

This action will monitor the credibility and transparency of the electoral process, balance of power, enabled space for civil society, freedom of expression online and offline, association and assembly and media independence. It will

encourage an accountable and effective public administration, contribute to boosting reforms to fix systemic weaknesses and will promote transparency and oversight of the budget through strengthened policy dialogue.

### Conflict sensitivity, peace and resilience

The risk of conflict and insecurity, including political and social destabilisation, is assessed as low. Tonga's fight against illicit drugs is a priority of the Government.

The implementation of the Environmental and Social Safeguard measures for the upgrade of the Nuku'alofa's electricity network will be duly monitored.

This action will monitor the impacts of the COVID-19 pandemic (and other potential shocks) which could undermine, among others, economic stability and lead to potential conflicts related to access to resources. It will assist in the economic and fiscal recovery, including by contributing to reduce adverse social and economic impact but also by strengthening public service management. Finally this action will also contribute to macro-economic resilience. Finally it is worth considering that the provision of reliable energy supply and modern energy services is a key factor to support sustainable and inclusive economic development and poverty reduction in Tonga.

### Disaster Risk Reduction

This action contributes to climate adaptation by contributing to an investment which will strengthen the resilience of the electricity network infrastructure but also by reinforcing the capacity of the authorities in terms of climate vulnerability analysis and climate proofing, including for strategic planning and design of investments. Moreover, Strategic Environmental Assessments (SEA) will be promoted to ensure the integration of environment and climate change considerations in the broader strategic energy planning.

The Government is finalizing a national disaster risk financing strategy. Progress in its implementation will be monitored through the JPRM and policy actions strengthening resilience to disasters will be promoted.

The action is expected to contribute to climate change mitigation through the promotion of renewable energy and energy efficiency.

### Other considerations if relevant

Not applicable.

## 3.4. Risks and Lessons Learned

Category	Risks	Likelihood (High/ Medium/ Low)	Impact (High/ Medium/ Low)	Mitigating measures
External environment – Macro-environment	<b>COVID-19</b> undermines economic growth and the fiscal position for a prolonged period and diverts focus and capacity away from sustaining reforms.	High	High	Monitoring of economic development. This action will contribute to the economic and fiscal recovery. Continued support to preparedness and prevention (health programmes, COVAX).
External environment – Macro-environment	<b>Debt sustainability, vulnerability and exogenous shocks</b>	High	High	Continued policy dialogue between key donors and the government based on the JPRM. Revenue, public remuneration, and cash and debt management reforms incentivized by the (including MTDS and recommendations from the 2020 Climate Change Policy Assessment). Promotion of disaster risk reduction and financing.

External environment – Political decisions and priorities outside the Commission	<b>Government ownership</b>	Low	High	Continued intensive policy dialogue with decision makers and other stakeholders to develop joint priority reform expectations and form broad reform coalitions that uphold reform pressures and commitments.
External environment – Political decisions and priorities outside the Commission	<b>Political</b> (human rights, democracy, rule of law, insecurity and conflict)	Medium	High	Tonga's accession to the international instruments, implementation and enforcement of Human Rights provisions and security-related issues will be further raised in the political meetings and particularly in the EU-Tonga Political Dialogue
External environment – External Partner	<b>Cooperation with ADB</b> – Delay in negotiation of financial framework partnership agreement beyond the programme timeline	Low	High	Follow-up of the negotiation with ABD. Monitoring of implementation of DFAT agreement with TPL.
People and Organisation – Human resources	<b>Institutional capacity.</b> High staff turnover aggravates capacity constraints, affecting reform formulation, coordination, and implementation.	High	High	Sequencing and selection of limited number of reforms including through the Joint Policy Reform Matrix (JPRM) and provision of coordinated technical assistance.
Human Rights	<b>Human rights risk.</b> Lack of compliance with decent work agenda by the private sector.	Low	Low	Private sector will abide by the UN Guiding Principles on Business and Human Rights
Planning, processes and systems - strategy, planning and policy	<b>Developmental</b> (public policy, government effectiveness, investment climate and business environment)	Medium	Medium	Continued policy dialogue between key donors and the government based on the JPRM, coordination of technical assistance. Contribution to the Private Sector Development Initiative implemented by ADB (foreseen under the 11 <sup>th</sup> EDF PRISE programme). This action will promote private sector investment in the sector as well as initiative such as ElectriFi and Get.Invest.
Planning, processes and systems - strategy, planning and policy	<b>Public Finance Management</b> (comprehensiveness of the budget, revenue collection & budget execution, public procurement and investment, external audit)	Medium	Medium	Continued policy dialogue between key donors and the government based on the JPRM, coordination of technical assistance. Continued support to strengthen PFM and good governance at regional level (incl. through PFTAC and UNDP).
People and Organisation – Ethics and organizational behaviours	<b>Corruption &amp; Fraud</b>	Medium	Medium	Continued policy and political dialogue to encourage reforms. Monitoring of the foreseen fraud policy & disciplinary regulations. Follow-up on the appointment of the country's first anticorruption commissioner. Risk will be mitigated with

				through transparent procurement and compliance procedures.
People and local engagement	<b>Local engagement and elitism.</b> Lack of local engagement and support and risk that some groups living in the most vulnerable situations will be left behind.	Medium	Medium	The action will engage communities (including women representatives) at all stages of the project implementation to ensure ownership. Equal access to electricity will be closely monitored by collecting disaggregated data (sex, age, disability). Access to information for all groups concerning the Action will be ensured (considering language and appropriate means of communication).
Legality and regularity	<b>Delayed endorsement of regulation and bills</b>	Medium	Medium	Timely consultations and involvement of stakeholders during preparation of legal documents.

### Lessons Learned:

- The Tongan energy policy financing remains highly reliant on foreign aid but there are some private sector investments underway. The improvement of the institutional and regulatory frameworks as well as infrastructure built starts enabling private sector investments, which remain risky.
- A comprehensive approach combining sector budget support with technical assistance and investments projects induces tangible development outcomes by incentivizing reforms and supporting knowledge and technology transfer. Synergies and visibility could be enhanced by ensuring such a combination per design.
- A Joint Government- Development partners' review of the progress in terms of implementation of the energy sector's roadmap is key and requires to be informed by an adequate monitoring and evaluation framework. Tonga Power Limited reliably and regularly monitors and reports electricity data.
- Indicators such as Renewable Energy penetration or overall station efficiency are very pertinent but complex to calibrate adequately and very political. Increasing demand for electricity as well as infrastructure development timeline to be well considered.
- Budget support operations incentivize reforms and facilitate high-level policy dialogue and contribute to enhancing stakeholders' coordination and communication. The Joint Policy Reform Matrix led by Government with the donors providing budget support is a very efficient PFM policy dialogue mechanism and facilitates the exchange of information among donors. Financial sustainability of the energy sector needs a dedicated focus in the sectoral policy dialogue.
- Human capacity development is required within institutions but also in the private sector. A stronger and regular involvement of the civil society remain to be encouraged.
- Considering Tonga's debt distress risk (further accentuated by Covid-19), it is key that the Tongan authorities continue the 'No New Loan' policy and sustaining fiscal consolidation and improving the revenue side. Long-term fiscal adjustment and green pandemic recovery are top topics to be discussed with the authorities.
- The budget support facilitated efficient support to Government-led disaster recovery by increasing fiscal space in a timely manner when Government was facing substantial unanticipated financing gap caused by external shocks. This operation has supported the recovery efforts from the tropical cyclones Gita and Harold and the mitigation of the socio-economic impacts of the COVID-19 crisis. It has also contributed to enhance the dialogue on disaster risk financing and building back better.



### 3.5. The Intervention Logic

The underlying intervention logic for this action is as follows:

*IF* conditional financial transfers are made, technical assistance provided, policy dialogue strengthened and the Nuku'alofa grid upgrade project are supported *AND* the ambition of the Government of Tonga for a sustainable transition into a modern, resource-efficient and competitive economy is genuine and foreseen complementary investments materialize *THEN* the Government will have more resources and means to implement, enforce and monitor key reforms and policies envisaged and to manage and use its assets more efficiently, renewable energy generation will increase and the grid will be able to absorb the power.

*IF* key reforms and policies are implemented and the energy system is enhanced *AND* a more conducive business environment is created, political stability is maintained and adequate communication around the reforms is done, *THEN* a conducive and enabling environment to address the energy needs of Tonga in a sustainable, secure, affordable and resilient manner will be created, energy efficiency will be promoted to contribute managing the demand, energy costs will be lowered and electricity price reduced, and GHG emissions reduced *BECAUSE* an adequate framework will reduce the risks for investors and encourage sustainable financing, pilots projects will demonstrate the feasibility and encourage new actors to invest, the system will be able to absorb additional production of renewable energy which can reduce the need for expensive peak power provision, thereby saving energy costs, GHG emissions will be reduced as emissions from renewable sources are lower than emissions from fossil fuel powered plants.

*IF* energy access is secured, energy costs lowered, and GHG emissions reduced, *THEN* business production can increase, jobs can be created, tax revenue increased and climate change mitigated which contributes to a sustainable and inclusive low carbon development. The relationship between more reliable power generation and economic growth and job creation is well documented. This would allow to address the energy needs of Tonga in a sustainable, secure, affordable and resilient manner.

Sustainably enhancing access to modern, sustainable, reliable, safe and affordable energy services and increasing energy efficiency for all is essential to achieve “a more progressive Tonga supporting higher quality of life for all”<sup>14</sup>.

The action is aligned with two intertwined strategic documents: the Tonga Energy Road Map 2021-2035 Framework and the Energy Bill. The Tonga Energy Road Map 2021-2035 Framework sets the targets and identifies the measures planned by the government for the energy sector for the 2021-2035 period. The Energy Bill will establish a legal framework that provides a coherent institutional, regulatory and policy framework and promotes private sector participation and research initiatives.

This action has been designed to prompt relevant public institutions to implement and enforce the reforms envisaged by the bill and the climate mitigation measures foreseen in the roadmap, but also to enhance the capacity of the authorities accordingly. Specific efforts will also be made to improve data management as well as monitoring and evaluation of the policy implementation.

With massive transformations underway in energy generation, distribution, and policy, Tonga's electricity system will perform with far greater complexity in the future. Therefore, it is key that TPL, a trusted partner and major recipient of funds, maintains an adequate performance and financial position. This action, consequently, envisages providing technical support to TPL (in addition to the institutional bodies) to improve its internal policies and processes and develop further the skills of its staff. Adequate asset management will be also encouraged.

At this stage, the energy sector remains highly reliant on foreign aid and strategic investments supported by donors are required to reduce the transition costs. This action will contribute to the upgrade and modernisation of Nuku'alofa's electricity network. This will help to increase access to safe and reliable electricity supply, to reduce network losses, to improve the resilience of the network to withstand extreme climate events and will facilitate the absorption of renewable energy.

This action will encourage the participation of the private sector, which is crucial to sound and sustainable development of the energy sector. In order to foster sectoral financial sustainability, this action will promote adequate carbon pricing and improved access to sustainable energy financing tools. Fiscal resilience will be pursued thanks to strengthened revenue mobilisation and the implementation of strategic fiscal and debt policies promoted through the JPRM.

<sup>14</sup> National impact sought by Tonga's Strategic Development Framework 2015-2025

### 3.6. Logical Framework Matrix

BUDGET SUPPORT MODALITY as reflected by the national/sector public policy supported (4 levels of results / indicators / Baselines / Targets / Source of Data - no activities)

Caveat: the indicators used in the LFM refer to the budget support intervention logic. They help monitoring the implementation of the programme in view of its objectives and later evaluate its contribution to country policy's achievements. The list of indicators below should not be understood as the list of indicators informing the disbursement of variable tranches and spelled out in the relevant part of the financing agreement signed with the partner country, although some indicators may be used for both purposes and will be marked accordingly.

Results	Results chain	Indicators (max. 15)	Baselines (year)	Targets by the end of the budget support contract (year)	Sources of data (1 per indicator)
<b>Indicative Impact of the policy</b>	To contribute to the Kingdom of Tonga's sustainable and inclusive low carbon development.	<i>Average annual growth in real GDP</i>  <i>GHG emissions</i>	<i>2 (2015)</i>  <i>112.3 ktCO2 (2018)</i>	<i>3 -4% per year (2025)</i>  <i>Between 90 ktCO2 (2035) and 112.3 ktCO2 (2018)</i>	<i>NVR – SDRFII report IMF Article IV Consultation</i>  <i>NVR / SDG7 report MEIDECC report</i>
<b>Expected Outcomes of the policy</b>	The enabling environment and governance of the energy sector in Tonga is improved in order to sustainably enhance access to modern, sustainable, reliable, safe and affordable energy services and increase energy efficiency for all;	<i>1.1 Renewable electricity share in the total electricity production</i>  <i>1.2 Electricity line losses</i>  <i>1.3 MEPSL regulations approved which are gender and human rights responsive</i>  <i>1.4 Carbon pricing improved</i>	<i>1.1 14% (2019)</i>  <i>1.2 9% (2020)</i>  <i>1.3 MEPSL not regulated (2020)</i>  <i>1.4 Fuel component of the electricity tariff not adjusted; subsidy on the electricity tariff benefits both high- and low-income households.(2020)</i>	<i>1.1 30% (2024)</i>  <i>1.2 9 % (2024)</i>  <i>1.3 MEPSL regulation approved (2024)</i>  <i>1.1 Correctly pricing electricity to reflect supply costs and support for the poor better targeted (2024)</i>	<i>1.1 Annual report MEIDECC &amp; TPL</i>  <i>1.2 Annual report MEIDECC &amp; TPL</i>  <i>1.3 Annual report of DoE/ MEIDECC</i>  <i>1.4 GoT Revenue Committee (MoF, MORC and MTED reports, Tax exemptions and zero-ratings list, Electricity / Energy Commission reports, JPRM reports</i>

<b>Induced Outputs</b>	A coherent institutional, regulatory and policy framework for the Tonga energy sector is in place;	<i>Key governing bodies established (Energy Commission, Energy Advisory Committee)</i>	<i>Electricity commission in place (2020)</i>	<i>Energy Commission established (2022)</i>	<i>Annual report MEIDECC, nominations of commissioner, Energy commission reports</i>
			<i>Energy Advisory Committee and technical committees not existing</i>	<i>Energy Advisory Committee established and functioning (2023)</i>  <i>Technical committees established (2023)</i>	<i>Annual report MEIDEC, nominations, activity reports</i>
		<i>Comprehensive energy sector database established to facilitate evidence-based decision-making. Procedures for collecting, compiling, managing and disseminating data are standardized and institutional arrangements agreed</i>	<i>Not in place (2020)</i>	<i>In place (2024)</i>	<i>Annual report MEIDEC</i>
	;	<i>Number of IPP contract concluded between the concessionaire and a third party energy service provider (Increased participation of the private sector in the energy sector contributes to financial sustainability;)</i>	<i>X+1 (2024)</i>	<i>X+1 (2025)</i>	<i>TPL annual report</i>
		<i>Number of representatives of relevant public institutions (ex: MEIDECC, TPL, Energy Commission, Infrastructure, Finance, Public Enterprise, Public Service Commission, WAD) trained, disaggregated by sex</i>	<i>0 (2020)</i>	<i>At least 15 (X% women, X% men)</i>	<i>Training reports</i>
	The electricity supply network of Nuku'alofa is further restored and more resilient to natural disasters;	<i>Number of km of kV and LV lines and number of power poles replaced with information about socio-economic conditions (close to schools, hospitals, etc.)</i>  <i>Percentage of women involved in rehabilitation works</i>	<i>0 (2020)</i>  <i>0%</i>	<i>TBD</i>  <i>At least 20% women</i>	<i>ADB implementation reports</i>  <i>ADB project implementation and completion reports</i>

<b>Direct Outputs</b>	Additional fiscal space created by the transfer of funds and increased predictability of funds.	<i>Disbursement level of the BS</i>	<i>0 (2021)</i>	<i>€ XX M (202X)</i>	EU disbursement decisions Funds receipts
	Strengthened capacities conducive to the implementation of reforms and increased efficiency/ sustained performance of TPL	<i>Status of EU Technical Assistance</i>	<i>To be contracted (2021)</i>	<i>Fully deployed (202X)</i>	Reports from service contract
	Improved policy dialogue and coordination.	<i>Number of policy dialogue sessions organized and number of participants disaggregated by sex.</i>	<i>i) JPRM twice a year ii) Energy sector review once a year (2021)</i>	<i>i) JPRM twice a year ii) Energy sector review twice a year with CSO participation iii) Quarterly structured assessment of the progress in implementing the reforms envisaged under the Energy Bill</i>	Minutes of meetings available
		<i>Number of awareness raising campaigns and consultations</i>			
		<i>Database Division established, trained and equipped (including training on gender data)</i>	<i>0 (2021)</i>	<i>3 (202X)</i>	MEIDECC report, consultations minutes
	Improved policy performance assessment and monitoring.	Number of gender responsive capacity building activities or initiatives supported through the technical assistance	<i>Not existing</i>	<i>Database Division functional</i>	MEIDECC report
	Enhanced gender mainstreaming in the energy sector	Status of the contribution agreement with ADB	<i>0 (2021)</i>	<i>5 (202X)</i>	Technical assistance report
	Investment in energy infrastructure contributes to overall performance of the sector and reduces the transition cost	Planned meaningful Civil Society engagement in the project and inclusive consultations organized	<i>To be negotiated and signed (2021)</i>	<i>Successfully implemented and closed (202X)</i>	ADB implementation reports
		Number of gender responsive trainings	<i>Not applicable</i>	<i>Yes (202X)</i>	ADB project completion report
			<i>0 (2021)</i>	<i>To be defined</i>	ADB project implementation and completion reports

## 4. IMPLEMENTATION ARRANGEMENTS

### 4.1. Financing Agreement

In order to implement this action, it is envisaged to conclude a financing agreement with the Kingdom of Tonga.

### 4.2. Indicative Implementation Period

The indicative operational implementation period of this action, during which the activities described in section 3 will be carried out and the corresponding contracts and agreements implemented, is 60 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Financing Decision and the relevant contracts and agreements.

### 4.3. Implementation of the Budget Support Component

#### 4.3.1. Rationale for the Amounts Allocated to Budget Support

The amount allocated for the budget support component is EUR 6.65 million, and for complementary support is EUR 3.35 million. This amount is based on:

- Commitment of the Kingdom of Tonga to allocate national budget resources (including EU budget support) in line with development strategy and objectives and to follow standard national budget procedures;
- Commitment of the Kingdom of Tonga to establish and resource the governing bodies identified in the Energy Bill and develop and endorse priority regulations and standards for the energy sector;
- Commitment of the Kingdom of Tonga to undertake priority reforms and to improve its tax policy and tax administration in order to mobilise domestic revenue further and/more equitably domestic resources for the implementation of its policy/strategy;
- Commitment of the partner country to pursue the JPRM and strengthen policy dialogue;
- Due consideration of the Kingdom of Tonga limited financial and human capacity to reach its climate and general development goals;
- Strong track record in implementing an ambitious and consistent reform agenda supported by budget support operations demonstrated by the partner country;
- Very positive trend in the overall performance of the implementation of the energy policy;
- High absorption capacity of past disbursements;
- Commitment of the partner country to enhance energy data collection, compilation, management and dissemination.

#### 4.3.2. Criteria for Disbursement of Budget Support

a) Conditions.

The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Energy Bill and Tonga Energy Road Map 2021-2035 Framework and continued credibility and relevance thereof or of the subsequent policy.
- Maintenance of a credible and relevant stability-oriented macroeconomic policy or progress made towards restoring key balances.
- Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilisation, and continued relevance and credibility of the reform programme.

- Satisfactory progress with regard to the public availability of accessible, timely, comprehensive, and sound budgetary information.

b) The performance indicators for disbursement to be used for variable tranches may focus on the following policy priorities:

- Establishment of key energy governing bodies in line with the 2021 Energy Law (Energy Commission, Advisory Committee, Technical Committees) creating a coherent institutional framework for the Tonga energy sector which supports the objectives of energy resilience, affordability, security and safety, access and reliability and sustainability;
- Approval of key regulations (standards of Renewable Energy, Minimum Energy Performance Standards and Labelling) to create a more conducive environment, promote sustainable financing and energy efficiency;
- Renewable electricity share in the total electricity production in line with the climate migration goals of the Kingdom of Tonga and the Paris Agreement;
- Improved carbon pricing to incentivize energy efficiency, facilitate access to the poor, contribute to financial sustainability while enhancing revenue mobilization.

c) Modifications.

The chosen performance indicators and targets to be used for the disbursement of variable tranches will apply for the duration of the action. However, in duly justified cases, the partner country and the Commission may agree on changes to indicators or on upward/downward revisions of targets. Such changes shall be authorised in writing ex-ante, at the latest at the beginning of the period under review applicable to the indicators and targets.

In exceptional and/or duly justified cases, for instance where unexpected events, external shocks or changing circumstances have made the indicator or the target irrelevant and could not be anticipated, a variable tranche indicator may be waived. In these cases, the related amount could either be reallocated to the other indicators of the variable tranche the same year or be transferred to the next variable tranche the following year (in accordance with the original weighting of the indicators). It could also be decided to re-assess an indicator the following year against the original target, if there was a positive trend and the authorities did not reach the target because of factors beyond their control. The use of this provision shall be requested by the partner country and approved in writing by the Commission.

d) Fundamental values.

In case of a significant deterioration of fundamental values, budget support disbursements may be suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

#### 4.3.3. Budget Support Details

Budget support is provided as direct untargeted budget support to the national treasury. The crediting of the EURO transfers disbursed into Tonga Paanga (TOP) will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement.

### 4.4. Implementation Modalities

The Commission will ensure that the EU appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures<sup>15</sup>.

#### 4.4.1. Direct Management (Procurement)

The procurement will contribute to strengthen the capacities of relevant institutions in a way which is conducive to the implementation of reforms, in particular the Energy Bill and of the sectorial policy TERM PLUS. It will contribute to improved governance of the sector and sustained performance of TPL.

<sup>15</sup> [www.sanctionsmap.eu](http://www.sanctionsmap.eu). Please note that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

This call has been launched on 01 November 2021 under a suspensive clause prior to the adoption of this Decision. This is justified because of the limited human capacities of the government which need to be reinforced timely in order to ensure the efficiency of the programme and to facilitate the implementation of the bill and of TERM PLUS.

#### 4.4.2. Indirect Management with an international organisation

A part of this action may be implemented in indirect management with ADB. This implementation entails the partial upgrade of the electricity supply network of Nuku'alofa in close collaboration with TPL. The envisaged entity has been selected using the following criteria: operational capacity and strong involvement in the energy sector in the Kingdom of Tonga.

In case the envisaged entity would need to be replaced, the Commission's services may select a replacement entity using the same criteria. If the entity is replaced, the decision to replace it needs to be justified.

#### 4.5. Scope of geographical eligibility for procurement and grants

The geographical eligibility in terms of place of establishment for participating in procurement and grant award procedures and in terms of origin of supplies purchased as established in the basic act and set out in the relevant contractual documents shall apply.

The Commission's authorising officer responsible may extend the geographical eligibility on the basis of urgency or of unavailability of services in the markets of the countries or territories concerned, or in other duly substantiated cases where application of the eligibility rules would make the realization of this action impossible or exceedingly difficult (Article 28(10) NDICI-Global Europe Regulation).

For this action, natural persons who are nationals of, and legal persons who are effectively established in the following countries and territories covered by this action, are also eligible: New-Zealand, Australia.

#### 4.6. Indicative Budget

Indicative Budget components	EU contribution (amount in EUR)	Third-party contribution, in currency identified
<b>Output 1 : The institutional, regulatory and policy framework of the energy sector is more coherent, strengthened and conducive</b>		
<b>Budget support</b> - cf. section 4.3	6 650 000	N.A.
Procurement (direct management) – cf. section 4.4.3	1 000 000	
<b>Output 2 : Upgrade of electricity supply network of Nuku'alofa</b>		
Indirect management with ADB	2 000 000	Approximately USD 5 000 000
<b>Evaluation</b> – cf. section 5.2	350 000	N.A.
<b>Audit</b> – cf. section 5.3		
<b>Totals</b>	10 000 000	USD 5 000 000

#### 4.7. Organisational Set-up and Responsibilities

As signatory of the financing agreement, the Ministry of Finance is the designated EU counterpart and responsible for all official communication with the EU. As such, it will submit payment requests on behalf of the Kingdom of Tonga.

At a broader national level, the Ministry will continue to facilitate coordination with relevant authorities and the dialogue and coordination amongst development partners.



The monitoring of the action by the EU and the Ministry of Finance will be through government led sector coordination and through government/donor meetings, based on country reports and monitoring and evaluation systems, in line with Aid Effectiveness agenda.

The EU will continue to participate to the Joint Policy Reform Matrix (JPRM) which is a framework for cooperation between the Government of Tonga and five Development Partners (World Bank, ADB, Australia, New Zealand and European Union). The JPRM is a common set of priority policy actions relevant to the provision of budget support to the Government of Tonga. The process is steered by MoF from the Government side. Regular policy dialogue takes place at the occasion of the six monthly meeting between government and budget support partners in person or remotely.

The Ministry responsible for energy will be in charge of implementing the Energy Act and is responsible to provide general oversight for the energy sector. The Department of Energy, established by the Act, is responsible for the day-to-day implementation, administration and enforcement of the Act. This department develops –in consultation with the foreseen advisory committee and its technical committees for the national energy policy–regulations and standards for the energy sector. The Department also coordinates, reviews and monitors all energy-related matters and advises the Government on energy-related activities and matters. The Department of Energy shall be responsible for the implementation and monitoring of the action, in accordance with the Energy Act.

Annual Energy Sector Review and Coordination meetings are held under the leadership of the Ministry responsible for Energy with the European Union invited as a member.

The EU will participate as observer to the project steering committee of the Nuku'alofa Network Upgrade Project. This committee will oversee project implementation and progress, rectify issues hindering project progress and guide executing and implementing agencies.

The Technical Assistance will be managed directly by the EU Delegation in close collaboration with the Government of Tonga.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

## 5. PERFORMANCE MEASUREMENT

### 5.1. Monitoring and Reporting

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results (Outputs and direct Outcomes) as measured by corresponding indicators disaggregated minimum by sex, using as reference the logframe matrix (for project modality) and the partner's strategy, policy or reform action plan list (for budget support).

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

Roles and responsibilities for data collection, analysis and monitoring:

The monitoring by the EU and the Ministry of Finance will be through government-led sector coordination (Annual Energy Sector Review) and through government/donor meetings, based on country reports and monitoring and evaluation systems. The management of energy data will be enhanced thanks to the measures foreseen by the Energy Act but also through capacity building.

The indicators and targets chosen are aligned with the Energy Bill and the TERM Plus Framework but also the SDRFII. The foreseen TERM Plus monitoring and evaluation framework, the SDRFII monitoring and evaluation system, Annual Corporate Plans, Annual reports, external audit reports and updates on the implementation of the TERM Plus and programmes will therefore inform progress on indicators of the logframe. The EU budget support programme will be captured in the national budget and any related policy dialogue will be documented in the annual reports of the MEIDECC.

The statistical and monitoring systems as well as the quality of official data in the policy field covered have been assessed. This assessment has fed into the design of the action as follows: identification of priority areas of concerns to be addressed by the action, selection of indicators and targets and structure of the logical framework.

## 5.2. Evaluation

Having regard to the importance of the action, a final evaluation will be carried out for this action or its components via independent consultants contracted by the Commission.

It will be carried out for accountability and learning purposes at various levels (including for policy revision), taking into account in particular the fact that new institutional bodies will be established and considering the level of transformation expected and considering the fact that potential subsequent action will need to be informed by experience gained under this programme.

The evaluation of this action may be performed individually or through a joint strategic evaluation of budget support operations carried out with the partner country, other budget support providers and relevant stakeholders.

The Commission shall inform the implementing partner at least 3 months in advance of the dates envisaged for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders following the best practice of evaluation dissemination<sup>16</sup>. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

Evaluation services may be contracted under a framework contract.

## 5.3. Audit and Verifications

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audit or verification assignments for one or several contracts or agreements.

# 6. STRATEGIC COMMUNICATION AND PUBLIC DIPLOMACY

The 2021-2027 programming cycle will adopt a new approach to pooling, programming and deploying strategic communication and public diplomacy resources.

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union's support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measure action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

<sup>16</sup> See best [practice of evaluation dissemination](#)

