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## **WOMEN IN BUSINESS IN TONGA** **Key findings from the February 2008 scoping mission**

### **INTRODUCTION**

This report is based on an AusAID study to Tonga from 25 to 29 February 2008 which served to profile women's businesses for an upcoming regional publication and broadly explore issues for female entrepreneurs. This report summarises the main findings of the study and makes recommendations for donors, Government and Non-Government Organisations (NGOs) to consider.

### **KEY FINDINGS**

#### **I. Background on women in Tonga's economy**

**There is little government support for gender issues in Tonga.** The country's Strategic Development Plan 8 acknowledges women as a vulnerable group. The 2001 National Policy on Gender and Development includes a focus on women in the economy, which the Office of Women within the Ministry of Education, Women's Affairs and Culture and women's NGO are supposed to implement. Yet Tonga is not party to the Convention of the Elimination of all forms of Discrimination against Women (CEDAW) convention<sup>1</sup>, and despite lobbying from women's groups has yet to ratify it. Women's groups note that gender issues are marginalised in important consultations and their concerns are unable to compete with other national priorities. The Office of Women and NGOs have been struggling to get impetus for key reforms or fund their activities.

**Many Tongans, including those working in the Government, do not acknowledge that gender inequality is an issue in their society.** Due to the traditional notion that places women as socially superior in the family, there is a prevalent belief that women in Tonga are well off and not in need of special attention. As a result, gender issues are not accorded a priority or considered as a problem. Yet this traditionally higher status of women has eroded in recent times and does not take into account various inequalities currently enshrined in legislation.

Since 'promoting sustained private sector-led growth' and 'ensuring equitable distribution of the benefits of growth' are among the Government's national development goals, there is space to better address gender issues in Tonga.<sup>2</sup> Discussions of gender currently tend to be framed in terms of human rights and injustice rather than in terms of a positive opportunity for women's economic contribution. Rephrasing it in such a manner might make the Government more receptive to addressing gender issues.

**Women are underrepresented in the labor force.** Women in Tonga have lower labor force participation rates than their male counterparts (74.6 per cent for men, versus 52.7 per cent for women). Unemployment levels are higher for women, at 7.4 per cent, compared to 3.6 per cent for males (Figure 1 below).<sup>3</sup>

#### **Figure 1 Labour force participation rates for Tonga, by age and sex**

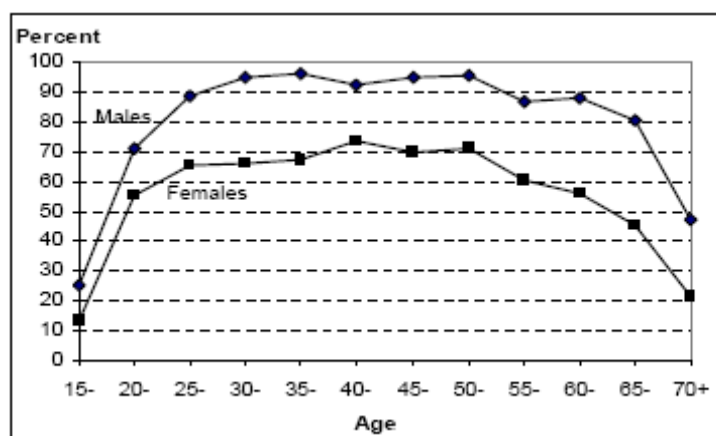
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<sup>1</sup> The CEDAW Partnership was originally formed to promote the Convention on the Rights of the Child, to which the Convention on the Rights of Women was subsequently added. The Convention of the Rights of the Child has proved to be an effective entry point for the Convention on the Rights of Women.

<sup>2</sup> Kingdom of Tonga. 2006. 'National Development Plan 8 2006/2007 2008/2009.' Ministry of Finance.

<sup>3</sup> Tonga Statistics Department. 2004. 'Report on the Tonga Labor Force Survey 2002.' Ministry of Finance, Nuku'alofa.

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Source: Report on the Tonga Labor Force Survey 2002

Almost half of males are employed in agriculture (46.4%) while more than half of all females are employed in manufacturing (53.9%) (Figure 2). Women working in manufacturing work predominantly in textiles, wood manufacturing and articles made of straw.

When employed, women are much less likely to be in senior positions. According to the 2003 Labor Force Survey, 690 legislators, senior officials and managers in Tonga were male, versus 250 females in the same categories.

**Figure 2** Currently employed population aged 15 and over, by sex and industry of main job

Industry (ISIC Rev. 3 tabulation category)	Total		Male		Female	
	No.	%	No.	%	No.	%
<b>Total</b>	<b>34,560</b>	<b>100.0</b>	<b>20,420</b>	<b>100.0</b>	<b>14,140</b>	<b>100.0</b>
A Agriculture, hunting and forestry	9,950	28.8	9,470	46.4	470	3.4
B Fishing	1,050	3.0	870	4.3	180	1.2
C Mining and quarrying	60	0.2	60	0.3	*	0.0
D Manufacturing	8,530	24.7	910	4.4	7,630	53.9
E Electricity, gas and water	530	1.5	370	1.8	160	1.1
F Construction	1,440	4.2	1,410	6.9	30	0.2
G Wholesale and retail trade	2,930	8.5	1,340	6.6	1,590	11.2
H Hotels and restaurants	630	1.8	240	1.2	400	2.8
I Transport, storage and communications	1,580	4.6	1,150	5.6	430	3.1
J Financial intermediation	510	1.5	210	1.0	290	2.1
K Real estate, renting and business activities	260	0.7	170	0.8	90	0.6
L Public administration and defence	2,590	7.5	1,900	9.3	690	4.9
M Education	1,780	5.2	720	3.5	1,060	7.5
N Health and social work	660	1.9	280	1.4	380	2.7
O Other community, social and personal service activities	1,330	3.8	980	4.8	340	2.4
P Private households with employed persons	610	1.8	280	1.3	350	2.4
Q Extra-territorial organisations and bodies	90	0.3	80	0.3	30	0.2

Source: Report on the Tonga Labor Force Survey 2002

**Women’s lower labor force participation mirrors their lack of representation in political processes.** Until 2006 when a female was appointed as Minister of Justice, no woman had been appointed to a ministerial position in Tonga. Also, women cannot be voted in through the nine noble seats or governor seats as these aristocratic titles can only be inherited by men. Between 1975 and 2006, women held between 0 and 2 per cent of seats in the Tonga National Parliament. Considering

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this situation, the private sector seems to be progressing faster than the public sector in according women leadership positions.<sup>4</sup>

**Employed men work, on average, slightly longer than employed women, but women's unpaid work is substantial.** Men spend 34.4 hours per week working, while women spend 32.6 hours. However, average weekly earnings for males are also higher (T\$127) than for females (T\$112). Moreover, women spend a much larger amount of their time on household work. Women spend on average 27.7 hours per week on 'non-economic activities' which includes household work, caring for the sick, household repairs, cleaning, child care and voluntary activities, compared to only 16.3 for men. Of those who are classified as inactive, women are much more likely to cite housework as the reason for the inactivity. A total of 48.8 per cent of women and 11.2 per cent of males cite housework as the reason for their inactivity in the labor force.<sup>5</sup>

**Tongan businesswomen have a diverse range of businesses, and often own multiple ventures.** They run both traditionally female businesses, such as restaurants and small shops, but are also involved in non-traditional areas such as recycling, beer manufacturing, construction, or car sales. Government statistics do not often include sex-disaggregated data on private sector activities, making it difficult to get comprehensive data on women in business. A 2003 International Finance Corporation (IFC) business survey on small to medium enterprises found that 36 per cent of the owners or managers surveyed were female.<sup>6</sup> There is regional variation, with women in Tongatapu generally having larger businesses, being better connected and educated, and therefore better able to navigate government bureaucracy and grow their businesses. In areas such as Vava'u, where tourism is the dominant sector, women's businesses such as small shops and specialty stores are numerous but they struggle during the off-season and are adapting by starting new side ventures or simply selling food on the marketplace.

**Out-migration and the feudal government system have imposed stratification and had strong effects on women's businesses.** With a population of slightly less than 100 000, Tonga is a very small country whose population continues to migrate. Several women started their funds after returning from living abroad (Japan, New Zealand, United States, Australia), bringing back with them new ideas and start-up financing for their business. Remittances comprised about 40 per cent of Gross Domestic Product (GDP) in 2005/6<sup>7</sup> and can provide start up capital as well as discourage some people from working at all.

**Handicrafts are very important part of women's lives, but underdeveloped for the tourist market.** Weaving and tapa making are traditionally undertaken for ceremonial and cultural reasons as well as for domestic use. Ninety-nine per cent of those involved in handicraft production are women.<sup>8</sup> The large percentage of Tongans living abroad represent a lucrative market for local women selling handicraft, especially because they have the resources to pay a high price. Also, Langafonua has set up a shop in the center of the capital city where women's handicrafts are sold to passers-by. The design standards of products are poor to the tourist eye and unlikely to attract a big market outside Tonga. Also tourism is relatively modest by regional standards so most consumers are local or Tongans living abroad. Tonga also has a Handicrafts Association (not met with during the mission). Women note there are shortages of raw materials and that they need financial assistance

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<sup>4</sup> Advancing Women's Representation in Tonga.

<sup>5</sup> Tonga Statistics Department. 2004. 'Report on the Tonga Labor Force Survey 2002', Ministry of Finance, Nuku'alofa.

<sup>6</sup> IFC – PEDF 2003. 'SME Business Survey: Tonga Summary of Findings.'

<sup>7</sup> Statement by the Hon. Siosua TT 'Utoikamanu', Governor of the Bank for Tonga. 2006. Press Release No. 58. Available: <http://www.imf.org/external/am/2006/speeches/pr58e.pdf>

<sup>8</sup> ADB Tonga report.

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and training and mentoring to improve product quality and appeal to the tourist market. However, since Tongans abroad represent a lucrative market for their products and given women's insistence on preserving the traditional way of doing things, it is unclear how feasible or desirable assistance on significantly changing local products would be.

**Women tend to fare better than men on attaining an education.** As Figure 3 shows, slightly higher percentages of women in the labor force have tertiary education. Moreover, a survey by the Ministry of Education, Women Affairs and Culture found that women receive 61 per cent of scholarships, versus 39 per cent of men. They also made up 79 per cent of participants of the New Zealand Agency for International Development's (NZAID) in-country training.<sup>9</sup> Yet women and men receive distinctly different types of vocational training. Of those economically active, women made up the majority of those receiving training in accountancy, nursing and teaching, while males focused on carpentry, welding, and other types of training.

**Figure 3: Currently active population, aged 15 and over, by sex and level of schooling**

Level of schooling	Both sexes		Male		Female	
	No.	%	No.	%	No.	%
<b>Total</b>	<b>36,400</b>	<b>100.0</b>	<b>21,200</b>	<b>100.0</b>	<b>15,300</b>	<b>100.0</b>
No schooling	100	0.3	100	0.4	*	0.2
Primary: less than 6 years	900	2.4	500	2.6	300	2.2
Primary: 6 years or more	3,100	8.6	1,600	7.7	1,500	9.9
Secondary: less than 6 years	22,100	60.7	13,400	63.5	8,700	56.7
Secondary: 6 years or more	6,200	17.0	3,300	15.8	2,900	18.8
Tertiary: less than 3 years	1,000	2.8	600	2.7	500	3.0
Tertiary: 3 years or more	3,000	8.2	1,600	7.5	1,400	9.2

Source: Tonga Statistics Department. 2004. 'Report on the Tonga Labor Force Survey 2002.' Ministry of Finance, Nuku'alofa.

## II. Women doing business in Tonga—key barriers

Tonga is ranked at number 47 out of 181 countries on the ease of doing business indicator in the World Bank Doing Business in 2008 report (Figure 4). Getting credit and registering property received the worst ranking, while employing workers, starting a business, and paying taxes appear relatively easy. Yet interviews with businesswomen during the mission indicate a discrepancy between the official Doing Business rankings and reality. According to one prominent businesswoman: 'Doing Business surveys are inappropriate for Tonga. They don't reflect the business situation here.'

In 2006 the Government of Tonga initiated a program of regulatory reform with the help from the World Bank and the Foreign Investment Advisory Service (FIAS), which includes the establishment of an advisory Task Force. Moreover, promoting private sector development is a major government priority.

**Figure 4 World Bank Doing Business indicators (2008)**

<sup>9</sup> Quoted in Fua, Seu'ula Johansson, Sela Moa and Gabriella 'Iloahia. 2008, 'A National Study on Domestic Violence in Tonga.' Catholic Women's League. Draft.

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**Tonga's ranking in Doing Business 2008**

Rank	Doing Business 2008
Ease of Doing Business	47
Starting a Business	24
Dealing with Licenses	30
Employing Workers	4
Registering Property	106
Getting Credit	158
Protecting Investors	98
Paying Taxes	24
Trading Across Borders	44
Enforcing Contracts	58
Closing a Business	93

Source: World Bank Group, 2008

**Key bureaucratic barriers to doing business, mentioned by women interviewed, include an unstable general economic climate, dealing with taxes (there were many complaints about the recent tax reforms), finance and dealing with licenses.** These problems tend to be more severe for expatriate the women interviewed, as they have fewer personal connections that seem so crucial to smoothly doing business in Tonga. Women also complain of frequent changes by Government of rules and regulations, which is hurting their businesses. Most businesswomen feel the pace of reform has been too fast, and they are finding it difficult to cope and adapt to it.

**Few women interviewed think that the bureaucratic barriers mentioned above impact them more strongly because of their gender.** Only several women noted that cultural expectations of a woman's place were an obstacle. However, there is a severe lack of sex-disaggregated data on this subject which could indicate whether any regulations affect them differently.

**Business licensing is cited as a constraint, especially by expatriate-led businesses.** Some businesswomen say getting licenses is not easy and requires trips to different Government departments, whose staff are not always knowledgeable or helpful (staff turnover in Government is high and there appear to be capacity problems). Moreover, women complain of a lack of communication between Government and business that has increased their confusion about the implication of recent regulatory changes. In 2004 the Government passed a Business License Act, which streamlined business registration procedures. The Solicitor General noted that the review of the Business Licensing Act that was underway is now at a standstill.

Also, the Foreign Investment Act of 2002 has a reserved list of 13 business activities reserved just for Tongans and a restricted list of activities that foreigners can invest in under certain conditions. Yet many Tongans move abroad and acquire foreign citizenship. When they return home and wish to start a business, dealing with such restrictions can be a major barrier. One businesswoman who had lived in New Zealand and acquired a New Zealand passport had to get a two-year visa to return home and set up what is now a highly successful business.

**Women's inability to own land is a major issue (even though it was not highlighted by the women interviewed during this mission) that can affect their access to finance.** In Tonga, land

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is inherited through the male line and, by law, women are not allowed to own land. Tonga has not ratified the CEDAW, and women's inability to own land seems to be one reason the Government has refused ratification. A number of women's NGOs noted that the Government is reviewing the Land Act and has established a Land Commission which could provide an opportunity to address some gender inequalities.

Women are getting around the land ownership issue by using leased land and houses or their banking history as collateral. Also, some women are managing to purchase land (for example, one businesswoman recently purchased a beach area to be built into a resort) by officially having their sons the land even though they are the intended users of it. In some cases women have been able to use assets such as mats and tapas as collateral. An interview with an ANZ staff member revealed that few women take out bank loans, though sex-disaggregated numbers were not able to be obtained during the mission. Most business loans by women are taken out jointly with a husband. As noted previously, being well-connected and known makes it easier for women to access bank loans and no connections can make it difficult for women to access needed funding. Many women interviewed during the mission had a banking relationship, yet they tended to have some of the most successful businesses in Tonga as well as assets and the right connections such as knowing the bank manager. The women interviewed on the island of Vava'u seemed to have a slightly harder time getting financing, and were more likely to take out loans jointly with their husbands.

On the positive note, Westpac organises in Tonga its annual Women in Business Awards, and the Westpac manager is female. The Westpac awards are well respected, but the bank does not seem to provide further focus on female customers beyond just the awards.

**There is little microfinance provision in Tonga, and none of the women interviewed during this mission had benefited from it.** The Tonga Development Bank is one provider that women are able to benefit from. Langafonua has also offered credit to women and women's groups for more than two decades, which is available to women on the island of Tongatapu. The scheme charges 10 per cent interest (compared to about 13 to 15 per cent that women interviewed are charged by commercial banks) and has served over 1000 women to date.<sup>10</sup> It is unclear how successful the scheme has been or what the repayment rates are as neither the Government nor Langafonua were able to provide information.

**Women interviewed for this mission cite taxation as one of their biggest barriers.** According to one businesswoman, 'Tax rates are too high. The 15 per cent consumption tax is really hurting us. When the consumption tax was introduced, business people were not consulted.' As the consumption tax is ultimately charged on to the consumer and the economy has been struggling since the 2006 riots, a number of women's businesses are severely affected by the tax changes.

Tonga has been undergoing tax reform since 2002 as part of a comprehensive tax reform program. Legislation to reform tax administration was passed in 2003. The consumption tax replaced four former taxes: port and services tax; sales tax of five per cent on a narrow range of goods; fuel tax; and room tax on tourist accommodations. Businesses with annual turnover of less than T\$100,000 do not have to register for consumption tax, relieving the burden for many female micro-entrepreneurs. In 2007 the Government introduced personal income tax and business income tax.<sup>11</sup> The result of these reforms has been an excellent ranking for Tonga in the paying taxes category of the Doing Business report, where Tonga is now ranking at 24 out of 181 countries. Yet this quick pace of reform and frequent changes, as well as the consumption tax burden, seem too bewildering and great for many women's businesses, several of whom had to start hiring accountants to handle

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<sup>10</sup> Interview with Langafonua staff, February 2008.

<sup>11</sup> <http://archives.pireport.org/archive/2007/July/07-27-rp.htm>

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matters for them. Though the Government has tried to raise awareness about the changes, women interviewed note more awareness needed on the new tax regime, which many business people are still struggling to understand and cope with.

**In terms of the other areas of doing business—the Solicitor General mentioned that the Companies Act is considered cumbersome and is being reviewed.** Tongans generally seem reluctant to engage courts in their business dealings, and the women interviewed therefore did not have to deal with this issue in their businesses, preferring to end their disputes outside the courts. The women lawyers interviewed mentioned that court disputes involving businesswomen have mainly been about land leases. Employing workers was not mentioned as an issue by most women—Tongans have excellent educational backgrounds, with many receiving education and skills abroad. Tonga is ranked 5<sup>th</sup> overall out of 181 countries for employing workers..

**An IFC survey found little supply of business development services in Tonga.** The Chamber of Commerce provides some support, while donors and NGOs have played a limited role, except for occasionally funding participation at trade fairs or providing management training.<sup>12</sup> Women interviewed noted the need for more training on business management, as well as exposure to international best practice in their industries. Such training should be tailored to the higher business and skill level that many Tongan businesswomen have.

**Women’s NGO have very weak capacity,** and as a result there has been little advocacy or research on gender issues in Tonga. Women’s NGOs such as the Langafonua and the Catholic Women’s League are struggling with fundraising and tend to get donor support for specific activities rather than core funding. For example, the United Nations Development Fund for Women (UNIFEM) and the United Nations Development Programme (UNDP) have in the past supported projects on women’s political participation, and legal literacy. Many NGO staff are volunteers, and as a consequence devote little time to the activities of their organisations. Also very few NGO activities are geared towards women’s private sector participation, apart from Langafonua’s support to women in the handicrafts described earlier in the report. The Catholic Women’s League has carried out a Legal Literacy Project, which has helped raise awareness about gender inequalities. A Women in Law Association (the female Solicitor General is a member) used to operate in Tonga, but is now stagnant and lacking funds to continue operations.

**Tonga does not have a women’s business association.** However, women comprise well more than 50 per cent of members of the Tonga New Zealand Business Association, and the association is currently led by a female. Members seem to be able to avail themselves of training opportunities and several women interviewed have participated at international trade fairs through the association.

**Donors in Tonga have not supported gender issues strongly in recent years.** Since the government does not prioritise gender issues, donors have not focused on them either. AusAID is currently funding a survey on domestic violence, which is believed to be a problem in Tonga, through the Catholic Women’s League. In the AusAID community development scheme women are identified as a vulnerable group and many women’s groups have benefited from the initiative. The 2007–12 AusAID Strategy for Tonga includes plans to provide business development and support services with a gender balance of male and female entrepreneurs, as well as support for handicraft production. In this context, the recommendations below align with the planned AusAID assistance.

In Tonga PEP-Pacific is providing support to Phase II of the World Bank Group’s Regulatory Reform implementation project. Reform priorities under this program include business registration,

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<sup>12</sup> IFC ‘The Markets for Business Development Services in Vanuatu and Tonga and Potential Interventions in MSME Development through BDS.’

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tax administration, and regulation in the tourism sector. Ensuring that women’s concerns are addressed in these initiatives, including ensuring representation of women’s businesses on the Task Force, will be important.

### III. Recommendations

Issue	Recommendation	Estimated Budget (USD)
<b>Legal/regulatory issues</b>		
There is a severe lack of capacity and understanding among women’s NGOs and little expert analysis on legal and regulatory barriers facing women, particularly women in the private sector.	Carry out detailed analysis of legal and regulatory obstacles to women’s participation in the private sector. This process should include related training on advocacy, media, lobbying, and leadership skills which women’s NGOs are in severe need of.	(ca. 50K for report plus 200K for follow-up work (1 to-2 years), and \$50,000 for training
	Strengthen women’s NGOs by providing consistent, core funding, rather than funding for ad-hoc activities so that they can become stronger advocates on issues such as CEDAW ratification or women’s land ownership.	
There is very little data on women’s private sector activities or contributions, which makes analysis and interventions difficult.	Strengthen sex-disaggregated data collection and analysis, in particular with regards to women’s economic activities and private sector participation.	
	Conduct separate gender analysis of the 2006 census.	
<b>Women are not allowed to own land in Tonga, which impacts their ability to lease land and acquire the collateral to access finance.</b>	Ensure that the AusAID Pacific Land program incorporates gender issues in their research including Tonga.	
	Lobby for incremental changes to this situation through for example the Land Act (if it is indeed being modified).	
	Help raise awareness and understanding of the implications of tax reforms on business, and consider how to adapt the pace of reform.	
<b>Tax reform</b> seems to have been carried out at a too fast pace and created confusion among women’s businesses on their obligations.	Offer education programs and advertising to assist understand the tax reforms	
<b>Access to markets</b>		



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Women's handicrafts are not well developed or suited to tourist tastes, and as a result their market is restricted to native Tongans or Tongans living abroad.

Provide basic access to markets training for women in the handicrafts industry, to help them diversify their products and improve product quality and design to better target the tourist market, while being mindful of women's desire to preserve tradition.

\$50,000 for initial scoping mission and training

### **Business and financial management skills**

Women interviewed note the desire for greater, more tailored business and financial management training, as well as training on know-how and developments in their industries, which they lack given their isolated location.

Provide training on business skills to larger women's businesses, and share know-how and development on international trends in business.

To be determined

### **Women's advocacy/associations**

Women in business are not well organised and as a result have not been able to effectively advocate for issues that affect their enterprises or even raise awareness about the fact that women in business may have different challenges than do males in business. They also note the need for exposure to international businesses.

Help support mentoring exchanges and study tours between women entrepreneurs in Tonga and the region.

\$50,000 to \$100,000

Bring to the forefront issues that affect women's businesses through existing associations such as the Tonga New Zealand Business Association, and increase women's representation on bodies such as the World Bank reform Task Force.

Promote positive role models by publishing the regional report on women in business report and widely disseminating it.