



Government of the Cook Islands

Cook Islands

Economic Recovery Roadmap



Economic Recovery Roadmap (ERR) - Overview

The Cook Islands experienced one of the world's largest economic contractions as a result of COVID-19, with The Asian Development Bank estimating a peak-to-trough fall in nominal GDP of close to 32 per cent.

This fall hit the trade balance of the Cook Islands hard, with revenues raised from tourism activities drying up overnight, in what is the largest component of GDP (worth approximately \$1 million per day, or \$368 million per year, pre-COVID). As well as this direct impact, the falling of incomes has seen reductions in spending on goods and services produced domestically and overseas, and these impacts together have reduced business incomes. With lower incomes and the very high degree of uncertainty around the economy until borders remain open for some time, private investment is not expected to recover quickly.

The government support under the Economic Response Plan (ERP) from April 2020 through to June 2021 kept the economy from contracting further, and helped to minimize the pain felt by people and businesses of the Cook Islands. This support was extended into 2021/2022, but is planned to cease by April 2022.

From July 2021, the Economic Recovery Roadmap (ERR) replaced the ERP's response measures as the government's main vehicle to drive the Cook Islands' economic recovery. The ERR provides support for economic stimulus and reform measures, as well as continuing response measures designed to support businesses and households during the last stages of the pandemic. The ERR also finalises a number of longer-term programmes that were carried forward from the ERP, including grant payments and the Business Continuity Credit Facility (BCCF).

The ERR uses the Cook Islands Economic Development Strategy 2030 (EDS) as a foundation. The EDS will continue to act as a guiding document for government over the next decade, outlining actions to support the Cook Islands' continued development via the National Sustainable Development Agenda 2020+ (NSDA).

While the ERR actions are expected to run through to June 2025, many of the workstreams have a longer-term focus. We will conduct an initial evaluation of each workstream once the actions have been completed, and will continue to monitor results over subsequent years.

¹ Asian Development Bank, 2021. [Asian Development Outlook 2021: Financing a Green and Inclusive Economy](#).

² Ministry of Finance and Economic Management, 2021. [Cook Islands Economic Development Strategy 2030](#).

³ Office of the Prime Minister Cook Islands, 2022. [National Sustainable Development Agenda 2020+](#).



Programme purpose and objectives

The overarching purpose of the ERR is to facilitate sustainable economic recovery from the impacts of COVID-19 so the Cook Islands is on track to achieve the EDS 2030 objectives.

The overall objective of the ERR is to grow the Cook Islands' GDP to pre-COVID levels (around \$550 million), and towards the path we would have been on pre-COVID by 2025, while keeping within our fiscal responsibility rules.

Each ERR workstream will have its own purpose and objectives, as set out in the individual Programme Notes. The workstreams are not mutually exclusive; different streams work together to help achieve the overarching objective of the ERR.

Why do we need the ERR?

Economic stimulus pushes the economy back toward its optimum capacity levels, and aims to ensure that labour and capital continues to be used for production. More employed workers, consequently, means more money in the hands of Cook Islanders. Economic stimulus can also help provide households and firms with support to get through a period of distress, thus preventing a wave of business closures or unemployment that could weigh on growth in the long run. When there are fewer opportunities for Cook Islanders to earn a living, they may depart to New Zealand and Australia. This creates a downward spiral in which reducing populations lead to reducing economic activity, and in the worst case scenario, resulting in economic collapse.

ERR Workstreams

The specific scope of this work programme is measures to support economic stimulus and reform, rather than 'business-as-usual' government initiatives. Each workstream is described in further detail below.

1. Reducing the cost of borrowing

Loan interest rates in the Cook Islands are up to 5-7 percentage points higher than comparable products in New Zealand. This is a significant barrier to private investment in the Cook Islands. The objective of this workstream is to reduce the cost of borrowing (interest rates) in the Cook Islands to a point where they are much closer to interest rates in New Zealand. This will encourage a stronger recovery in investment – in turn driving both GDP immediately and in the future through increased capital and productivity.

As part of this workstream, the Reserve Bank of New Zealand is commissioning a report on the drivers of the spread between New Zealand and Cook Island costs of borrowing, and the magnitude of those drivers. The outcome of this report will determine whether, as a next step, the Cook Islands banking sector comes under the purview of the RBNZ's monetary policy framework.

2. Managing Public Debt – Loans and Aid Grants

Since the onset of the pandemic, the Cook Islands' government has taken on considerably more debt. The total debt drawn down in response to COVID-19 is \$129.1 million to December 2021,

plus \$55.4 million available in contingent debt (PFO – USD \$40.0 million). If including the Disaster Resilience Program loan this totals \$85.8 million available.

As part of the terms of the \$40 million ‘Policy-Based Loan’ (PBL) from the Asian Development Bank (ADB), the Cook Islands has worked closely with the ADB to identify and undertake key reforms to assist the economy in the recovery from COVID-19. These include the updated MTFP introduced in the 2022/23 Budget, and an enabling environment for the private sector (supporting the implementation of a comprehensive set of measures to establish and continue Quarantine-free travel (QFT) with New Zealand, and looking at key areas to address labour shortages, such as labour mobility options and reduce the cost of doing business). Through the MTFP, government follows the Net Debt and Investment Rules to ensure fiscal responsibility.

3. Infrastructure Investment

The purpose of this workstream is to mobilise government capital expenditure to achieve fiscal stimulus. Economic theory shows that Government infrastructure investment during an economic downturn can be an effective measure to mitigate the impacts of a recession on an economy. Governments around the world have employed this response to the economic shock of COVID-19. In 2021 the Cook Islands Government (CIG) released the updated National Infrastructure Investment Plan (NIIP), which refreshes government investment priorities and identifies projects that can be addressed over the following decade. This workstream focusses the government’s fiscal capacity for Infrastructure investment towards projects that offer more short-to-medium term benefits, and meet donors’ procurement and reporting requirements.

4. Barriers to Business Performance

Some Cook Islands laws, fees and regulations make it harder for new businesses to start, resulting in lower levels of competition, higher prices and less diversification. The objectives of this workstream are to:

1. ensure Cook Islands’ business laws provide an enabling environment for all types of businesses, including e-commerce and ‘gig work’
2. identify, and reduce or remove fees, laws and regulations that make it harder for new small to medium sized businesses to conduct more business.

This workstream includes establishing measurements for evaluating certain costs associated with operating a business in the Cook Islands, a policy exploration of the Cook Islands’ e-commerce settings, expanding the remit of the Competition and Regulation authority to other monopolies, and reviewing transport and environment processes. The outcome of the research and policy reviews will lead to recommendations on any change to the Cook Islands’ business laws.

5. Productivity Growth

Productivity growth is one of the key mechanisms that drives the overall economy and incomes upward over time. While standalone, this workstream focusses on tailoring outputs in other ERR workstreams to support increased productivity growth. In particular, this workstream will search for means to improve labour productivity, through a range of potential measures such as increasing the skills base in the Cook Islands and encouraging capital investment. The initial phase is research on lessons learned (both successful and unsuccessful projects) in other

jurisdictions that could be applicable to the Cook Islands context. The outcome of this research will determine the scope and objectives of later phases.

The Fees Free initiative is a component of the productivity growth workstream. This initiative has been extended through Semesters 1 and 2 of 2022, meaning tuition fees for all Cook Islands residents (Cook Islanders and those on work permits) studying undergraduate courses at certain institutions have been reduced to zero.

6. Improved Public Sector efficiency

The purpose of this workstream is to identify policy options to strengthen and improve functions, systems and structures of the Cook Islands Public Sector through greater collaboration between Government agencies to make the sector more responsive to our customers' needs and expectations and provide value-for-money services. This will be implemented in two phases:

1. a comprehensive Public Service Functional Review to be performed by an external Technical Advisor focusing on the Ministries, and Statutory and Crown Agencies
2. a phased change management plan – reflecting a whole of Government organizational framework, restructure and processes of the public service to better align its systems and processes with the changing economic environment, aligned with the National Sustainable Development Agenda, Economic Development Strategy, and the ERR.

7. Labour Force and Population

This workstream aims to stem population loss and stimulate population attraction and retention. The programme will cover projects for better measurement of inward and outward migration, immediate steps to recruit migrant labour to replace the migrant workforce that departed during border closures, longer term interventions to make the Cook Islands a better recipient country for migrants, promotion of working holiday visa pathways, diaspora attraction, and policy interventions for sustainable workforce growth for Cook Islanders in the Cook Islands.

8. Foreign Investment to benefit the Cook Islands

Attracting appropriate levels and types of foreign investment to the Cook Islands may be a source of continued economic development and growth – particularly through the recovery period of the pandemic. This workstream will review the investment rules with the effects of the pandemic in mind, reassessing what the best investment levels and types are, as well as updating the regulatory environment surrounding foreign investment, with review and analysis is being undertaken into the current levels of investment and the rules affecting it. This will provide a starting point to assess potential changes to ensure the rules best serve the Cook Islands economy. Any changes to the rules will be subject to consultation and will aim to strike a balance between attracting desirable investment from overseas, and ensuring our local entrepreneurs get opportunities to innovate and grow their businesses.

9. Reactive continuation of the ERP measures

The ERP was implemented at the beginning of the pandemic, aimed at supporting local business, and the livelihoods of those most affected by the economic impacts of COVID-19. As businesses continue to be affected by border closures, loss of workers and lower tourist revenue, some measures have been extended through 2021/2022. These include the Wage Subsidy, Sole Trader Grants, Business Grants and Fees Free Initiative.

In addition, the ongoing management of the Business Continuity Credit Facility (BCCF) has also been transferred to the ERR, and the final SMART Grant tranche payments. All remaining ERP transactions will be processed through the ERR going forward. This has enabled the finalisation of the ERP.

10. Short-term Economic Stimulus

The recovery from the economic impacts of the COVID-19 pandemic will take some time (estimated to be 3 to 5 years), and most other ERR workstreams deal with reforms that will have longer-run benefits for the economy. This workstream aims to support the recovery of the Cook Islands economy towards the pre-pandemic growth path as rapidly as possible through targeted investment to boost economic activity in the short-term.

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Reducing the Cost of Borrowing

January 2022

Reducing the Cost of Borrowing

Overview

Loan interest rates in the Cook Islands are high by international standards, as much as 5-7 percentage points higher than comparable products in New Zealand.

Over a number of years there have been three reviews of the commercial banking sector in the Cook Islands, all of which focused on the reasons why commercial banks charge customers high interest rates on loans. In each case there have been justifications given by local banks for a premium above NZ interest rates for home mortgages and commercial loans to business. These include the different risk profiles of assets under the land tenure system(s) in the Cook Islands, lack of economies of scale in a small market and the broader economic environment.

The objective of this project is to identify how the Cook Islands can achieve an outcome of reduced interest rates for business owners and home owners. This may be achieved by allowing our financial system to come under the auspices and jurisdiction of the Reserve Bank of NZ.

Funding for this programme may become available from Cook Islands funding partners however the project is included in the Economic Recovery Roadmap (ERR).

Context

Interest rates ultimately are the “price” of money, how much extra you have to pay in order to borrow. In the Cook Islands we rely on New Zealand’s currency (\$NZ), due to the strong links between the two economies. We know that implementing a full Cook Islands’ currency is not practicable given the size of our economy and the costs and risks that come with running an independent currency. Because our currencies are the same, we rely on NZ’s monetary policy in terms of the supply of money and the “price” of money, and the rules that are used to set interest rates.

Lending rates by retail and commercial banks are typically based on the centrally set interest rates plus a ‘spread’ which is dictated by various things such as each bank’s own cost of borrowing, their operational overheads, and other risk considerations (often loan specific). Each bank’s own cost of borrowings may be influenced by the deposit interest rates that they pay, or the rates that the bank in turn pays to access funds domestically or overseas.

The primary expected benefits of this project are reduced rate of borrowing for businesses and home owners encouraging growth in construction and private investment through reducing the

associated borrowing costs. Private investment growth is extremely important in stimulating GDP growth and future labour productivity through increasing the capital stock of the Cook Islands.

Lower interest rates may also help to support business competition as it allows potential new businesses to face a lower hurdle to joining the market – which could be a beneficial outcome driving economic growth and diversification.

A further benefit is expected to be a reduced cost of finance for existing loans held by local businesses and home owners and especially with the increased debt taken on over the past two years during the pandemic. Reducing these costs will allow these businesses and homeowners to spend or invest elsewhere in the economy – which may drive further productivity growth or production.

Project

The overall objective is to reduce the cost of borrowing (interest rates) in the Cook Islands to a point where they are much closer to the interest rates in New Zealand. This project is intended to be achieved through the following steps:

1. a report, commissioned by the Reserve Bank of New Zealand (RBNZ) on the drivers of the spread between New Zealand and Cook Island costs of borrowing, and the magnitude of those drivers. The focus on the magnitudes is a key difference from recent reports in this space, as well as recognizing any impact from the pandemic. Expected in early 2022.
2. if supported by the research, the Cook Islands banking sector coming under the purview of the RBNZ's monetary policy framework (and potentially some of its other functions like some (but not all) of RBNZ's prudential or macro-prudential rules) as an extension of the New Zealand system.

Engagement

This project will be led by the Economic Planning Division (EPD) of the Ministry of Finance and Economic Management working with the RBNZ.

No public engagement is presently planned, however representatives of the EPD and RBNZ will engage with the Cook Islands banks.

Estimated Cost

This is expected to have minimal direct costs, but any administrative or unanticipated costs will be funded through the Economic Response Roadmap administered payment managed by MFEM.

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Managing Public Debt – Loans and Aid Grants

Overview

The Cook Islands' Government has worked with the Asian Development Bank (ADB) to secure financing for government in the form of a 'Policy-Based Loan' (PBL) of US\$40 million and a 'Precautionary Financing Option' (PFO) of an additional US\$40 million, should some conditions be met and the money be required. Both loans have been converted to New Zealand dollars and are worth \$55.4 million each, with a term of 15 years.

The ADB is one of the Cook Islands' closest development partners, and the major creditor for the Cook Islands' government. A multi-lateral institution, the ADB is jointly owned by its 68 members (including the Cook Islands), 49 of which are in the Asia-Pacific region. The ADB assists its members, and partners, by providing loans, technical assistance, grants and equity investments to promote social and economic development. More information about the ADB is available [here](#).

Policy-Based Loan

As part of the terms of the PBL, the Cook Islands worked closely with the ADB to identify and undertake a number of key policy reforms designed to assist the economy in the recovery from COVID-19. These reforms were focused in two key areas:

Reform area 1 - Fiscal management and sustainability: This program will support approval and implementation of an updated Medium-term Fiscal Framework for FY2022-FY2025. This reform has already been implemented in the 2022/23 Medium-term Fiscal Strategy, and was published in the 2021/22 Half Year Economic and Fiscal Update (HYEFU).

Reform area 2 - Enabling environment for the private sector: The program will support the implementation of a comprehensive set of measures to establish and continue 'Quarantine-Free Travel' (QFT) with New Zealand, and will look at key areas to address labour shortages, such as labour mobility options and reduce the cost of doing business. These measures are either already implemented or are parts of the other work programmes of the Economic Recovery Roadmap.

Other existing reforms were already achieved in areas such as business registration and competition regulation.

The NZ\$55.4 million for the PBL was drawn down in December 2021.



Precautionary Financing Option

The PFO is a contingent loan that will only be drawn down if certain conditions are met – and these primarily relate to potential border closures and the absence of tourists.

Government would prefer not to use this facility due to the additional debt servicing required, but if necessary it has the ability to draw up to a further NZ\$55.4 million to fund operations.

Disaster Response Coverage

In addition to these facilities, government has a pre-existing loan agreement with the ADB to access a NZ\$30.3 million contingent loan that is available if a disaster were to occur, such as a cyclone. This is through Phase 3 of the ADB's Disaster Resilience Program.

Overall Covid-19 related debt

Since the onset of the pandemic, the Cook Islands' government has taken on considerably more debt than was previously held. The amounts of this debt, with each loan and the terms of that loan are presented in Table 1. The total debt drawn down in relation to COVID-19 is \$129.1 million, plus \$55.4 million available in contingent debt (PFO). With the Disaster Resilience Program loan this totals \$85.8 million available.

Table 1: Pandemic and contingent debt taken on since the beginning of 2020

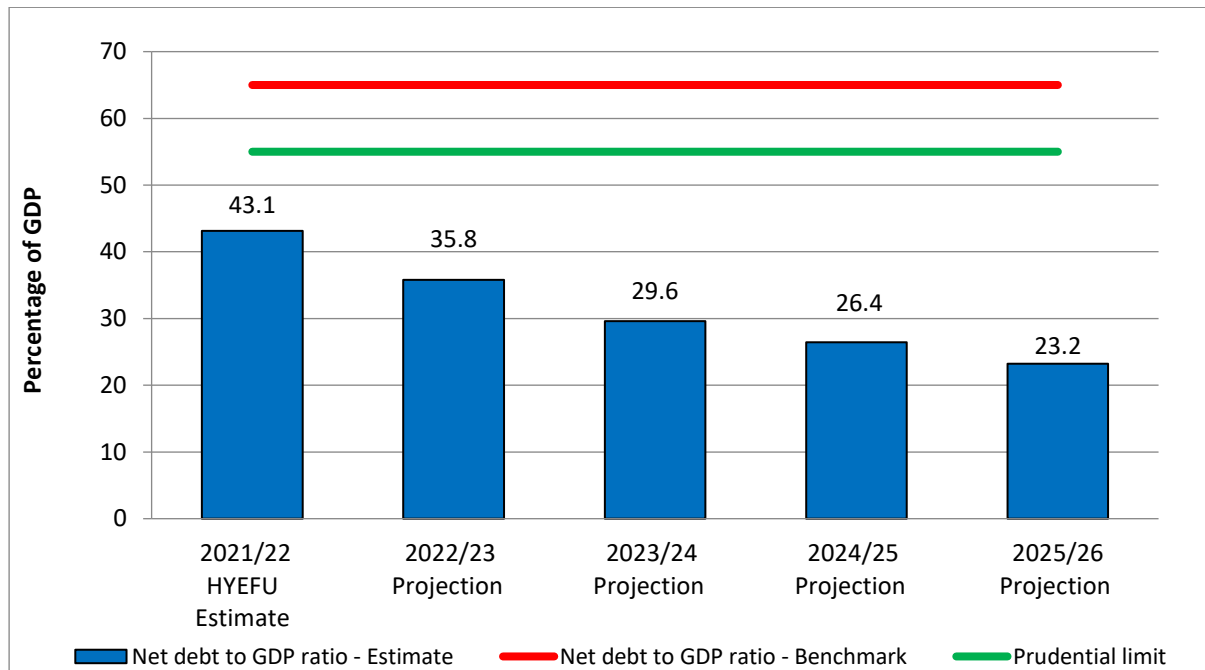
Lender	Loan	Currency	Amount (NZ\$ m)	Term (years)
Loans Drawn				
ADB	Disaster Resilience Program (Phase 2)	NZD	15.7	15
ADB	Covid Policy Response Option (CPRO) Loan	NZD	30.4	10
AIIB[1]	CPRO Loan	USD	27.5	9
ADB	Policy Based Loan (PBL)	NZD	55.5	15
Total Drawn		NZD	129.1	
Contingent debt				
ADB	Disaster Resilience Program (Phase 3)	NZD	30.3	15
ADB	Precautionary Financing Option (PFO)	NZD	55.5	15
Total Available		NZD	85.8	

Fiscal Rules and Government Debt Position

Through the Medium-Term Fiscal Framework (MTFF), government has a range of rules to follow that ensure fiscal responsibility. The rules that are most relevant to debt are the Investment Rule and the Net Debt Rule. These rules work together to commit by Government that any borrowing above a 55 per cent of GDP threshold is confined to “capital investment and / or targeted GDP stimulus”.

Figure 1: Net debt as a percentage of GDP

(source: 2021-22 HYEFU)

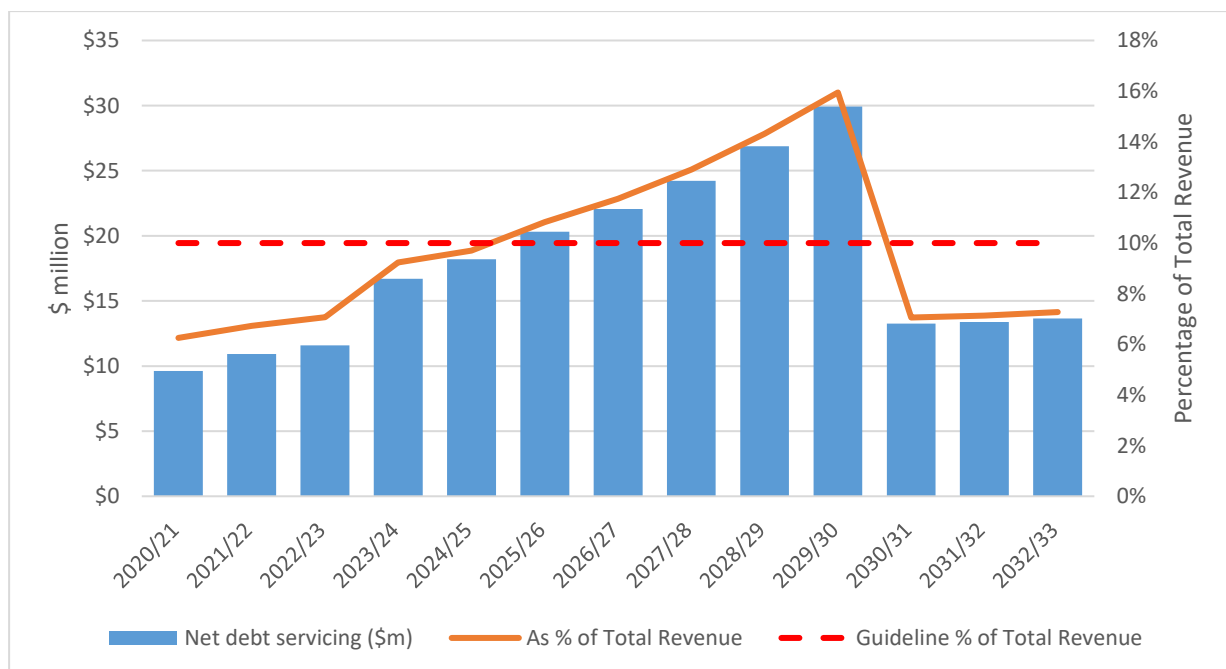


Debt Servicing

Debt servicing is the repayment of debt – both principal and interest. With the additional debt taken on through the pandemic, the principal component has grown significantly – leading the debt servicing obligation to exceed the guideline toward the end of the decade (see Figure 2). The MTFF also contains a guideline regarding debt servicing, with the goal to keep this below a soft cap of 10 per cent of total government revenue and a hard cap of 15 per cent.

Figure 2: 10 year debt servicing profile on drawn debt (\$ million)

(source: 2021-22 HYEFU)



Aid Funding

Also known as 'Official Development Assistance', aid funding typically consists of the provision of support through either financial means or the provision of goods and services. Financial support may be provided in the form of funds tied to a specific project, or as 'general budget support' that is treated as Government revenue.

Aid funding typically comes with terms and conditions as to what the funds may be used for, reporting requirements around the use of the funds, or other commitments around Government policy changes. In some cases these funds may be jointly administered, such as the funds provided to the Government by NZ-MFAT through the Infrastructure Trust Fund, or used at the discretion of the Government within parameters set by the donor party.

NZ-MFAT has provided substantial financial assistance to the Government since the start of the COVID-19 pandemic to support the Economic Response Plan and Economic Recovery Roadmap, and implementation of medical and border control requirements, along with access to COVID-19 vaccines. This assistance has substantially reduced the debt funding requirements of the Cook Islands, with the associated obligations principally around reporting on the use of the funds provided.

The Government has also received substantial support from other Governments and MLI's in the form of both goods and budgetary support. This support has been detailed in the Budget Estimates and the Half Year Economic and Fiscal Updates (HYEFU).

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Infrastructure Investment

Overview

Economic theory shows that infrastructure investment by Government during an economic downturn can be an effective measure to mitigate the impacts of a recession on an economy. It is a response that is being employed by Governments around the world, including the New Zealand and Australian governments who are investing billions of dollars into infrastructure investment in response to the economic shock of COVID-19.

During 2021 the Cook Islands Government (CIG) released the updated National Infrastructure Investment Plan (NIIP). The NIIP refreshes Government infrastructure investment priorities and identifies projects that can be addressed over the following decade, and provides a menu of infrastructure projects.

A short- to medium-term economic benefit lens will be applied to these projects to identify those that offer both more immediate economic benefit through jobs for Cook Islanders, or that may draw in additional labour force to bolster the Cook Islands population, through to medium-term benefit by greater activity in the economy.

Funding for these projects will come from the CIG's own reserves and income, which may include debt funding, or from aid funding partners including the joint New Zealand and Cook Islands 'Infrastructure Trust Fund'.

Context

Infrastructure investment creates long-term benefits by expanding the productive capacity within an economy by creating infrastructure that parts of an economy such as private sector businesses and individuals use to deliver services, and thereby employ people. At the same time, the construction of infrastructure requires short-term labour to do the building work. As such, infrastructure investment creates both immediate short-term jobs as well as contributing to an increased number of long-term jobs. Provided there is capacity to do the work and the project is deemed to have a net benefit, then the stimulus provided by government investment in infrastructure will be beneficial for the recovery.

The CIG has been investing in infrastructure for several decades, but with a small yet geographically diverse economy that is largely focused on tourism, there is a long list of infrastructure investments that are required to support the nation, as presented in the NIIP.



Selecting the right projects will create short-term jobs that will employ Cook Islanders and retain our population, and ideally bring members of the Cook Islands diaspora back to the country, or otherwise increase the productive labour force by bringing in expatriate workers. These projects and people also purchase materials from Cook Islands businesses, creating downstream benefits.

As productive capacity expands there are more opportunities for businesses to engage in the market, and therefore more jobs being created, also with the same downstream benefits to other domestic businesses and people.

Whilst the economic impact of COVID-19 has reduced Government revenues, impacting the fiscal capacity that can be invested into infrastructure, for the reasons stated above, continuing to make these investments is important.

The ERR has a parallel workstream addressing the loss of population, and beyond this, re-growing our population. The Labour force and population programme does not specifically address the labour force in the construction industry, however there will be inter-relationships in the outcomes of these programmes. Please refer to the ERR Programme Note on Labour force and population for more information on that topic.

Fiscal and Labour Limitations

The CIG is presently operating with reduced revenues due to the economic impacts of COVID-19, and whilst revenues are expected to recover over the next several years, our debt servicing costs will rise significantly over the rest of this decade at current projections. This will require Government to continue to operate with fiscal restraint for the foreseeable future. Please refer to the ERR Programme Note on 'Managing Public Debt' for more information on this topic.

The Cook Islands generally has a small labour force which even prior to the pandemic impacted on our capacity to implement infrastructure projects. The further loss of productive labour force due to the economic recession has made this situation worse. This results in a limited supply of labour and resources with which to engage in infrastructure investment, meaning that only a limited number of projects can both be afforded but also not overload the productive capacity of the construction sector.

These combined fiscal and labour limits require careful infrastructure planning targeting both high-impact short-term labour force and economic benefits with appropriate long-term returns on investment. With debt and aid funding presently required to support Government's operating expenses and infrastructure investments, the cost to benefit considerations for each project require a clear rationale for investment.

Additionally, debt and aid funding must generally meet clear approval requirements for support from the donor or lender, with often strict procurement and reporting requirements or limits on how the funds may be used. As such, the infrastructure investment programme also requires a careful consideration of the use of CIG funds and donor (or debt) funds.

Project

The infrastructure investment workstream of the Economic Recovery Roadmap is not a single project. Rather it is a focusing of Government's fiscal capacity for infrastructure investment towards those projects that meet the needs identified above, while also creating capacity for more jobs without over-stretching the existing available capacity.

The constraints in labour capacity means that engaging in multiple large projects simultaneously is impractical, therefore a mix of both large and small projects is needed. The first step will be an identification of NIIP¹ projects to identify those that offer short- and long-term economic benefit along with other considerations. Large projects (\$10m+) will be considered included including sanitation works, bridges and improvements to Avarua town.

Several very large projects are under consideration, including:

1. Mei te Vai Ki te Vai (Muri reticulated sewerage system)
2. Vaikapuangi Government Building

These projects may create a large number of jobs and have both short and long-term economic benefits, but are simultaneously very expensive projects (\$50 million plus) with potentially complex funding structures and significant design requirements.

Funding decisions for infrastructure investment will be made through Government's Tarai Vaka Process, and where funding is obtained directly through debt or with support of aid-funding such as the Infrastructure Trust Fund additional approval and project oversight is typically applied by the lender or donor.

Engagement

This project will be led by multiple Government agencies including:

1. Cook Islands Investment Corporation and the Infrastructure Committee,
2. Infrastructure Cook Islands
3. Ministry of Finance and Economic Management

The NIIP underwent substantial public engagement in preparation as well as post-publication with the Cook Islands construction sector.

There is ongoing engagement with the New Zealand Ministry of Foreign Affairs and Trade (MFAT) through the New Zealand High Commission to the Cook Islands in regards to funding provided through the Infrastructure Trust Fund.

Estimated Cost

Costs will be determined on a project specific basis as individual projects are identified and approved. These will be reported through the Budget Estimates in the 'Capital Schedule' or in the Official Development Assistance Schedule.

¹ <https://www.ciic.gov.ck/publications/infrastructure-plans/>

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Barriers to Business Performance

January 2022

Barriers to Business Performance

Overview

Some of our laws, fees and regulations make it harder for new businesses to get a start in the Cook Islands, resulting in lower levels of competition, higher prices and less diversification.

The goal of this programme is to ensure our business laws provide an enabling environment for all types of business including e-commerce and 'gig-work'. Another goal is to identify, and reduce or remove fees, laws and regulations that make it harder for new small to medium sized businesses to conduct more business.

Context

The business sector has told us about some burdensome fees, laws and regulations

A list of 16 potential 'Barriers to Business' were identified by the Cook Islands business community in 2021 and provided to MFEM. Other government-imposed 'barriers' have been identified subsequently in emails and in conversations with our business community. These known barriers are reflected in the workstreams underpinning this programme.

We need to modernise our business laws

The most time intensive workstream for this project will be a policy exploration of our e-commerce settings, which requires a whole-of-system policy development approach. The Cook Islands' existing data laws, regulations and codes will be explored as part of this approach. For example, the Cook Islands has law and rules in relation to electronic banking transactions, but the (Cook Islands) Privacy Act 1988 may need a review with digital policy in mind.

E-commerce legislation typically consists of data protection and privacy legislation that is designed to protect consumers who submit information to online or app-based companies. Data portability rules are sometimes also included. These rules help when a consumer wants to use their information elsewhere (for example, if they change health provider or move countries). These laws establish clear property rights to data. As a result they support online selling, gig-work, outsourcing and the digital app economy.

At least 128 countries around the world have adopted some form of e-commerce legislation. Of the Small Island Developing States (SIDS) (29 countries), 10 have legislation and 5 have draft

legislation. Aside from Fiji, none of those who do are in the Pacific Islands. Fiji has a specific law to allow for electronic contracts to be recognised in law.

We need a baseline so we can monitor our progress

One workstream of this programme establishes metrics for monitoring and evaluation. We need to use both formal and informal processes to identify high-cost, low-benefit regulations ('red tape' or 'loopy rules'). We will combine consultation with the private sector with formal research. To measure our costs to business – and our own progress at reducing these costs - we will apply the World Bank's Doing Business framework, or an approximation of it.

We need to be able to assess whether our business laws are working well for Small-Medium Enterprise (SME) entities like store owners, plumbers, mechanics, or new business owners who don't complain publicly but nevertheless experience costs. We would like to be able to measure how well our laws are doing, and provide a basis for measuring improvements over time.

Expanding the remit of the Competition and Regulatory Authority to other monopolies

Electricity and water utility services in the Cook Islands are provided by Government-owned monopoly service providers. As monopolies, these service providers are not subject to normal competitive forces, nor are they subject at present to formal independent economic regulation.

Having recently established an independent economic regulator for the telecommunications industry – the Competition and Regulatory Authority, we are now in a favourable position to bring regulation of the electricity and water & sewerage sectors under one roof, together with regulation of telecommunications services.

The primary objective of this Utilities Policy is to ensure that electricity and water & sewerage public utility services are provided efficiently, safely and reliably for the long-term benefit of all end-users including businesses.

This particular work is a continuation of a pre-existing work programme started prior to the lockdown period and is a standalone programme that was substantially delayed but has now been incorporated with the ERR.

Other barriers to business

The other possible barriers to business that we aim to look at are those that might be able to be addressed by small changes in practice or process, rather than legislative or policy changes. They include: processes for businesses making small claims, transport licensing and registration, and building approvals. While other barriers to business and competition most certainly exist, these either have activities of their own, or are more complex and resource-intensive to resolve than can be accommodated as part of the wider ERR program.

For example, there are ERR work streams to address many of these issues (such as Reducing the Cost of Borrowing, Infrastructure Investment, Growing the Labour Force and Attracting Foreign Investment work streams). But some of the suggested areas for attention, like land valuations, changes to tax laws, changes to bankruptcy laws or changes to the investment code go beyond the scope of this ERR project. We have included monitoring of business costs in order to proactively identify high-cost laws and regulations in the future.

Project

The goal of this programme is to ensure a selection of our business laws are modernised to ensure that we provide an enabling environment for all types of business including e-commerce and gig-work, and to identify processes, fees, laws and regulations that make it harder for new small to medium sized businesses to conduct more economic activity. This may be achieved through the following non-exhaustive focus areas (in no particular order):

1. Monitoring: Baseline business cost research
2. Commerce 1: Whole-of-system policy review (and policy development) for e-commerce
3. Commerce 2: Business small claims processes and practice
4. Regulation 1: Utility regulation
5. Transport 1: Motor vehicle registration processes, fees and charges
6. Transport 2: Licensing processes and fees
7. Transport 3: Warrant of Fitness vehicle processes
8. Environment 1: Building approvals processes

Engagement

This project will be led by the Economic Planning Division (EPD) of the Ministry of Finance and Economic Management.

The e-commerce work will involve the Financial Supervisory Commission, Ministry of Justice, , Cook Islands Financial Intelligence Unit and others.

The business small claims work will involve the Ministry of Justice and the legal community (including mediators and arbitrators).

The transport licensing and registrations and WoF sub-stream will involve the Ministry of Transport's Director of Land Transport, and the Deputy Police Commissioner.

The work on building approvals processes will involve the National Environment Service.

The baseline research stream will involve a range of non-government entities. Because of the focus on legal and regulatory arrangements, most of the respondents used for the research are legal professionals such as accountants, lawyers, judges or notaries. Freight forwarders, accountants, architects, engineers and other professionals may be asked to answer questionnaires related to trading across borders, taxes and construction permits. Certain public officials (such as registrars from the commercial or property registry) also provide information that is incorporated into the indicators.

No public communications strategy is presently planned, however it is likely that the e-commerce and business small-claims streams will require extensive public engagement as policy options become apparent.

Estimated Cost

This is expected to have minimal direct costs beyond government Business as Usual (BAU), but any administrative or unanticipated costs will be funded through the Economic Response Roadmap administered payment managed by MFEM. MFEM may seek TA support for the e-commerce and business small-claims streams from the ADB.

For further information contact

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Productivity Growth

Overview

Productivity growth is one of the key mechanisms that drives the overall economy and incomes upward over time. Rising productivity allows us to produce more from the same inputs – and leads to incomes rising as a result.

This programme incorporates projects to search for means to improve productivity, in particular labour productivity, through a range of potential measures such as increasing the skills base in the Cook Islands and encouraging capital investment.

Productivity growth ultimately leads to increased wages and greater efficiency in the use of resources. Improving productivity has been a challenge for much of the world in recent years, with growth slowing in many developed countries. Addressing these challenges will be difficult, and solutions will take time to implement – with many likely to be strongly related to education and training through the Cook Islands. The extension of the Fees Free Initiative is closely related to this goal.

Aside from education and training, an important driver of productivity in an economy is access to capital investment and improving technology. This means that this particular programme has strong links to other ERR Programmes such as Reducing the Cost of Borrowing, Infrastructure Investment and Barriers to Business Performance, as greater competition can help foster productive innovation, as can beneficial public investment. An ambitious goal of this workstream is to improve take-up and access to capital, thus enabling productivity growth, though this goal has proven difficult to achieve for governments in many other parts of the world.

Due to these links, this programme will involve less stand-alone aspects, and instead focus on tailoring outputs in other ERR programmes to support increased productivity growth.

What does this involve?

This workstream is open-ended as the details that come out of the research and information gathering in other ERR programmes are needed to identify additional projects as the exact nature of productivity-enhancing reforms can be difficult to determine without that work. To pre-empt the results of any research and data gathering might result in a path being chosen that doesn't yield the best results, and this challenge is particularly difficult for governments.

However, some lessons can be drawn from programmes in other parts of the world that have worked on these issues:

1. the first lesson is the key role played by education and training in increasing the skill base in an economy by investing in human capital. This is an area that will be investigated further, as well as the Fees Free Extension as the centerpiece.
2. another lesson is that larger businesses tend to be more productive, through aspects such as economies of scale and agglomeration within the organization. For an economy the size of ours however, this poses a challenge as it is often in conflict with a desire to increase competition in the economy. Finding a balance between these factors will be important.

One factor that many places have encouraged is greater uptake in technology and capital investment. With access to more capital and equipment, labour becomes more productive, so this is likely an area the Cook Islands economy can see improvement in through greater access to capital investment. Combined with other aspects of the ERR the overall programme is anticipated to encourage more investment in technology and other productivity-enhancing measures.

Research has also suggested that measures which improve transport links or provide incentives for research and development can help to improve productivity. These options will be investigated through the research component of this work, to determine how they might apply to a Cook Islands context.

The research component of this work will investigate initiatives that have been used in other jurisdictions around the world and take lessons around what has been successful and unsuccessful. Initiatives that are applicable to the Cook Islands will be identified, and any necessary adjustments to ensure the most appropriate fit to our economy for any potential reforms.

While this may appear to leave the door open to large-scale government investment on behalf of the private sector, this particular project will not directly consider that type of action. That may be a recommended approach undertaken, however ultimate recommendations surrounding government capital investment need to consider a range of factors as well as the impact on productivity and as such have a stand-alone workstream under the ERR (please refer to the programme note on Infrastructure Investment for further information).

Engagement

This project is lead by the Economic Planning Division in MFEM, and will engage across government and the private sector as needed. Government agencies such as Infrastructure Cook Islands, the Cook Islands Investment Corporation, the Office of the Prime Minister and the Ministry of Education will be involved in collecting information and investigating potential options to grow productivity.

Outputs

As one of the more abstract components of the ERR, the exact outputs of this workstream is not known before the key research is undertaken, but generally is intended to promote growth in GDP beyond current projections. The specific outputs will be determined by the first phases of the programme which will provide recommendations around measures which are identified to lead to higher productivity growth.

Estimated Costs

Overall costs are anticipated to be low, and confined to costs around consultation and policy development, and as such are anticipated to be below \$100,000. There may be costs associated with some of the measures identified to increase productivity growth, however funding for these will be subject to standard budget processes.

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Fees Free Extension

December 2021

Fees Free Extension

Overview

Fees Free allows people to undertake education and training to help build their skills, with no cost to enrolment – making it easier for everyone to increase their level of education.

This programme provides greater opportunity for people to upskill and increase their human capital – which will benefit both themselves as individuals and the nation as a whole. By removing enrolment fees this opens up the chance to study to more people.

This programme is being funded under the Economic Recovery Roadmap (ERR).

Who can utilise Fees Free?

Anyone resident in the Cook Islands is eligible for the Fees Free programme. That is, both Cook Islanders and those on work permits.

What is covered under Fees Free?

Fees Free will ensure the tuition fees for the offered courses are reduced to \$0 for students. However, this does not cover additional learning costs such as books, stationery or any associated student services fees (administration/student association fees). Students will be expected to personally cover these additional learning costs.

There is a mechanism by which students may become liable for the fees of the course. Upon enrolment in a course, the terms of the subsidy are that if neither of the following criteria are met, government reserves the right to collect the value of the fees from the student. The relevant criteria are:

- Criteria 1: Students shall maintain an attendance record of at least 70% for course classes they are enrolled in (unless there is a documented explanation for absence such as medical certification).
- Criteria 2: Successful completion of the course.

If either or both of the criteria are met, then the student is not liable for the fees. For this, enrolling students will sign up to the terms and conditions which cover these criteria.

Where are courses offered?

Courses eligible for Fees Free are offered at:

- Cook Islands Tertiary Training Institute (CITTI)
- University of the South Pacific (USP) – Cook Islands campus
- Centre of Excellence in Information Technology (CEIT)

When is Fees Free available

For new students at USP and CITTI, the Fees Free programme will be available on courses from January 1, 2022 (this includes summer school courses, beginning on January 4, 2022). The programme is intended to provide for continuing students to access the support for courses in Semester 2, 2022 as well. This amount will need to be accrued at the end of the 2021/22 financial year.

As CEIT is a different type of institution (with only self-contained courses), new students can join courses from Semester 2, 2021 – beginning in August 2021.

For students who are continuing courses they have begun previously under Fees Free, they will have been able to access courses at all three institutions as they continued their studies in Semester 2, 2021. For clarity, this only applies to students who began under the previous Fees Free programme.

What happens for students who have programmes continue past June 2022?

For students in programmes which are only partly completed by the end of the Fees Free Programme, continued support will depend on their path of study. For those in Certificate or Diploma programmes which have a total duration of 18 months or less, the Fees Free Programme will continue to support the remaining component of the programme. That is, ***for students signing up to Certificate or Diploma programmes, the Fees Free Programme will pay for the cost of the whole programme.***

Further support for ongoing study is subject to any renewal of the Fees Free Initiative (or subsequent programme).

Eligible Courses

- Certificate level courses
- Diploma level courses
- Undergraduate degree level courses (partial - see below)

Certificate level courses

These courses are offered at all three institutions, and are considered the first level of post-secondary education. They can be offered as pathways to qualifications (including diplomas, and degrees), or one-off, self-contained courses.

The Certificate courses at CITTI are at a range of levels – with courses available at Levels 2, 3 and 4 under the Fees Free Programme (at a minimum of 40 credits per course). The Level 2 courses are aimed to be part of a pathway to further study for prospective students, where the prospective students do not have the required background.

USP offers a range of Undergraduate Certificates which are Level 7 qualifications under the International Standard Classification of Education (ISCED), which can be used as a pathway to a diploma or degree. The university also offers Pacific TAFE Certificates (Level 4) which can be 'stair-cased' to a diploma, but not a degree.

Certificate courses at USP and CEIT are priced at \$430 per course.

At CITTI, the cost varies between \$600 and \$1,000 per course.

For Certificate courses which begin in the eligible period, but carry on past the 2021/22 Financial Year, those students will continue to have the fees for their course covered by the programme. However, this will not be open to any new students.

Diploma level courses

Diploma courses (Level 5 at CITTI and Levels 5 and 7 at USP) are offered at both CITTI and USP, with USP also offering a pathway from diploma to degree (through Level 7 courses). These courses are pitched at a more demanding and advanced level of training than the certificate level courses and have differing entry requirements

The cost of these courses at USP ranges between \$315 and \$645 per course, while Diploma level courses at CITTI cost \$1,000.

For Diploma courses which begin in the eligible period, but carry on past the 2021/22 Financial Year, those students will continue to have the fees for their course covered by the programme. However, this will not be open to any new students.

Undergraduate degree courses

Undergraduate (or Bachelor) degrees are only offered at USP, and are made up of 24 courses (usually across 3 years if able to study full time). These are Level 7 courses under ISCED.

The cost of the courses which contribute to a Bachelor degree ranges between \$415 and \$615 each.

Eligibility for undergraduate degree courses

This programme is open to both newly enrolling students, and existing Bachelor students – but only covers one year of study (not the entire degree- on average a cost of \$4,160 for first- and second- year students, or \$4,560 for third-year students). For students studying part-time¹, this covers an equivalent of one year of full-time study (usually eight papers), however this is only available until the end of the 2023/24 financial year (ending on June 30 2024) – providing five semesters of eligibility to take up to eight papers.

For new Bachelor students, they will need to be made aware that the Fees Free Programme only covers the first year – and the fees for second and third years will need to be covered through another means.

How to apply

The Fees Free Programme does not require application, the enrolment fees for eligible courses are simply reduced to zero.

For further information contact the course providers below

Cook Islands Tertiary Training Institute (CITTI)

Email – study@citti.edu.ck

Website – www.citti.edu.ck

University of the South Pacific (USP) – Cook Island campus

Email – cook.islands@usp.ac.fj

Website - www.usp.ac.fj/usp-cook-islands/

Centre of Excellence in Information Technology (CEIT)

Email – ci-ceit@usp.ac.fj

Website – www.ci-ceit.edu.ck

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¹ At least one paper per semester



Improved Public Sector Efficiency

Overview

The purpose of this programme is to identify policy options to strengthen and improve functions, systems and structures of the Public Sector through greater collaboration between Government agencies to make the sector more responsive to our customers' needs and expectations and provide value-for-money services.

Government is seeking to engage external technical assistance to perform a functional review of the whole of government structure¹ to identify overlaps and duplications in services and functions, in order to identify a more efficient model with better and improved services. Indirect benefits are likely to include cost efficiencies simply through a better structure, however this is not the goal of the review.

Funding for this programme may become available from Cook Islands funding partners however the project is included in the Economic Recovery Roadmap (ERR).

Context

The Cook Islands Government has operated largely unchanged since the dramatic changes of 1996, with gradual growth of services and functions resulting in an accrual of responsibilities primarily to existing Government Departments (Agencies).

The various categorisations of the Cook Islands 'Machinery of Government' (MoG) are displayed in Table 1.

The Public Service are under the control of the Government (known as the Executive), with the Ministries reporting to the Public Service Commissioner and a Minister, whilst Statutory Agencies report to a board and to a Minister. The ten Island Administrations report to the Island Government Mayors, Councilors and the Chief of Staff for the Office of the Prime Minister.

State Services refer to the Crown Agencies that report directly to Parliament, Ministerial Support Offices and the House of Ariki, and Parliament itself. State Services includes State Owned Enterprises on the basis these are wholly owned by Government through the Cook Islands Investment Corporation.

¹ Excluding State Owned Enterprises

Table 1 – Agencies in the Machinery of Government

Agency Group	Level of Government Inclusion	Public Service	State Services	Public Sector	MoG
Government Ministries	Public Service	14		14	14
Statutory Agencies	Public Service	10		10	10
Island Governments	Public Service	10		10	10
Crown Agencies	State Services		7	7	7
Parliament & House of Ariki	State Services		1	1	1
Ministerial Support Offices	State Services		6	6	6
State Owned Enterprises	State Services		5	5	5
Island Councils	Machinery of Government				10
Totals		34	19	53	63

Whilst it is necessary for governments to respond to changing community needs, the imposition of new legislative and policy or functional responsibilities can often result in overlaps in responsibilities between different Agencies that result in inefficient delivery of services to the public.

Inefficient government structures result in needless bureaucracy, which may in turn result in various services becoming difficult to access or navigate. Economically this can have the effect of stifling growth or cause new opportunities to be redirected to other easier to navigate jurisdictions.

It is therefore logical to periodically review the structure of Government to ensure that these inefficient structures are minimized and that Government is optimally arranged to support its stakeholders, including private sector businesses.

Project

The overall objective is to improve the efficiency and effectiveness of the Public Service supported via:

1. a comprehensive Public Service Functional Review to be performed by an external Technical Advisor focusing on the Ministries, and Statutory and Crown Agencies, and
2. a phased change management plan – reflecting a whole of Government organizational framework, restructure and processes of the public service to better align its systems and processes with the changing economic environment, aligned with the National Sustainable Development Agenda, Economic Development Strategy, and the ERR.

The Public Service Functional Review will:

- a) clarify institutional arrangements: examine the legislative framework including regulations of managing the operations of the various Ministries and Agencies to determine their relevance and whether they are fit for purpose;
- b) clarify the organizational or structural design: examine the vertical and horizontal structures to determine whether their structures support these functions and responsibilities adequately.
- c) clarify the functional responsibilities: examine the different functions to determine relevance. This may include identifying the specific tasks that each Ministry and Agency implements and how it aligns with their respective mandates.

- d) examine the scope for centralizing cross-cutting support functions such as human resource management, information technology and administration to enable Cook Islanders to complete their transactions with the Government in a digital environment
- e) examine the suitability of incorporating State Owned Entities into centralised cross-cutting support functions, including extension of the Government salary structure to cover SOE's. A New Zealand style 'State Services' model incorporating SOE's should be considered as a component of this recommendation.
- f) recommend policies for Public Service accountability.

The phased change management plan will, noting the tight fiscal environment, prepare proposals for implementation plans for gradual or incremental implementation of recommendations identified by the Public Service Functional Review.

Engagement

This project will be led by the Office of the Public Service Commissioner with the support of the Ministry of Finance and Economic Management. A Governance Group will provide overall oversight of this review and will be made up of Heads of Central Agencies: Public Service Commissioner, Financial Secretary, Solicitor General and Chief of Staff.

No public forum engagement is presently proposed however consultation with non-government organisations (NGO's) is planned, however public consultations may be considered by the Technical Advisor and if so, will be advertised.

Expected Cost

External funding support is under discussion for this programme. Other costs associated with any recommendations from the Functional Review will be identified in time.

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Labour force and Population

Overview

The Cook Islands has a small and geographically dispersed population that has for many years displayed symptoms of 'urban drift' (population movements towards bigger population centers), not only towards Rarotonga but also to international destinations such as New Zealand and Australia. The economic impact of COVID-19 on employment opportunities and comparative wages has further compounded this, resulting in an even more acute emigration challenge during 2020 and 2021.

Population size has direct links to economy size; hence a shrinking population will result in a smaller GDP, but conversely a sustainably growing population will increase GDP, particularly with issues of 'critical mass' being front and centre in a small nation like ours. GDP correlates to levels of living standards along with opportunities for education, jobs and income.

This programme firstly aims to address this acute 'supply side shock' to our population that has come with COVID-19 before it becomes a permanent reduction in population and therefore demand for goods and services.

Wider workforce development is a longer-term focus for this programme. Workforce development is a complex policy area and the results can take some time to see. The Cook Islands is at a stage of its development where its workforce is beginning to demand more flexibility, better opportunities for part-time and gig-work and other policies supportive of labour force participation such as childcare and eldercare.

Within this programme there are existing outputs from the Economic Development Strategy. The ERR adds outputs for 2022 and 2023 aimed at urgent short term needs.

Funding for this programme may become available from Cook Islands funding partners however the project is included in the Economic Recovery Roadmap (ERR).

Context

The Cook Islands suffered a significant and permanent loss of population during the financial crisis of the 1990's, with many of the working age population taking their families to New Zealand and Australia in search of work. Anecdotally, very few have returned permanently to the Cook Islands. This history illustrates the threat that economic shocks can pose to population and GDP.

Strategies encouraging people to live in the Cook Islands will always focus firstly on Cook Islanders and those with existing links to the Cook Islands, particularly the Cook Islands diaspora in New Zealand and Australia. To meet immediate labour needs, however, consideration must be given to the expatriate and migrant workforce, and steps to ensure we remain an excellent recipient country.

Over time, the nation is aiming toward a sustained workforce and resident population (as recognized in goal 14 of the National Sustainable Development Agenda (NSDA) “A Sustainable Population”. A Population Policy is currently being prepared by the Office of the Prime Minister in furtherance of goal 14 and the NSDA Monitoring Indicators will provide evidence of success.

Departures during border closures

There have been a number of estimates in terms of actual loss of work force since the beginning of Covid-19 since the Cook Islands borders were closed in March 2020. The Ministry of Foreign Affairs and Immigration estimates around 500 people left the Cook Islands through the long border closure that started in March 2020, and a further 400 people since the August 2021 closure. Around 38 per cent of these departures were migrant workers from Fiji, Indonesia and the Philippines permanently returning home to their families; some of these were Cook Islanders who went away to work and have since returned.

More recently workers have been targeted by NZ recruitment agencies given the severe work force shortage NZ faces in certain industries. These recruitment drives were targeting our young and active local working population at first but extended into the migrant workforce.

A survey issued by the Cook Islands Chamber of Commerce, Cook Island Tourism Corporation and the Cook Islands Tourism Industry Council has revealed at least 620 people are needed to ease labour shortages in the tourism industry and related sectors by April 2022. The survey found that these positions had been left vacant by local and migrant workers heading to NZ to take up other jobs.

While we would expect some churn between these various countries’ labour forces, anecdotal evidence suggests most of these departures were due to lack of work, poor working conditions or lower wages in Rarotonga. Some may return with the border reopening but we expect many have gone for good, having moved on to other things. This is supported by the low return rate of Cook Islanders during the 1990’s. We will focus our efforts on bringing in new workers and ensuring that decent working conditions await them.

Cook Island diaspora - an untapped resource

As New Zealand citizens, Cook Islanders have easy access to employment in New Zealand and Australia. The 2018 New Zealand census estimates that approximately 80,000 people have Cook Islands heritage in New Zealand. This is in addition to approximately 22,000 people of Cook Islands heritage residing in Australia. This is a significant resource that remains largely untapped. For example, when jobs in the Cook Islands are advertised, are we reaching skilled Cook Islanders who live abroad?

A targeted approach to attracting Cook Islanders back to live or work in the Cook Islands will increase the number of workers and skills available to the Cook Islands economy. We need to use existing diaspora networks to promote the option of living and working in the Cook Islands, to encourage short term and permanent moves. Incentives to attract skilled Cook Islanders back

“home” to contribute to our recovery will be considered, and may be relocation or housing related.

Greater uptake of work visa opportunities

There is also a strong case to be made for motivating more uptake of work visas for working people from other countries. This would involve better promotion of visa opportunities, particularly in light of the global trend of ‘the Great Resignation’: a higher level of ‘churn’ in jobs after sustained pandemic-related restrictions. Given that people all over the world are questioning their work choices and are starting to once again plan holidays and adventures, we need to communicate that the Cook Islands wants foreigners here to work. We need to do promotional work early in 2022 so people can make active choices to relocate during 2022.

Addressing other challenges in the labour force

An existing challenge to retaining and growing the Cook Islands workforce is the perception of low wages, with frequent references in social media to the higher wages available in New Zealand and Australia that fail to consider the significantly higher cost of living in these countries. Current economic pressures are expected to see some wage growth in the short-to-medium term as a shortage of labour in the economy forces employers to compete with each other through offering higher wages to attract staff.

A further challenge is the relative access to opportunities for education, career and other lifestyle elements when comparing the smaller market of the Cook Islands versus the larger established economies of New Zealand and Australia. Other programs such as the Universal Access Plan that aims to establish equitable access to telecommunications in the Pa Enea, the implementation of Avarua Cable Limited’s higher speed internet that may support greater business opportunities and education access will contribute to improvements here.

Other challenges exist for Cook Islanders already in the Cook Islands. Known barriers to labour force participation include lack of childcare and eldercare and no enabling policies for ‘gig work’.

Declining numbers of working-age people resident in the Pa Enea has been a concern for many years. Census data is not granular enough to trace the movements of individual populations to or beyond Rarotonga, but anecdotal evidence suggests that much of the population shift out of the Pa Enea has been to international destinations, likely due to land access difficulties for outer-islanders on Rarotonga. Because population and economic viability are so closely linked, there is a threat that these micro economies - which already rely on heavy cross-subsidization from Rarotonga - will become even more dependent. Consistent with the NSDA, the activities in the Population Strategy will seek to address factors that contribute to population loss from the Pa Enea. For example health personnel, the availability of education, retention of skills and lifestyle factors.

Scope of this programme

This programme will cover projects for better measurement of inward and outward migration, immediate steps to recruit migrant labour, longer term interventions to make the Cook Islands a better recipient country for migrants, promotion of working holiday visa pathways, diaspora attraction, and policy interventions for sustainable workforce growth for Cook Islanders in the Cook Islands.

Within the projects there are existing outputs from the Economic Development Strategy (EDS actions 3.1, 3.2, 3.3, 3.7). The ERR has added immediate priority actions for 2022 and 2023 aimed at stemming population loss and stimulating population attraction and retention. We note the overlap with other ERR work streams as part of the overall package of economic recovery.

Engagement

The affected agencies are MFEM (Economic Planning Division and Statistics), Ministry of Foreign Affairs and Immigration, Internal Affairs, Office of the Prime Minister and the Chamber of Commerce. Cook Islands Tourism will likely be involved in promotional activities. Each of the affected agencies were consulted as part of the development of this workstream.

Estimated cost

This programme will be funded out of MFEM's ERR funding and absorbed through normal Government operating expenses as appropriate.

A budget of up to \$100,000 is planned.

For further information contact

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Foreign Investment to benefit the Cook Islands

Overview

When revenues drop dramatically, as they have during the COVID-19, businesses resort to using their savings to survive. The consequential reduction in private sector savings combined with high forecast inflation and higher borrowing costs in the Cook Islands is expected to result in relatively low levels of private investment in the short term. Attracting appropriate levels and types of foreign investment may be a source of continued economic development and growth – particularly through the recovery period.

This project will review the investment rules with the effects of the pandemic in mind, reassessing what the best investment levels and types are, as well as updating the regulatory environment surrounding foreign investment, with review and analysis is being undertaken into the current levels of investment and the rules affecting it. This will provide a starting point to assess potential changes to ensure the rules best serve the Cook Islands economy.

Any changes to the rules will aim to strike a balance between attracting desirable investment from overseas, and ensuring our local entrepreneurs get opportunities to innovate and grow their businesses.

What is the benefit of foreign investment?

Investment into the Cook Islands from abroad provides an important source of economic stimulus as the economy recovers from the pandemic. This investment can provide demand for workers and locally produced goods and services that otherwise wouldn't be available – an important component of the economic recovery.

For a small economy such as ours, this can help in financing large-scale investment in particular, as this is often difficult to find investors for locally. Foreign investment is also a means by which ventures with a higher degree of risk can be funded. By allowing investors from overseas to take these risks, new sources of employment and economic activity may be brought into the country.

What about the risks of foreign investment?

While the benefits of foreign investment are laid out above, there are trade-offs to consider – or there would be no reason to impose any conditions or restrictions on investment coming from foreign sources. A key trade-off for the Cook Islands is that foreign investors may crowd out

opportunities for local entrepreneurs, and use comparatively larger resources to out-compete smaller players.

A more direct trade-off is that the inflow of foreign investment initially is linked to an outflow of returns on that investment (profits) over time, or there would be no reason to invest – so the Cook Islands will continue to see outflows of cash into the future. This money flowing out of the economy will not be spent locally, so some of the benefits of local activity is missed out upon, but in this specific regard this is offset by increased economic activity elsewhere in the market through job creation and the purchase and consumption of local goods and services.

Project

This programme has two projects within it:

1. Reconsidering the barriers to foreign investment and reviewing the foreign investment environment to identify how this can be improved to provide clear gains for all parties, and
2. Attracting foreign investment in key industries to drive our current and future economy. It is expected that it will take some time to identify areas of interest and how best to attract foreign investment.

The first phase will lead directly into the second phase as it will identify areas where the rules and regulations as they currently stand are no longer a good fit for the Cook Islands economy and may be reducing the level of investment.

Engagement

This project will be led by Government agencies including:

1. Business Trade and Investment Board,
2. Ministry of Finance and Economic Management.

Any substantial changes to regulation will be consulted on as well, to ensure they reflect a range of community values and viewpoints.

Estimated Cost

Costs associated with this workstream are anticipated to be confined to those related to consultation. These are not expected to be substantial, and will be funded from the Economic Recovery Roadmap administered payment.

For further information contact

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