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Statement by the Hon. **Hu'akavameiliku SIAOSI SOVALENI,**
Governor of the Fund and the Bank for **TONGA**

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Governor of the Fund and the Bank for Tonga

Mr. Chairman,
Mr. President of the World Bank Group,
Madame Managing Director of the International Monetary Fund,
Fellow Governors,
Distinguished delegates,
Ladies and Gentlemen,

Introduction

It is with great honour and privilege for me, as Prime Minister and Governor of the Bank and the Fund for Tonga, to take this opportunity to address the International Monetary Fund (IMF or Fund) and World Bank Group (WBG or Bank) Joint Board of Governors 2022 Annual Meetings on behalf of the Government of the Kingdom of Tonga.

We gather today, after two years from the onset of the pandemic, the global recovery remains fragile and uneven across countries, regions and sectors. Tonga has coped fairly well in terms of health outcomes during earlier waves of the pandemic. However, we were together with countries who have been hard hit by the third wave, and the catastrophic impact of the volcanic eruption and tsunami in January 2022. As a result, our recovery effort is gradually progressing due to the prolonged closure of our border, devastated and severely stretched fiscal positions; and we are some years away from a return to pre-pandemic economic and social situations. The scale of the crisis and its long-lasting effects have been greatly evident now and it will be in the coming months and years, particularly its impacts on the most vulnerable in society who are disproportionately affected, including people with disabilities and are unemployed.

Furthermore, Tonga is grappling with containing high inflation most of which is imported from its global trading partners and factors beyond its control such as COVID-19 related disruptions on global supplies and shipping services and rising food and energy prices, against the competing priority of continuing to support the economic recovery. Meanwhile, encouraging the utilization of excess liquidity to support economic recovery remains a challenge in the context of high household and corporate indebtedness, the ongoing heightened pandemic-related uncertainties and high vulnerability to external shocks weighing on appetite for investments. Despite that, we remain encouraged by the scale and speed of the response from the WBG and IMF during this difficult time.

The Food and Energy Crisis: Weathering the Storm

We welcome the Bank's focus on food and energy security, which is more critical especially at this time of difficulties. We also take note of the progress under the SDGs implementation matrix, especially the SDG2 and SDG7, both of them remain weak and how and when they may be achieved remain uncertain. The two issues seem highly interrelated; however, each of them shares individual set of challenges that requires global community to address swiftly and collectively.

Regarding the proposed policy priorities for more resilient and efficient food and energy systems. We take note of the efforts to address supply side food challenges and the emphasis on the demand side energy challenges. However, we stress the importance for the **approach to be holistic** and consider both the demand side of food and affordable energy access. Fossil fuels, in some small countries like Tonga, will still remain an affordable and reliable energy source, in addition to renewable energy options such as wind, battery, hydro, and solar, to address large gaps in energy access. Petroleum, on the other hand, remains a key challenge in the context of transporting and food processing, due mainly to increased cost of distribution and logistics among others. However, we request the Bank (through its regional assistance on PRIF) and other development partners' assistance in providing strategic solutions on how to address this issue, at least for the short to medium term.

Likewise, the **food insecurity risk** in small island countries is a great concern, due to the combined impacts of the COVID-19 pandemic, conflict, and climate change. We think that much remains to be done to reach the neediest through social protection programs, including in communities that work in the informal sector. Also, we strongly support the Bank's view on **restrictive trade measures** that are worsening the current food crisis. Thus, it is critical, that the Bank advocates and supports member countries to revisit and review trade restrictive measures, including those on food exports, with the aim of enhancing market predictability, increasing business confidence, and allowing agri-food trade to flourish.

In addition, the importance of **mobilizing private sector resources** towards resilient and sustainable agriculture and energy investments; and more critically, to meet the significant financing gaps for achieving the SDGs, is highly recommended. Hence, we urged the WBG to continue its work to help crowd-in private capital and finance to mobilize Paris-aligned private sector investments. Thus, WBG in close collaboration with Local and Regional Development Banks, is commended to reconsider efforts in that direction; in particular: what has worked, what more can be done and what are the prospects and expectations going forward.

Achieving Climate and Development Goals – The Financing Question

We acknowledge the fact that the need for climate finance, especially by the most affected countries, the majority of which are from the small island developing states (SIDS), are indeed overwhelming this time than ever before. Hence, it is inevitable to mobilize climate finance from every possible source; so, the bilateral donors, large foundations and private investors all need to make meaningful contributions. We also think that the role of MDBs should be to maximize climate co-benefits in their development financing operations, and their de-risking tools, blending with concessional finance and grants where needed, which can play an imperative role to make climate investments financially attractive to private investors and financial institutions. Thus, we ask IFC to play a pivotal advocacy and promotional role in this regard to assist the member countries in accessing affordable climate financing.

Despite the low carbon footprints in Tonga, carbon credit is one of the energy financings that Tonga can explore in the near future, among many market and regulatory mechanisms, to support its green energy transitions towards 2030. In an effort to relieve the poor and the most vulnerable people in the country from the unbearable burden of high energy cost, Tonga is willing to work together with its donor partners to achieve its renewable energy targets as planned. Hence, we encourage the Bank Group to share with us alternative strategies that can help raise public climate finance, in particular for the benefit of the poorest and the most vulnerable in Tonga.

Also, we share the view for the adaptation finance needs to be substantially scaled up, with the aim to achieving a balanced provision of finance for mitigation to address the needs of SIDS, by facilitating mechanisms, conditions, and procedures to access available funds such as the GCF. Thus, we ask the Bank and the Fund to liaise closely with other international organizations and MDBs in considering individual country's national strategies, needs and priorities, and challenges in assessing their eligibility to access climate finance and accreditation.

Learning Losses: Heavy cost of COVID-19 on children, youth, and future productivity

The unprecedented disruption of schooling and learning around the world, a shock to human capital that could significantly impact future productivity and livelihoods of children and youth, as well as countries' overall economic prospects, is undeniable. Tonga had closed its in-person schooling for three months; and like other countries in the low-income countries, we have experienced the adverse impact of this closure on our children's academic performance despite the mode of teaching that we have put in place to allow teachers and students to communicate during this time. Hence, we stress our needs during this difficult time and request the Bank and IMF's support to tackle learning losses and accelerate longer-term learning covering the entire learning cycle. Also, we hope to see our challenges strengthened by the Learning Poverty commitments included in the IDA20 policy allocations for the IDA countries, which prioritizes: *keeping schools open and increase instructional time, assess students and equip teachers to match instruction to students' levels of learning, streamline the curriculum and focus on foundations, and very importantly, create a national political commitment for learning recovery, guided by credible measurement of learning*.

Additionally, the results of the assessment undertaken by the Bank on the learning losses during the pandemic indicated that the **learning poverty rate** in low- and middle-income countries may have risen to an estimate of 70 percent in 2022. Youth have also suffered a loss in human capital in terms of both skills and jobs, with youth employment declines were typically not offset by increases in educational enrollment. We sight this result as alarming which requires concrete and conclusive policy action and for Government to act decisively with complementary financing to prevent the impact of learning losses becoming permanent. Such action may include strengthening education's budgets to consider space for progress focusing on outcomes, possibility of using the most effective delivery mechanisms (including public-private partnerships) for cost sharing, and proper costing of financing needed to provide quality basic education and basic services to both children and youth alike. Thus, we call upon the Bank, IMF and other MDBs to consider implementing best practices and projects that will address the need to invest in learning and skills recovery.

Tonga – WBG and IMF Recovery Response

Tonga's recovery situation remains precarious owing to the broad-based decline in exports, tourism revenue, remittances, and foreign investments as a result of the long closure of our border due to the COVID-19 pandemic, the cyclone, and recent volcanic eruption and tsunami, and the conflict between Russia and Ukraine. Earlier this year, the Tongan economy was devastated by the Hunga-Tonga Hunga Hapai volcanic eruption and tsunami, amounting to economic losses of up to USD 90 million and millions of unaccounted non-economic losses. These are living testimonies to how hard-won development gains are regularly (and so easily) wiped out – and it is the poor and the vulnerable who are most impacted. Hence, the role played by the Bank and the Fund in these crises, particularly in the speed and scale of COVID-19 Fast Track Facility, the CAT DDO, the additional Budget Support, and the IMF's Rapid Credit Facility have been provided to Tonga to support robust economic recovery, is commendable.

Moreover, Tonga has been actively promoting the **'Think Resilience' approach** to all its infrastructure investments and has been working collaboratively with various stakeholders to put in place policies and systems that integrate resilience measures in development planning. This works through the following mechanisms:

- The **Tonga Strategic Development Framework II (TSDF II)**. It embeds resilient development as a key priority of the Government and localizes the Sustainable Development Goals for Tonga.
- The current **National Infrastructure Investment Plan 3 (NIIP 3)**. It has mandated component of our government infrastructure initiatives that directs all new proposals to undertake a risk screening assessment to identify risks to and from the project, particularly related to climate change and disaster risks. This process also requires the identification of the cost component of priority risk mitigation measures, so we can embed this in budget processes.
- The **Disaster Risk Finance Strategy (DRFS)**. Building on the existing legal and policy framework for disaster and disaster-related financial risk management, this Strategy brings

> together various ongoing and planned efforts from different sectors to quantify, reduce, and mitigate disaster-related financial risk. It also provides a framework for coordination between key stakeholders when implementing concrete activities with a common objective: *to strengthen the financial resilience of the Tongan government, households, and business to disasters.*

However, the challenge is understanding the investment that is needed and the reality is that, financial incentives are too often insufficient to drive action, often lacks flexibility, and is not proportionate to our vulnerability levels. This heightened the need to deploy financial instruments which catalyze investments in resilience, such that our government systems are able to assist communities to respond and recover in a timely manner. Thus, the Government, with the assistance of the Bank and other MDBs, had adopted a **risk-informed development approach**, embedding climate change and risk considerations into planning and budgeting processes, and ensuring this is not only programmatic but led by all development sectors and relevant stakeholders.

This is critical in Tonga where we live in a cycle of disaster response and recovery and its development process and investment decisions need to be informed by risk data and analysis to ensure that we are ***building back better in a resilient manner***. In this context, we also commend the establishment of the Resilience and Sustainability Trust (RST) under the IMF's lending toolkit to help climate-vulnerable low-income countries like Tonga build resilience against long-term risks to balance of payments stability. We also call on members with stronger external positions to finalize contribution agreements to facilitate the swift operationalization of the RST.
Beyond the aftermath of the pandemic and recent natural disasters, strengthening Tonga's economic and financial resiliency in the medium- and longer-term is critical. Relevant reforms and policies to enhance Tonga's growth potential would provide job opportunities and augment household income. Tailored policy advice, capacity development and lending instruments would help Tonga address its multiple policy and reform challenges. To this end, we look forward to the IMF's Management Implementation Plan to address the recommendations of the IMF's Independent Evaluation Office's (IEO) review aimed at enhancing the Fund's engagement with small developing states.

Debt
Tonga's indebtedness remains worrisome where it has reached 33% of its GDP against an IMF target of 40%. In light of this, the international community needs to promote measures including **state-contingent debt instruments**, which can help the government in terms of debt repayment delay linked to a disaster. We are also aware that the OECD promotes innovative debt relief options, including **"debt for climate swaps"**, an option that Tonga can explore in the near future.

In parallel, the government of Tonga will work together with other MDBs to improve the efficiency of tax revenue collection and broaden the tax base as the challenge associated with domestic resource mobilization is significant. This is important for building of Tonga's much-needed fiscal buffers to ensure debt sustainability while making room for spending on building climate resilience and development goals.

Conclusion
Insufficient investment in infrastructure development and our vulnerability to climate change have stalled our development effort, wipe out decades of growth, and delayed our progress towards the UN's Sustainable Development Goals (SDGs). Hence, we support the need for the multilateral development banks to provide additional support for countries that have been the most impacted by downturns in global tourism and remittances and urged the WBG to increase its support in these areas.

Looking forward, we must not lose sight of long-term development goals. Hence, we have high expectations that the WBG, as an institution with its core values on multilateralism, continues to mobilize its resources to address development challenges in countries which are most affected, in close cooperation with donor and recipient countries, other MDBs, and the private sector. As the uncertainties associated with the COVID-19 pandemic and climate change persist, we urge all countries and the international community, including the Bank and the Fund, to stay united and fight through these difficult times with strong global cooperative efforts.