Case study

Breaking the cycle of debt in Small Island Developing States: the Tonga experience

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May 2024

Abstract

Tonga's national debt picture has been dominated by post-disaster debt over the last 20 years, and it is currently considered at high risk of debt distress. Most of Tonga's recent debt has not been contracted to advance sustainable development but rather to recover from shocks and restore previous levels of development. It faces acute short-term debt risks with two large loan repayments falling due in 2024 to China's EXIM Bank. Tonga remains heavily reliant on migrant remittances, budget support from development partners, and external debt in order to meet the essential needs of its citizens, a situation which successive governments find challenging to alter. An estimated $671 million of investment is required to deliver adaptation projects by 2030 if Tonga is to adapt to climate breakdown and progress towards the SDGs. While a significant amount for Tonga, this should not be impossible with enhanced concessional support from the international community, and could be the least-cost development pathway for Tonga in view of the heavy relief and reconstruction costs associated with disaster shocks.

Funded by

How to cite: Fonua, L. and Seneviratne, B. (2024) *Breaking the cycle of debt in Small Island Developing States: the Tonga experience*. London: ODI (https://odi.org/en/publications/breaking-the-cycle-of-debt-in-small-island-developing-states/).

Acknowledgements

Many thanks to Cathal Long and Gail Hurley for their thoughtful comments and suggestions for improving this case study.

Contents

Acronyms

COVID-19	coronavirus disease 2019
EXIM	(China's) Export-Import (Bank)
GDP	gross domestic product
IDA	International Development Association
IFAD	International Fund for Agriculture
IMF	International Monetary Fund
SDG	Sustainable Development Goal
SIDS	Small Island Developing State
UNDRR	UN Office for Disaster Risk Reduction

1 Introduction

Tonga's national debt picture has been dominated by post-disaster debt over the last 20 years, and it has been considered at high risk of debt distress by the International Monetary Fund (IMF) since 2017. This has necessitated fiscal consolidation and a freeze on borrowing, even as the country faced additional shocks and disasters over this period. Today, Tonga is on track to move out of its high-debt distress rating. However, debt will still be needed for Tonga to meet its Sustainable Development Goals (SDGs) and adapt to the challenges that the climate crisis is set to bring. At the same time, Tonga will likely be recovering from the disasters that frequently affect one of the world's smallest, most remote and most vulnerable nations (Commonwealth, 2020).

At the national level, the conversation on debt is cautious in the short term, but there is some optimism for the longer term. Cautious because the national debt picture has been dominated over the last 15 years by loans to rebuild Nuku'alofa (Tonga's capital city) following riots in 2006. The recent experience with large post-disaster loans and the subsequent repayments have created a view that debt for post-disaster infrastructure carries political and economic risks. This can be difficult to manage during the post-disaster period and cause a drag in growth, as well as constraining the ability of Tonga to reach its SDGs. There is, however, optimism that Tonga can meet its financing needs for the SDGs and climate adaptation by striking a balance between debt, grant-aid, fiscal consolidation and private investment driven by remittances from the diaspora and a more strategic approach to public infrastructure investments.

2 Country background

The Kingdom of Tonga (Tonga) is a Small Island Developing State (SIDS) in the South Pacific. It is also referred to as a large ocean state, as it encompasses an Exclusive Economic Zone of about 700,000 km², compared to only 748 km² of land area, on its 169 coral and volcanic islands (World Bank, 2021). Roughly 75% of Tonga's total population of 100,000 is based on the largest island of Tongatapu, with the rest of the population inhabiting 35 other islands in the 'outer island' groupings of 'Eua, Ha'apai, Vava'u, Niuafo'ou and Niuatoputapu (Government of Tonga, 2021).

Tonga is largely a monocultural society that is heavily influenced by Christianity and traditional cultural norms. Tonga has never lost indigenous self-governance,[1] having been recognised as an independent nation by all the colonial powers following the establishment of its constitution in 1875. In total, 98% of its population is of Tongan (Polynesian) ethnic origin; the remaining 2% is largely made up of other Pacific Islanders, Europeans and Chinese (Government of Tonga, 2021; Otsuka, 2007). In addition, 98% of the population is Christian and churches in the islands are well attended. Tongan culture, referred to as *'anga fakatonga'* or the Tongan way, is deeply conservative, prioritising familial ties, cultural hierarchy, personal generosity and humility. These close familial ties are one of the key drivers of one of the world's largest per capita amounts of remittances (equivalent to 46% of gross domestic product [GDP] in 2021) received from the estimated 127,000 Tongan diaspora living in Australia, New Zealand and the United States (IOM, 2022).

Tonga has a small, open economy. Growth has been well below the regional average for two decades (IMF, 2021, p. 6). Economic activity is hampered by the country's remoteness, which results in high production costs, low economies of scale and a narrow production base – primarily in agricultural goods such as fish, squash, vanilla beans and yams – which make up two-thirds of total exports. The agricultural sector supports most of the population for subsistence and for cash income, employing one-third of the labour force and accounting for at least 50% of export earnings. In total, 86% of households engage in some form of agricultural production, which is almost entirely subsistence-oriented (World Bank, 2021). Only 57% of the labour force is in paid employment and many employed people also still rely on small-scale agriculture for part of their livelihoods, as well as on remittances (macrotrends, 2020; World Bank, 2020; Government of Tonga, 2018). Over 40% of the total land area is used for agricultural purposes (World Bank, 2021).

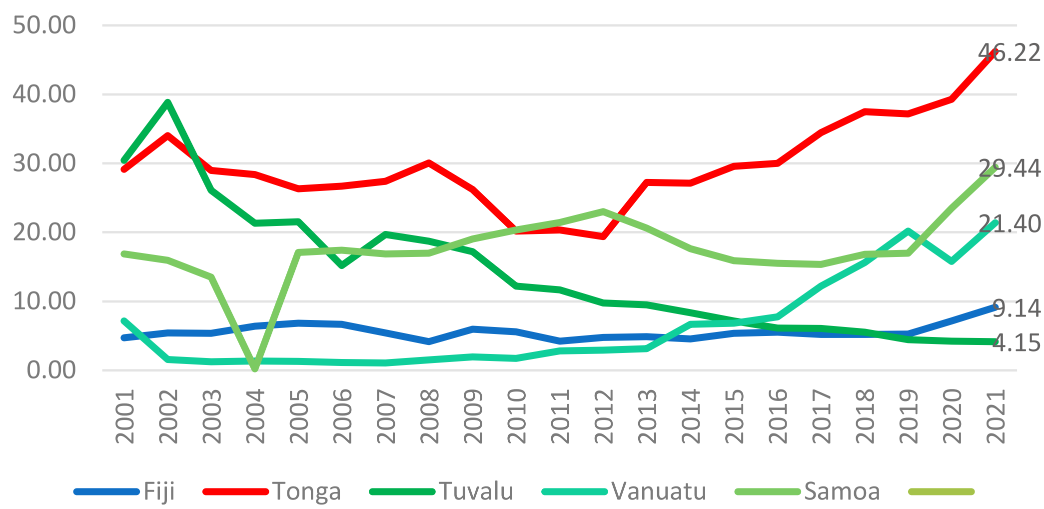
Despite having an active agricultural sector, a high proportion of Tonga's food is still imported – mainly from New Zealand – and this contributed to a trade deficit equivalent to -45% of GDP in 2019 (macrotrends, 2020). However, counteracting this deficit are remittances, and Tonga is the largest per capita recipient of remittances in the world, recording remittance receipts in

1 Tongan autonomy remained, even though it delegated sole authority for Tongan foreign relations to the British Foreign Office, in the 1900 Treaty of Friendship and Protectorship with Great Britain.

2021 equivalent to over 46% of GDP (IMF, 2023). The trend of high remittance contributions has been a key feature of the Tongan economy for over 30 years. The services sector – including commerce, trade, tourism, public services and finance – contributes approximately 53.7% of GDP and 47% of employment; the construction and manufacturing industries contribute 13.7% of GDP and 29% of employment; and agriculture, forestry and fishing contribute 17.3% of GDP and 24% of employment (GOT, 2024).

Before the coronavirus disease 2019 (COVID-19) pandemic, tourism was a small but growing sector, with estimates of its contribution to GDP ranging between 3.2% and 12.1% of GDP, and employing around 3,000 Tongans. This is approximately 9% of the country's total employment (World Travel & Tourism Council, 2020; Government of Tonga, 2018, p. 61). However, the sector faced challenges of limited growth, and low accommodation occupancy rates of around 45% each year pre-pandemic (Government of Tonga, Ministry of Tourism, consultations with author, 2020). The COVID-19 pandemic and the subsequent 2022 tsunami both had a huge impact on Tonga's fledgling industry, with the destruction of a significant amount of Tonga's accommodation service providers. While Tonga is seeing a recovery in visitor numbers, to levels nearing those of the pre-pandemic period, the building of tourist accommodation has been slow, and the sector faces serious supply-side issues (GOT, 2024). The tourism sector must now recover from this shock while being constrained by the small scale of the market, the seasonal nature of demand, the lack of internationally branded/higher-end accommodation and a labour shortage. The latter is due to the growth of Tonga's seasonal worker programme, under which almost 3,000 seasonal workers travel to Australia and New Zealand each year (Adhikari, 2024; Jayaraman, 2023).

Figure 1 Personal remittances received (% of GDP)



Source: World Bank (2024).

Tonga is ranked as an upper-middle-income nation, falling within the 'high human development' category and ranking 98 out of 193 in the United Nations Human Development Index (World Bank, 2022; UNDP, 2024). However, it faces challenges in labour, education and health. The size of Tonga's labour force remains virtually stagnant (due to emigration), despite high birth rates. Further pressures face local businesses due to competition for labour from New Zealand and Australia. By 2024, approximately 7,520 Tongans were employed as seasonal workers in Australia only; this represents 11.6% of Tonga's working-age population (Adhikari, 2024; Immigration New Zealand, 2024). Further affecting the labour force is the quality of education for youth, particularly proficiency in literacy. While reporting an almost 100% literacy rate among adults, recent studies found less than half of Tonga's third- to sixth-grade children were able to read at the expected level (World Bank, 2019). Finally, one of Tonga's biggest challenges has been addressing diet-related non-communicable diseases; almost 58% of adult women and 45.5% of adult men in Tonga live with obesity. Tonga's obesity prevalence is higher than the regional average, and among the highest in the world. As a consequence, diabetes is estimated to affect 30.3% of adult women and 25.2% of adult men (Global Nutrition Report, 2024). This has important implications for the country's health-related expenditure.

Tonga is also extremely vulnerable to disasters. This is due to its geological and geographical characteristics, and its limited capacity, small size and remoteness, which are then reflected in a narrow economic base. These characteristics leave the economy extremely vulnerable to frequent and recurrent external shocks, disasters and the climate crisis, which have serious and long-lasting economic impacts. Tonga experiences one of the largest average annual losses caused by disasters in the world (this includes non-climatic hazards such as earthquakes, volcanic eruptions and tsunamis). It is consistently rated one of the most vulnerable countries in the world to disaster risk. This vulnerability is forecast to be further exacerbated by the climate crisis, primarily from increases in the occurrence and severity of tropical cyclones. There is also an expectation that climate change will result in increases in sea levels, temperatures and extreme rainfall events. These will increase the risks of drought, flood and coral bleaching. The increasing trend in the occurrence and severity of tropical cyclones is of particular concern, given Tonga's pre-existing high exposure and the heavy impact that tropical cyclones have on the population's well-being and livelihoods.

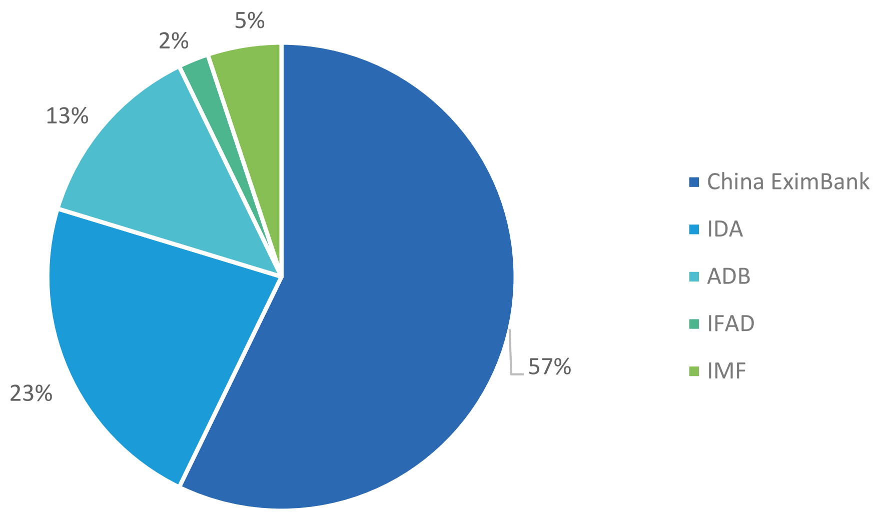
The climate crisis will make achieving Tonga's development goals even more difficult. Recent hazard modelling estimates Tonga's AAL could range between 4.4% and 90% of GDP. Areas of Tonga's capital Nuku'alofa will suffer permanent inundation in the second half of the century, and the transport, residential and public infrastructure sectors will be particularly vulnerable to coastal inundation and flooding due to extreme rainfall events. Agriculture is also at risk from extreme rainfall and drought, leading to concerns around food insecurity. Recent experiences in coping with serial disasters include: Category 5 Cyclone Gita in 2018 (which caused a loss of 38% of GDP); Category 3 Cyclone Harold in 2020 (which caused a loss of 25% of GDP); and the 2022 Hunga-Tonga-Hunga-Ha'apai volcanic eruption and tsunami (which caused a loss of 18.5% of GDP). These events demonstrate the severe and compounded impact of disasters on the Tongan economy over

a four-year period, with reconstruction and recovery repeatedly being interrupted (and made more costly). When it comes to Tonga's debt outlook, the forecasts assume that, while Tonga can manage its existing debt repayments without breaching its debt sustainability thresholds, this is highly dependent on when the next disaster shock will strike and how severe it will be.

3 Current debt picture

All of Tonga's external debt is concessional, with no non-concessional loans taken-on since FY2011. Tonga's debt is primarily held by two creditors: China's Export-Import (EXIM) Bank holds 57.2% and the World Bank (International Development Association, IDA) has 23% of Tonga's total debt (see Figure 2, below). The concessional debt is characterised by interest rates ranging from zero-interest loans (via the IMF Rapid Credit Facility accessed during the COVID-19 pandemic) to blended grant and highly concessional loans from multilateral banks at between 1% and 3% interest rates, and long maturity periods of 20–32 years for the Asian Development Bank (ADB)/IDA and International Fund for Agriculture (IFAD) loans. The China EXIM Bank loans have a 2% interest rate, with a 20-year maturity.

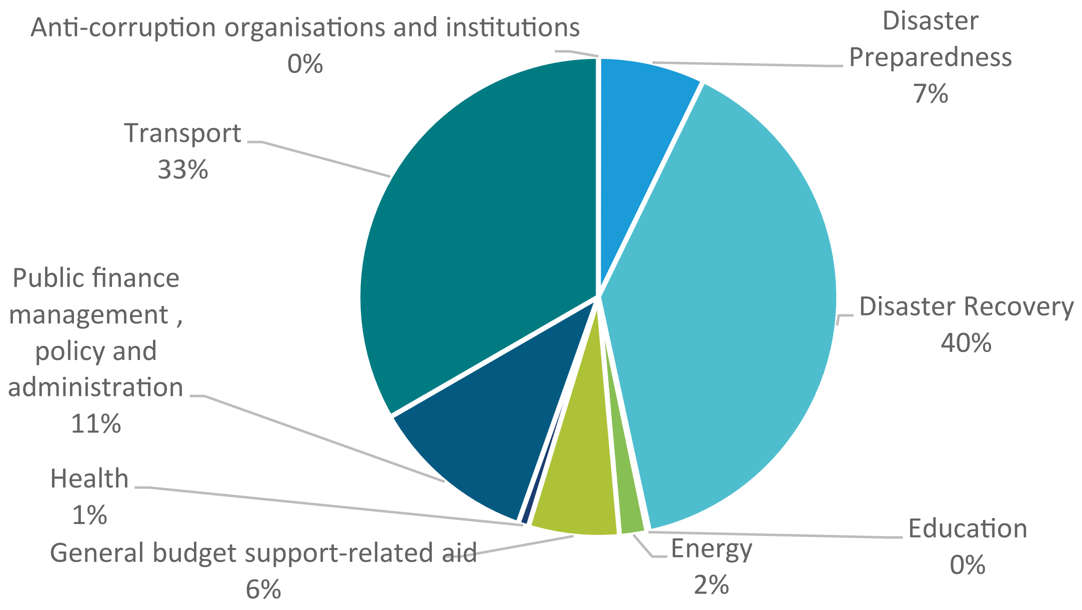
Figure 2 Outstanding external public and publicly guaranteed debt by creditor, June 2022 (in % of total external public and publicly guaranteed debt)



Source: IMF (2023).

Taking on debt to recover from disaster is a feature of Tonga's debt picture. Using data from the Lowy Institute's *Pacific Aid Map* project, we are able to see that disaster recovery – from the 2006 riots and cyclones until the present date – accounts for the largest share of the debt; this is well ahead of public sector investments in transport infrastructure (Dayant, 2023).

Figure 3 Stated purpose of Tonga's public debt, 2023



Source: Dayant (2023).

4 The China EXIM Bank debt

Like the majority of Tonga's debt, the initial EXIM loan signed in November 2007 was taken on for the purposes of reconstruction following a disaster (see Figure 3). The 2006 Nuku'alofa riots would be one of Tonga's most expensive disasters. This was caused by politically/racially motivated riots that destroyed between 60% and 80% of Nuku'alofa's central business district. The politically charged nature of the disaster and the aftermath is well documented, and the disaster and recovery loan remains a contentious political issue today.

In terms of the China EXIM Bank loan itself, it is important to note that Tonga contracted two loans from the bank: the first was signed in November 2007 (for Nuku'alofa's reconstruction), and the second in February 2010 (for a national programme of road building). The loan had a combined face value of $88 million, or around 30% of GDP at the time. China EXIM Bank remains Tonga's largest single lender, holding 57.2% of Tonga's total debt. The loans had a 2% interest rate, a five-year grace period, and a 20-year maturity. They also included conditionality related to utilising Chinese contractors for the reconstruction of buildings and undertaking of the works (IMF, 2011). Approximately 55% of the loan was lent by the government to private-sector businesses whose premises were damaged or destroyed, and to the state-owned ports authority for the construction of a wharf. The loan significantly affected Tonga's public debt levels, causing Tonga to be considered at high risk of debt distress by the IMF since 2017.

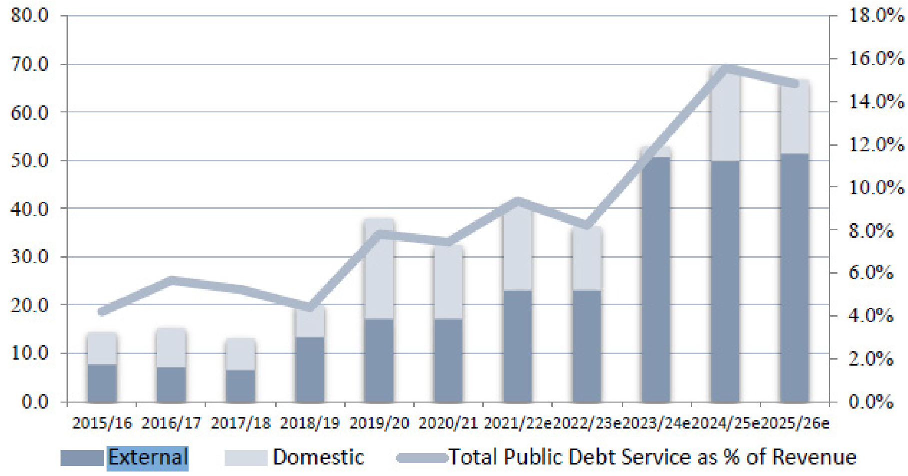
5 Debt repayments and Tonga's medium-term debt strategy

Tonga was not successful in getting its debt forgiven by the China EXIM Bank, but it was successful in extending of the loan's grace period. Three consecutive Tongan Governments tried in vain to lobby the Chinese Government and China EXIM Bank for the forgiveness of the loan – which Tongan officials believed was a real possibility – but this has not so far borne fruit (Fonua, 2013; Dornan, et al., 2013; Radio New Zealand, 2018). Instead, the grace period would be extended twice, first from 5 to 10 years, and then from 10 to 15 years. As a result, Tonga will repay the large majority of the loan's principal over a five-year period (2023 to 2028), rather than the initially agreed 15-year period (2013 to 2028) (AidData, 2021). The government also faces its own challenges in collecting debt repayments, as the private sector entities who had reconstructed buildings in the central business district refuse to pay their loans back, citing quality and maintenance issues with the buildings that were constructed. Some temporary relief was provided, however, from participation in the G20's Debt Service Suspension Initiative scheme during the COVID-19 pandemic. This included debt service payments to China EXIM Bank from September 2020 (although debt service to multilateral creditors – that is, IDA, ADB and IFAD – were not suspended) (GOT, 2022).

Tonga's high repayment obligations begin in 2024, following the end of the extended grace periods. Debt service as a percentage of GDP and as a percentage of revenues had been fairly manageable, at below 3% of revenue; however, this will escalate to annual payments of about 2.5% of GDP in FY2024–2029; on average, this is equivalent to over 11% of revenue[2] (see Figure 5).

2 Inclusive of budget support grants that accounted for roughly 8.5% of revenue in 2023.

Figure 4 Total public debt service FY2016–2026 (including actual and projected)

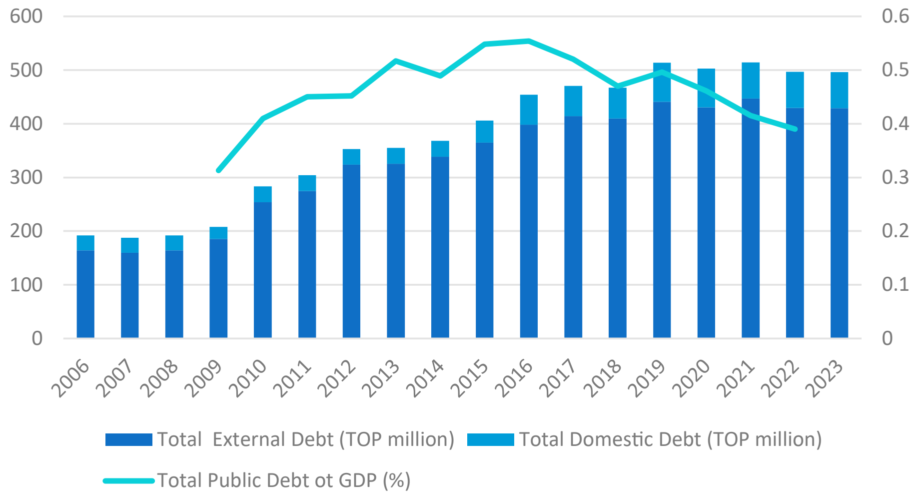


Source: 2022 Budget Statement (GOT, 2022, p. 75).

In 2023, public and publicly guaranteed external debt stood at $177 million, or about 31% of GDP, accounting for 86% of total public debt (GOT, 2024). The remainder is domestic debt equivalent to about 5% of GDP, all of which is government bonds. The external debt to GDP has shown a significant reduction over the last decade, while domestic debt has remained at a relatively constant percentage of GDP. All of Tonga's external public debt has been public and concessional, with the last concessional loan taken in FY2021.

More recently, this has been in direct response to government actions, such as its Medium-Term Debt Strategy 2021–2025. This aims to reduce public debt held in foreign currencies; to extend the average maturity of the public debt portfolio; and to refrain from taking on any new non-concessional debt. The government has also established a Debt Repayment Sinking Fund to assist with the high debt service burden in the next four years, as well as refinancing a portion of the external debt through issuing domestic bonds at lower interest rates and longer maturity (GOT, 2024). However, the risk of debt distress remains high, limiting the ability of the Government of Tonga to access debt without breaching thresholds set in its Medium-Term Debt Strategy. It is, therefore, more reliant on donor grant inflows than ever before to stabilise its external debt dynamics in the short term and allow it to rebuild fiscal buffers and enhance resilience against shocks in the longer term.

Figure 5 Gross amount of public debt (TOP millions) vs. debt to GDP (%)



Source: GOT (2015, 2020, 2023, 2024).

Further support in the form of grants to support capital projects and direct budget support are also a major part of Tonga's public budget. Budget support in particular makes up between 15% and 20% of total grants (GOT, 2024). In terms of grant support and budget support, Australian and New Zealand bilateral grants and funding from the World Bank and the ADB have played an increasing and significant role (see Table 1). Depending on Tonga's risks of debt distress, multilateral partners provide either 100% grant financing or a 50/50 concessional loan/grant split. In 2024, budget support will assist the government's ability to bridge a deficit partially caused by the increase in debt repayments. While the government aims to service all debt payments using domestic revenues, its expenditures are higher by $34.4 million than the level of domestic revenues available after debt servicing in FY2024. As such, budget support from development partners will help fund $22.12 million of the mentioned shortfall of $34.4 million, with the remaining deficit of $12 million financed from the drawdown of the government's cash reserves, trust funds and a new bond issuance.

Table 1 Total development budget (expenditure) by development partners ($ million)

Development Partner	2021	2022	2023
Australia	11.1	19.2	33.7
Asian Development Bank	1.2	1.1	0.3
World Bank IDA	13.6	13.1	41.8
New Zealand	0.9	2.4	2.8
Green Climate Fund	7.3	12.6	15.0
Others	2.9	12.3	8.8
China	24.9	1.0	5.0
European Union	9.7	2.1	4.2
Japan	6.3	4.6	3.2
Council of Regional Organisations of the Pacific agencies[3]	15.0	41.9	30.3
Total grant	92.7	110.2	145.1
Tax and non-tax revenue	124.2	138.0	131.9

Source: Government of Tonga (2024, p. 51).

3 Council of Regional Organisations of the Pacific agencies include: Pacific Islands Forum (PIF), Forum Fisheries Agency, Pacific Aviation Safety Office, Pacific Power Association (PPA), Pacific Islands Development Program (PIDP), The Pacific Community (SPC), Secretariat of the Pacific Regional Environment Programme (SPREP), Pacific Tourism Organisation (SPTO) and The University of the South Pacific (USP).

6 The challenging politics of debt

One of the impacts of Tonga's debt situation, specifically the rapid increase in debt repayments over the short term, is that it has put further pressure on the government to address the underlying structural causes of Tonga's primary budget deficit, and has strengthened the leverage of development partners who provide direct budget support to the government.

One of the key areas of debate is what to do with the size and cost of the civil service; this has increased from a reported 4,000 in 2011 to 6,030 persons in FY2022 (Fonua, 2011; GOT, 2023). The public service remuneration as percent of domestic revenue has remained at around 64% over this period with the 2023 Budget Statement aiming to reduce it to 61% in FY2023.

The Government of Tonga is mired in a situation it cannot extricate itself from until it is able to get out of its high debt repayment predicament, and is stuck with the status quo for a couple of reasons. First, it cannot increase wages in order to stem outward migration, which is something that could help address an underlying weakness in Tonga's labour market. Second, successive governments have either campaigned on not reducing, or consider a reduction of the civil service unpalatable politically. This is in part due to the spectre of the 2006 riots that occurred following an effort to reduce the size of the civil service.

On the other hand, development partners are simultaneously finding it difficult to justify continuing to support a large civil service wage bill with budget support grants paid for by their own taxpayer's money. However, the option of reducing grants for projects and budget support remains a challenge given the human impacts. This leaves both parties in an uneasy marriage, and results in a situation where the longer-term investment required to address the threat of climate breakdown is unlikely to materialise.

7 Looking forward

Success for Tonga would be achieving its SDGs and, in parallel, building a climate- and disaster-resilient Tonga by 2035 (GOT, 2018). To achieve this, Tonga will need not only more investment but also a more strategic approach to climate adaptation. A number of lessons can be learned from the last 20 years of Tonga's disaster recovery financing – lessons for both Tonga and other SIDS as they face sustaining their development in a world beyond 1.5°C.

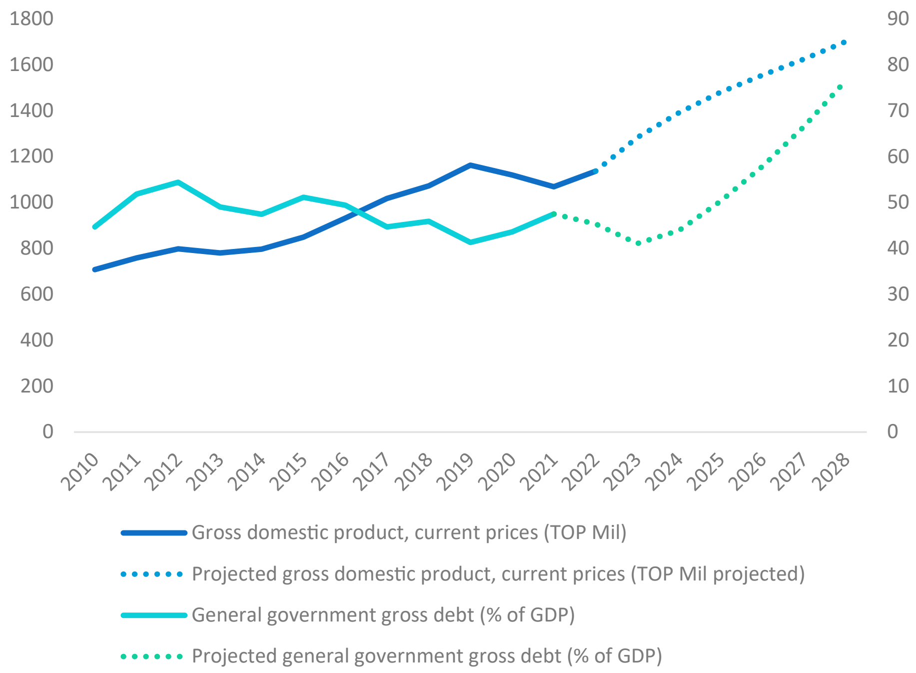
To develop sustainably while adapting to the effects of climate breakdown will require significant investment. The IMF estimates that an amount equivalent to 140% of Tonga's 2018 GDP, or approximately $671 million of investment will be required to deliver adaptation projects by 2030 if Tonga is to adapt to climate breakdown and continue to progress towards its SDGs (IMF, 2022). Conventional discourse would suggest that the majority of this amount would be made up of debt financing, but unfortunately Tonga is unable to sustainably take on debt of that magnitude without significant fiscal reforms and economic growth.

Tonga is forecast to take on debt as soon as it clears this period of high-debt repayments and moves to moderate the short-term risk of debt distress. If we assume that an investment of 140% of GDP would avoid or mitigate the worst impacts of future disasters, then we can also assume that this may fall within the ballpark of the experiences of other nations with regard to their investments in disaster risk reduction, which show huge differences in the cost of preparedness versus the cost of recovery. The UN Office for Disaster Risk Reduction (UNDRR) estimates that every $1 invested in risk reduction and prevention can save up to $15 in post-disaster recovery, and that every $1 invested in making infrastructure disaster-resilient saves $4 in reconstruction (UNDRR, 2023). Seen in this way, $671 million of investment could be the least-cost development pathway for Tonga.

Tonga's climate adaptation investments will need to be strategic and should build on the lessons learnt from the past 20 years of disaster recovery financing. For Tonga's Government, these include: balancing near-term developmental needs, climate change risks and the conditionality of debt; continuing to improve its public sector deficit; and preparing for post-disaster recovery financing. For the international community, there are lessons around the speedy availability of concessional debt or grants and, more specifically, the need for multilateral partners to be more prepared to engage earlier and at the scale required.

Conditionality matters. One of the recuring responses during discussions with Tonga officials has been the part conditionality plays in the process of selecting post-recovery debt finance. Various aspects of conditionality were noted by Tongan officials when considering what approach would be taken if faced with another disaster requiring securing finance quickly and at scale in order to recover. Two different conditionality issues stood out as important. One is the high level of policy conditionality that is generally attributed to multilateral lenders; the other is the

Figure 6 GDP, current prices (TOP million) vs. general government gross debt (% of GDP)



Source: IMF (2023).

nationality-based procurement conditionality that was encountered primarily from (specific) bilateral lenders. These two conditionality challenges resonated particularly strongly with officials who were involved in the assessment of Tonga's financial options following the 2006 riots. The high conditionality of multilateral lenders was considered to carry too much of a social cost, even though interest rates and terms of these loans tended to be the most favourable of the financing options. On the other hand, bilateral lenders tended to have less conditionality, but tended to restrict procurement to specific countries and, in the case of Tonga's largest loan, to one specific country. This second aspect of conditionality in the Tongan experience can restrict quality, efficacy and value for money, given the restriction to competition. This conditionality is considered a root cause of some infrastructure investments not delivering either the projected economic payback, or not lasting its projected lifetime (or both). Conditionality, therefore, affects both the perceived social cost and the perceived effectiveness of debt; both of which are important aspects, considering the scale of debt that is likely to be required by Tonga in the future, to equip it to withstand the climate crisis.

Speed and scale are vital. Tonga's experience shows that the ability to secure financing at scale and quickly are key aspects of post-disaster financing choices. Tongan experiences note two key themes which appear to support better speed and scale. The first is proximity to decision-makers. This is about who the government sat at the table with, and whether they had the power to make quick decisions. This is particularly important for a small country such as Tonga, because

government capacity post-disaster is generally severely stretched, both in terms of available time and human capacity. Some officials spoke of this strain in the immediate aftermath of a disaster, during which they held virtual meetings in their offices, while their families were set up in the hallways because their homes had no running water or electricity. The second aspect that is key to securing financing at scale is the extent to which funders take into account longer-term time horizons in their decision-making. This was a recurring reflection in particular of officials involved with the post-2006 disaster recovery, who felt that when discussing post-disaster assessments with development partners, there was a large difference between the levels of financing offered and that which was needed over a longer-term time horizon. Tongan officials noted this was evident across both multilateral and bilateral development partners, but that partners who were able to consider their planned investments over a longer period were more able to front-load support to deliver the scale of financing needed.

In parallel, more innovative options are also needed. There have been a number of financial innovations that have assisted Tonga's recovery efforts and these should be expanded or improved to have further impact. These include programmes such as: disaster-linked debt repayment initiatives such as debt pause clauses, which in Tonga's experience could also be expanded to include debt for aid swaps in times of disaster. Debt for aid is perhaps the most favourable of debt swaps, given debt is forgiven in return for the country's investment in other projects utilising its own revenue. In 2008, Tonga received a debt-for-aid swap from the Republic of Germany, for example, with the forgiveness of the remaining balance of a loan used to purchase a ferry and container vessel equivalent to $1.76 million in return for the investment of those funds into other development projects (GOT, 2008). Additional innovations such as debt-for-nature and debt-for-climate swaps are interesting avenues for financing institutions to consider.

Notwithstanding the usefulness of these initiatives, they nevertheless do little to address the root problem; namely, that Tonga and many SIDS are caught in a cycle of incurring significant costs to rebuild key economic infrastructure post-disaster, but then face further disasters before the previous recovery was complete. This leaves them potentially stuck in an ever-worsening 'resilience drag', in which a nation fails to rebound to the economic and social conditions that existed prior to a disaster before the next one occurs, and the country has to begin recovering again from an ever-worsening position (CDB, 2021).

Success for Tonga, and indeed all SIDS, will require both domestic financial discipline but also international assistance as the world heads towards a climate tipping point beyond 1.5°C. The fourth International Conference on Small Island Developing States provides a platform for these lessons to be considered because island nations such as Tonga face an unpredictable yet certain countdown to their next 'tailor-made' disaster.

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Annex 1 Methodological note

- This case study involved the exploration of Tonga's public debt over a period spanning 2006 to 2024, through review of publicly available literature and the experiences of individuals involved; primarily this was done through interviews with individuals in government who are representatives from across different organisations and levels within those organisations. These included:
  - Ministry of Finance, Government of Tonga
  - National Reserve Bank of Tonga
  - Australian High Commission Tonga, Department of Foreign Affairs and Trade
  - New Zealand High Commission Tonga, Ministry of Foreign Affairs and Trade
  - Lowy Institute
- Given the time period, there are variations in the way debt, GDP, expenditure and revenue have been recorded during this time. The majority of quoted values are based on actual reported values from government budget statements. However, where actual data was not available estimates or projections from previous years have been used. These provide an accurate view of the prevailing trends, which has been the primary aim of the case study.
- Exchange rates used in the analysis are listed below:
  - NZD to TOP = 1.53
  - $ to TOP = 2.26
  - EUR to TOP = 2.67