



Country Partnership Strategy

Jun 2008

Cook Islands
2008–2012

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 9 June 2008)

Currency Unit	–	New Zealand dollar/s (NZ\$)
NZ\$1.00	=	\$0.7674
\$1.00	=	NZ\$1.3031

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AMD	–	Aid Management Division
APS	–	Aitutaki Power Supply
AUSAID	–	Australian Agency for International Development
CEAP	–	Cyclone Emergency Assistance Project
CEDAW	–	Convention on Elimination of All Forms of Discrimination Against Women
CIAA	–	Cook Islands Aviation Authority
CIIC	–	Cook Islands Investment Corporation
CIPA	–	Cook Islands Ports Authority
CPA	–	country performance assessment
CPS	–	country partnership and strategy
CSPU	–	country strategy and program update
DPA	–	donor partnership and harmonization agreement
DSA	–	debt sustainability analysis
EMCI	–	Emergency Management Cook Islands
ERP	–	economic restructuring program
EU	–	European Union
FDI	–	foreign direct investment
GDI	–	gender development index
GDP	–	gross domestic product
GEF	–	Global Environment Facility
GEM	–	gender empowerment measure
IDP	–	Infrastructure Development Project
JCS	–	joint country strategy
MDG	–	Millennium Development Goal
MFEM	–	Ministry of Finance and Economic Management
MOH	–	Ministry of Health
MOW	–	Ministry of Works
NCD	–	noncommunicable disease
NDRMP	–	National Disaster Risk Management Plan
NES	–	National Environment Service
NESAF	–	National Environment Strategic Action Framework
NSDP	–	National Sustainable Development Plan
NZAID	–	New Zealand's International Aid and Development Agency
OCR	–	ordinary capital resources
OMIA	–	Office of the Minister for Island Administration
PBA	–	performance-based allocation
PDMC	–	Pacific developing member country
PIU	–	project implementation unit

PPTA	–	project preparatory technical assistance
PRC	–	People's Republic of China
PSC	–	Public Service Commission
SOE	–	state-owned enterprise
TA	–	technical assistance
TAU	–	Te Aponga Uira
UNDP	–	United Nations Development Programme
VAT	–	value added tax
WPC	–	weakly performing country
WSSD	–	World Summit on Sustainable Development

NOTE

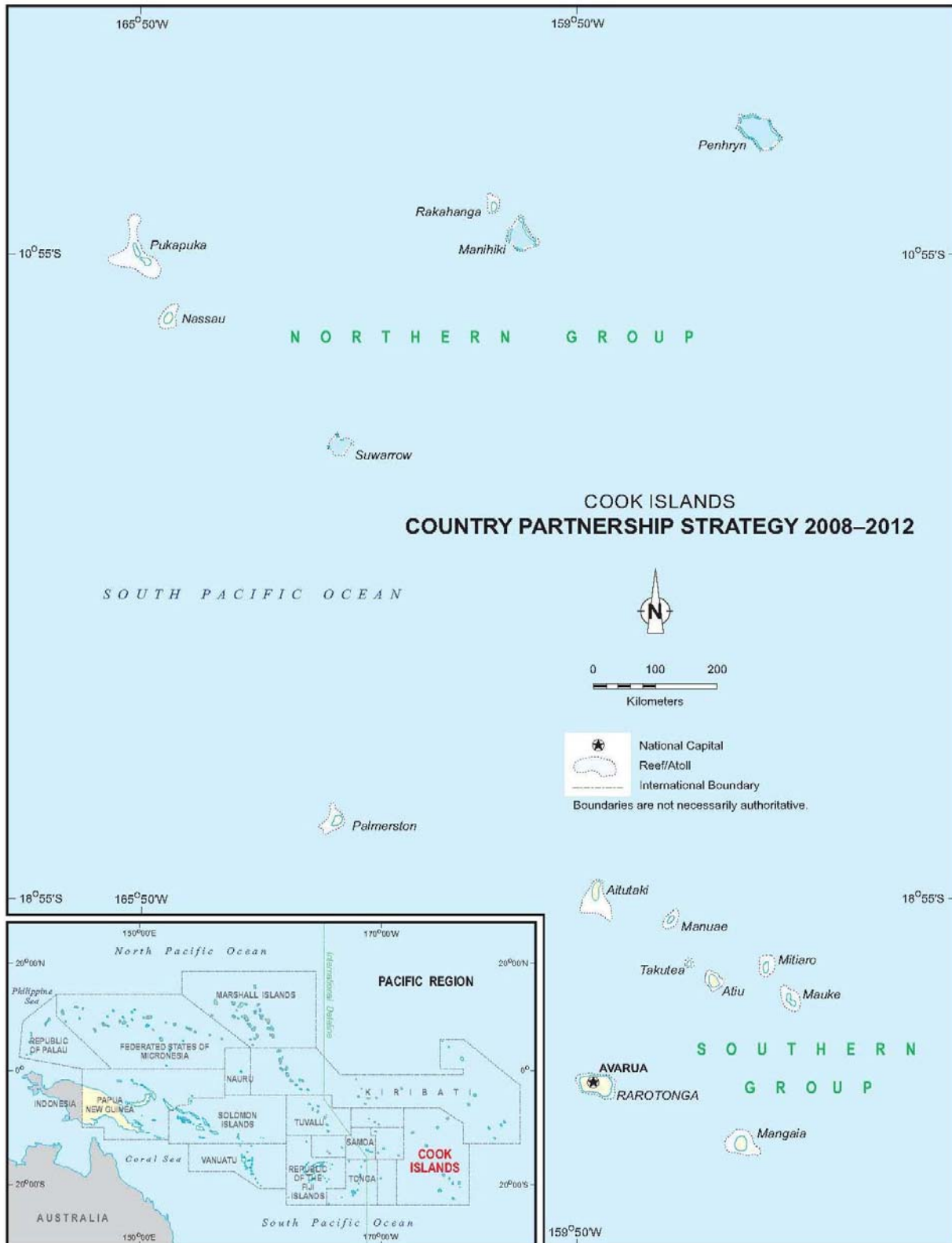
- (i) The fiscal year (FY) of the Government of the Cook Islands and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2008 ends on 30 June 2008.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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MAP



EXECUTIVE SUMMARY

Development Context

The Cook Islands has achieved many of the Millennium Development Goals. While disparities in the level of development exist between the main islands of Aitutaki and Rarotonga and the remote outer islands, these have lessened over time as a result of fiscal transfers to outer island administrations, which provide basic social services and distribute welfare benefits. The economies of Aitutaki and Rarotonga have grown strongly, in large part due to growth in the tourism sector, but this has stressed the natural environment and infrastructure services. This could negatively impact the attractiveness of the Cook Islands as a tourist destination and affect the prospects for future private sector-led growth and development.

The Government has acknowledged that frequent changes in the composition of the Government in recent years have resulted in a lack of focus on medium- and long-term development goals. To increase the focus on national development objectives and results, in January 2007 the Government adopted the *Te Kaveinga Nui* (Pathway for Sustainable Development in the Cook Islands) Living the Cook Islands Vision—A 2020 Challenge, National Sustainable Development Plan 2007–2010 (NSDP). This rolling plan is the first national strategy in which a broad national consensus has been achieved through extensive stakeholder consultations.

Government Development Strategy

The NSDP's primary objective is to build a sustainable future that meets economic needs without compromising prudent economic management, environmental integrity, social stability and the needs of future generations. The NSDP identifies eight goals as priority areas for implementation, and seeks to promote (i) equal opportunities for health, education, and other social services, thereby contributing to the establishment of an inclusive and vibrant society; (ii) law, order and good governance at all levels; (iii) development of an innovative and well-managed private sector-led economy; (iv) sustainable use and management of natural resources and environment; (v) strengthened and affordable basic infrastructure, transport, and utilities to support national development; (vi) a safe, secure and resilient community; (vii) an effective foreign affairs policy that meets the needs and aspirations of the Cook Islands people; and (viii) strengthened national coordination and support systems for development planning, evaluation, and monitoring.

The NSDP gives priority to economic reconstruction aimed at improving the efficiency of government and promoting private sector-led economic development. Short- to medium-term future plans focus on upgrading of infrastructure to support continued and environmentally sustainable economic growth. In the main islands, infrastructure lacks the capacity and quality to meet existing demand, and inadequate water and sanitation services pose direct risks to the environment, and constrain new development. Protection of the environment through provision of appropriate infrastructure is needed to enable the continuing success of the tourism-oriented private sector.

Asian Development Bank (ADB) Development Strategy

ADB's strategy for the Cook Islands aligns with the NSDP by focusing on environmentally sustainable economic development and by contributing to four of its eight goals: (i) an innovative and well-managed private sector-led economy; (ii) sustainable use and management of natural resources and the environment; (iii) strengthened and affordable basic infrastructure, transport and utilities to support national development; and (iv) a safe, secure, and resilient community. The country partnership strategy (CPS) outcomes are improved economic and social infrastructure and public sector service delivery.

Priority Sectors and Themes

Sectors: Multisector (energy; transport and communications; water supply, sanitation, and waste management)
 Subsectors: Energy sector development, multimodal transport and sector development, integrated, water supply and sanitation.
 Themes: Sustainable economic growth, environmental sustainability, capacity development

Financing Envelope

\$21.88 million

Partnership Arrangements

The CPS has been prepared in close coordination with the Cook Islands' principal development partners. The New Zealand's International Aid and Development Agency, which also manages the programs of the Australian Agency for International Development, will cofinance project preparatory technical assistance for an infrastructure development project (IDP) in 2008 aimed at ensuring a harmonized approach to the development and management of all physical infrastructure and infrastructure service delivery. The European Union will coordinate its assistance in the infrastructure sector within the IDP. A draft of the donor partnership agreement (entitled Intent by the Government of the Cook Islands and Development Partners on Improving Aid Coordination and Effectiveness) has been formulated to apply the principles of the Paris Declaration on Aid Effectiveness at the country level.

Increased dialogue with development partners will be required to achieve the aims of the donor partnership agreement over the period of the CPS.

**Risks and Mitigating
Actions**

The major risks to successful CPS implementation are lack of political commitment, external and weather-related economic risks, and competition for the country's limited borrowing capacity. The NSDP will guide the Government over the medium term in planning and implementing the agreed Project, and regular dialogue between ADB and the Government will focus on achieving NSDP and CSP outputs and outcomes. Economic disruption caused by weather-related or external factors are mitigated by the Government's accumulated loan reserves, by maximizing blending of grant and concessional loan financing in funding the CPS and its single infrastructure development project, and by incorporating climate change adaptation in the proposed Project.

I. DEVELOPMENT CONTEXT: CURRENT TRENDS, ISSUES, AND CONSTRAINTS

1. The Cook Islands comprises 15 small volcanic islands and coral atolls with a total land area of 240 square kilometers (km²), spread over an ocean area of 1.8 million km². The northern group is separated from the southern group by about 1,200 kilometers (km). The population is estimated at about 20,200. The principal island, Rarotonga, is only 6 km in diameter and has a resident population of around 12,000. The second most populous island group is the atoll of Aitutaki, with a resident population of about 2,300 people. The balance of the population is distributed among 11 of the remaining 13 islands, with populations ranging from 2 to 704. In addition to the resident population, temporary residents including tourists number around 3,000 at any one time, mostly on Aitutaki and Rarotonga.

2. The Cook Islands' economy grew significantly in recent years with gross domestic product (GDP) growth averaging 4.1% from 2004 to 2007 (Appendix 1). The growth was led by the private sector, particularly the tourism, marine resources and retail business sectors. Tourism is the most important economic driver and now contributes over 50% of total GDP. The use of the New Zealand dollar (NZ\$) helps restrain inflation, and the average annual increase in the domestic consumer price index (CPI) was 2.6% from 2004 to 2007.

3. The Cook Islands is import-dependent, and service exports from tourism largely cover the merchandise trade deficit. Pearls and fisheries are key merchandise exports, but contribute just 0.8% and 0.5% of GDP respectively; production declined significantly in recent years because of disease in pearl farms, intense market competition, and depleted fish stocks. Although the banking sector is sound, the offshore financial sector has yet to recover from a low level of business prevailing after the Cook Islands' removal from the Financial Action Task Force (FATF) ¹ Non-Cooperative Countries and Territories (NCCT) list in February 2005.²

4. The people of the Cook Islands enjoy a high standard of living and the high human development index³ reflects the historically high level of government expenditure on health, education and welfare. The country will achieve many of the Millennium Development Goals (MDGs) by 2015. In 2000, the under-5 mortality rate (per 1,000 live births) was 24, and 100% of births were attended by skilled health personnel. Life expectancy at birth was 68 years for men and 74.3 years for women. The ratio of girls to boys in primary education was 0.89 and in secondary education, 1.03. Schools are accessible to the entire population (including residents of the outer islands) and attendance is free and compulsory. However, there has been a significant increase in noncommunicable diseases (NCDs), due to unhealthy lifestyles and poor nutrition. More than 20% of the total resident population in 2000 suffered from some form of NCD.

¹ The Financial Action Task Force is an intergovernmental body whose purpose is the development and promotion of national and international policies to combat money laundering and terrorist financing.

² The Government promulgated the Money Laundering Prevention Regulations that came into force in February 2002. In 2006, the Government initiated an Offshore Industry Committee, to provide policy advice concerning the offshore financial services industry. This, along with the Financial Services Commission and Financial Investigations Unit, helped provide regulatory and monitoring support to the financial sector to protect and consolidate the status of the Cook Islands offshore financial services sector.

³ The Human Development Index is a normalized measure of life expectancy, literacy, education, standard of living and GDP per capita used by the United Nations Human Development Programme in its annual Human Development Reports.

A. Binding Constraints to Growth

5. Cook Islands has made good progress, but continues to face binding constraints to growth and development, particularly emanating from environmental risks to fragile atoll ecology and by extension to the economy. A thematic assessment of development opportunities and constraints was prepared for the Cook Islands 2007 Social and Economic Report (PIER).⁴ The PIER identified environmentally sustainable private sector-led development, capitalizing on past success in tourism, to be the key driver of economic growth. However, even maintaining the current contribution to the economy of the tourism and associated industries requires the removal of binding constraints that threaten their sustainability. The analysis, supported by strong stakeholder opinion, identified the binding constraints to be geographical isolation, frequent natural disasters, the quality of infrastructure and its management, and public sector capacity limitations. The binding constraints resulting from infrastructure limitations, (including sanitation and waste management, water and power supply, and the transport sector) and the associated deficiencies in public sector management capacity, will need to be addressed. The strategic focus of this Country Partnership Strategy is an integrated approach to alleviating the binding constraints through the development and management of environmentally sustainable infrastructure needed to fundamentally support private sector-led economic growth.

6. In 2007, the Government of the Cook Islands (the Government) adopted its first national plan, the *Te Kaveinga Nui* (Pathway for Sustainable Development in the Cook Islands) Living the Cook Islands Vision—A 2020 Challenge, National Sustainable Development Plan 2007–2010 (NSDP). The strategy of the NSDP is to base development of health, education, and other social services outcomes on the foundation of a private sector-led economy, supported by an efficient public sector. Implicit in the NSDP is the recognition that removal of the binding constraints is necessary to create an enabling physical and institutional environment that will foster economic development. In order to address the binding constraints, the NSDP provides short- to medium-term plans focusing on upgrading of infrastructure and improvements in public sector service delivery to support continued and environmentally sustainable economic growth.

7. Economic development is particularly constrained in the main islands, where infrastructure lacks the capacity and quality to meet existing demand. Inadequate water and sanitation services pose direct threats to the environment, preservation of which is necessary to sustain the attractiveness of the Cook Islands as a tourist destination, as well as to protect the health and well being of the resident population. The capacity of the international port at Avatiu constrains efforts to maximize shipping efficiency and reduce freight costs with consequent benefits to the economy generally. The need for improvements is compounded by an urgent need to rehabilitate the existing wharf. The delivery of infrastructure services is constrained by fragmented institutional arrangements, requiring improvements and reforms to realize the benefits of improved physical infrastructure.

B. Political Environment

8. The Cook Islands is a parliamentary representative democracy within a constitutional monarchy. The Queen of New Zealand (Queen Elizabeth II), represented in the Cook Islands by the Queen's Representative, is the Head of State; the Chief Minister is the head of the Government. The parliament has 24 members elected for a 4-year term in single-seat constituencies. The most recent election was in September 2006, following dissolution of parliament mid-way through its term because of uncertainty about the ability of the Government

⁴ ADB. 2008. *Cook Islands 2007 Social and Economic Report, Equity in Development*. Manila.

to maintain its majority. A broad similarity in the policy platforms of the main parties has meant that the changes in government have not had a major impact on the direction of public policy. Political patronage remains an ongoing risk that is exaggerated by weaknesses in the parliamentary system, the ability of Ministers to act outside the accountability framework, an absence of a clear planning framework to guide the use of public funds, and gaps in performance management. The political instability and uncertainty has undermined the quality of government, and has affected the population (through emigration) and economic growth. Nevertheless, the parliamentary democracy is relatively robust and provides for generally inclusive, orderly and nonviolent decision making. The NSDP proposes improvements to parliamentary governance through the adoption and effective implementation of the governance initiatives contained in the Pacific Plan.⁵

9. Government policy is to devolve, to the extent possible, administration of the outer islands to the island councils, but implementation of this policy has been limited to date. Institutional mechanisms have failed to support effective delivery of services to and in the outer islands, in part because central agencies have overlapping responsibilities, and the administrative capacity of the islands is limited.

C. Macroeconomic Management

1. Macroeconomics

10. The Cook Islands experienced an economic crisis in the mid-1990s but has subsequently recovered, experiencing 7 consecutive years of growth to 2006. Economic reforms adopted in response to the crisis provided the catalyst for growth by building a clear private sector-led economic development strategy. The economy slowed somewhat in 2005 and 2006 (in part as a result of the 2005 cyclones), but real GDP has nevertheless increased by an average of more than 3.5% per year since the economic reform program commenced; this rate of growth is forecast to continue to 2010. However, sustainable growth cannot continue without removal of the binding constraints.

11. The expansion in tourism, the main-stay of the economy, focuses on the two most developed islands of Aitutaki and Rarotonga. Investment and taxation incentives, subsidies and other forms of assistance have been provided to the tourism industry to foster its growth.⁶ The industry accounted for 50% of GDP in 2006, compared with only 20% in 1988. Visitor arrivals grew from less than 50,000 people in the mid-1990s to 92,000 in 2006. Tourism growth led a more general expansion encompassing the wholesale and retail trade, restaurants and accommodation, and transport and communications, but the lack of economic diversification carries significant risks. However, sustained growth is constrained by the capacity of the infrastructure both in terms of service delivery and its capacity to protect the environment. Existing water supply systems do not have the capacity or quality to meet demand for new or expanded tourist facilities. Pollution from inadequate sewerage arrangements poses a threat to the attractiveness of Cook Islands with associated serious risks to the tourism industry. Removal of these binding constraints is feasible, practical and affordable.

⁵ Pacific Islands Forum Secretariat. 2005. *The Pacific Plan for Strengthening Regional Cooperation and Integration*. Suva.

⁶ For example, the Government supported the Cook Islands Tourism Corporation in a branding campaign and entered into joint venture arrangements with Air New Zealand to ensure the continuity of the Los Angeles–Rarotonga flight, designed to attract visitors from North America.

12. Agriculture and fishing have accounted for much of the remaining growth. Pearls exports were valued at NZ\$18 million in 2000, but disease associated with overstocking and a decline in international prices resulted in the value of pearl exports declining to just NZ\$2.2 million in FY2007. The health of lagoons is slowly recovering, although a return to the former production volume is not expected in the medium term. Exports of fresh chilled fish commenced in 2002, and were worth NZ\$8 million in 2003. Lower catch volumes, a strong New Zealand dollar and domestic demand have seen this weaken to NZ\$1.4 million in FY2007.

13. Economic development in the outer islands is hindered by isolation from markets; small, dispersed population centers; a lack of natural resources; periodic damage from natural disasters; and inadequate infrastructure. The Government ensures that a basic and appropriate level of service is available through fiscal transfers to outer island councils. Near- and medium-term infrastructure development in the outer islands aims to improve (i) accessibility by air and by sea, and (ii) access to water through provision of least-cost and appropriately scaled facilities under grant or government financing. In contrast, the main islands of Aitutaki and Rarotonga need appropriate investment to achieve higher and sustainable levels of service in order to fully capitalize on the growth potential of the tourist-driven economy.

2. Fiscal Management

14. Improved fiscal policies resulted from reforms that followed the economic crisis of the mid-1990s, which was precipitated by unsustainable fiscal expansion involving a growing public service wage bill; an expanding welfare system; and rising, unsustainable external debt. In 1995, there was a 16.4% drop in visitor arrivals as a result of reduced air services, an outbreak of dengue fever, and competition from other tourist destinations. Furthermore, the exchange rate, which was pegged to the appreciating New Zealand dollar, caused the domestic currency to be overvalued, resulting in a significant increase in the real effective exchange rate and reduced international competitiveness. Combined with declines in the external position and foreign reserves from a relatively inward-looking economic structure, the exchange rate regime collapsed, and the New Zealand dollar was adopted as the country's legal tender in 1995.

15. In late 1994, the Government requested assistance from the Asian Development Bank (ADB) to strengthen its institutional capacity for financial and economic management and to implement required fundamental policy changes. In response to the crisis, the Government introduced the ADB-supported Economic Reconstruction Program (ERP)⁷ to improve public sector institutional capacity and create a more competitive economy led by a growth-oriented, productive private sector. The policy and institutional measures covered the areas of public sector reform, private sector growth promotion, and social equity and sustainability. There were three major objectives: (i) macroeconomic stability, with a focus on achieving fiscal and external balances; (ii) reduction in the Government's role and increased private sector participation; and

⁷ The Economic Reconstruction Program comprised: ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to the Cook Islands for the Economic Reconstruction Program*. Manila. (Loan 1466-COO, and TA 2650/2651-COO, approved in September for \$5 million); ADB. 1995. *Technical Assistance to the Cook Islands for Strengthening Institutional Capacity for Financial and Economic Management*. Manila. (TA 2424-COO approved in October for \$892,000); ADB. 1996. *Technical Assistance to the Cook Islands for Management of the Cook Islands Development Bank and Business Ventures Development*. Manila. (TA 2650-COO approved in September for \$740,000); ADB. 1996. *Technical Assistance to the Cook Islands for Institutional Support to the Development Investment Board*. Manila. (TA 2651-COO approved in September for \$251,000); and ADB. 1997. *Technical Assistance for the Cook Islands for Strengthening Institutional Capacity for Financial and Economic Management (Phase II)*. Manila. (TA 2750-COO approved in January for \$600,000).

(iii) mitigation of social costs resulting from the loss of civil service jobs and a rise in emigration. The ERP brought about significant improvements in fiscal management.

16. The improved fiscal position is reflected in the "BB/Stable/B" rating issued by Standard & Poor's in December 2007, with four upgrades since the Cook Islands was issued its first rating in 1998 (of B-/C outlook stable). However, Standard & Poor's considers further improvement in creditworthiness ratings to be unlikely "given the Cook Islands' small and isolated economy and accompanying infrastructure challenges."⁸

17. However, the size and efficiency of the public service is reappearing as a potential problem. In FY2007, personnel costs were budgeted at 13.8%, of GDP as compared with 13.0% in FY2006. While these levels are below the benchmark of 14.1% established in FY2002, actual costs have increased by NZ\$4.5 million. On the other hand, the Government's purchases of goods and services have declined from 8.7% in FY2002 to 6.4% of GDP. While apparently satisfactory relative to the Manila indicators (para. 19), this decline is indicative of insufficient capital spending.

3. Debt Management

18. The debt to GDP ratio rapidly climbed throughout 1990s and peaked at around 120% over the period 1998–2001 (Cook Islands 2001 Economic Report).⁹ With fiscal surpluses, it has been able to reduce the unsustainable external debt accumulated from the mid-1990s, particularly the loan for the problematic the Vaima'anga hotel project.¹⁰ In FY2007, the gross government debt to GDP ratio stood at about 21%, while net debt (including the loan cash reserves of around NZ\$26.3 million) was only 8% of GDP.¹¹ With the debt level declining, the Government was able to remove most import levies in the FY2007 budget and today Cook Islands has one of the most liberal trade regimes among ADB's Pacific developing member countries (PDMCs), and is a leader in abolishing import levies. A relatively healthy fiscal position has been established that should allow the increased investment envisaged by the NSDP.

19. The improved fiscal and debt position is also a direct result of the Manila Agreement,¹² under which the Government made a commitment not to undertake new commercial borrowings for 7 years and to ensure that (i) debt as a proportion of GDP does not exceed 29%, (ii) government personnel costs as a proportion of GDP do not exceed 15%, and (iii) other (non-personnel) operating costs as a proportion of GDP do not exceed 11%. While the Manila Agreement is no longer binding, a prudent approach to debt is expected to continue.

20. The medium-term projections of a balanced budget imply a continuation of prudent management, but the need for increased public expenditure to sustain growth and achieve ecologically sustainable development poses a long term challenge to this fiscal position. The necessary infrastructure expenditure proposed under the Infrastructure Master Plan¹³ will see the net government debt increase, with debt servicing payments rising to approximately 2% of

⁸ Standard & Poors Ratings Direct. 2006. Cook Islands Research.

⁹ ADB. 2002. *Cook Islands Economic Report: Policies for Progress*. Manila.

¹⁰ A loan of NZ\$51 million was taken out by the Government from the Italian export credit agency for the construction of the Vaima'anga hotel project, which was not completed.

¹¹ Government of the Cook Islands. 2007. *Budget Estimates 2007/2008*.

¹² The Manila Agreement of 1998 was supported by ADB and facilitated debt rescheduling and significant write down of Cook Islands debt to official creditors.

¹³ An Infrastructure Master Plan, contributing to the formulation of the NSDP, was prepared under ADB. 2005. *Technical Assistance to the Cook Islands for Strengthening Disaster Management and Mitigation (Component 2: Preventive Infrastructure Master Plan)*. Manila. (TA 4605-COO approved on 30 June for \$600,000).

GDP. Given its vulnerability to natural disasters and adverse economic developments, the Cook Islands should aim for a lower-than-normal debt level so as to provide a buffer against shocks, including retaining a capacity to borrow in adverse circumstances. However, provided that economic performance is carefully monitored and fiscal restraint exercised through the adoption of a medium-term fiscal framework, the PIER concluded that a debt level of 20% of GDP would be comfortable. Borrowing a somewhat higher amount can still be considered responsible, provided that investments are carefully appraised and prioritized in accordance with their contribution to sound economic objectives and backed-up by cost-recovery initiatives. Adjustment of the debt to GDP ratio is possible in light of the economy's improved growth and performance, provided that additional debt supports economic development, and a strong growth outlook is maintained.

D. Poverty and Demographic Changes

21. Citizens of the Cook Islands have since 1901 had unrestricted migratory access to both New Zealand and Australia; as a result, there is a large population of "expatriate" Cook Islanders. The close relationship with New Zealand in particular has been of considerable value in the development of the Cook Islands. Cook Islanders have had easy access to educational opportunities in New Zealand that are superior to or unavailable in the Cook Islands. When job opportunities have been limited at home (such as after the civil service downsizing of the late 1990s), the option of seeking work overseas has been available with little risk for individuals or their dependants, given that Cook Islanders that take up residency in New Zealand are eligible for social security payments. This special relationship has helped the Cook Islands limit potentially damaging social disruption, while allowing it to benefit economically. The Cook Islands considers that it has eliminated extreme poverty and hunger (as defined by the MDGs). There is limited local poverty data, but the Government has recently undertaken a national household expenditure survey, which will determine the extent and location of relative disadvantage through the use of proxy indicators such as per capita income; access and availability of basic services such as water, sanitation, electricity; and social welfare dependency ratios.

22. The population has been declining since the 1950s. Out-migration has been highest among young people, with the result that the population of the Cook Islands is aging. Half (50%) of those who emigrated between 1996 and 2001 were aged between 15 and 34, and a further 30% were children under the age of 14. This has resulted in a labor shortage, particularly in the unskilled jobs market; labor is being imported, particularly from Fiji Islands and the Philippines, to meet the shortfall.

23. Outer islands have experienced the greatest population declines. The most affected islands—Atiu, Penrhyn and Rakahanga—saw reductions of more than 33% after the reforms of the 1990s, and most islands experienced declines of at least 25%. Outer island residents have become increasingly dependent on cash transfers, in particular financial support associated with care provided for young children of absent parents, and subsidization of basic services by the Government. The sustainability of current service standards is being eroded as the number of people served by existing resources and facilities declines, and the cost per head increases. In contrast, the rising population density on Aitutaki and Rarotonga allows for efficiency gains.

24. Despite good living standards and achievements in education and health, there is little cash employment outside Aitutaki and Rarotonga with many households obtaining much of their income from pensions and welfare. More broadly, the reasons given for people becoming vulnerable include the breakdown in traditional family support systems, emigration, the rising

cost of living, and ruinous social and community obligations. The vulnerable include the elderly, unemployed, single parents, children, the physically challenged, and – in a very few cases, squatters, and victims of crime.

25. Services that contribute to vital differences in living conditions are: (i) education, health, and welfare services; (ii) basic infrastructure services such as electricity, water, sanitation, and waste management; (iii) services that provide basic opportunities for economic activity, such as transport, communication, and banking services; and (iv) various government programs relating to housing, youth, and gender. The quality of service remains below community expectations, on both the outer islands and Rarotonga. The quality of services is subjective, gauged by users as relative to the highest standard of services available at the “center,” which is variously perceived as Rarotonga, New Zealand, or Australia.

26. The welfare system is extensive but mostly untargeted. It is modeled on the New Zealand system, but is less comprehensive and provides smaller payments. In the Cook Islands, payments are made to all children aged up to 12 years (extended from 10 years in July 2006) and to all people aged 60 years and above. Unlike New Zealand, the Cook Islands lacks an unemployment benefit, apart from the few people who receive the destitute allowance, most of whom are single mothers with no other source of livelihood. Cook Islanders who move to New Zealand are eligible for state benefits, and can receive New Zealand old-age pensions, even if they return to the Cook Islands following their retirement. Largely because they are untargeted, welfare payments contribute to the incomes of most households. In FY1999, according to a household income and expenditure survey (HIES), welfare payments constituted 5% of all household income in Rarotonga and were an even more important source of cash on other islands. In mid-2006, the Government was distributing approximately NZ\$600,000 per month in this way.

E. Improving Public Financial Management and Procurement, and Combating Corruption for Development Management

27. The financial management framework is underpinned by the Cook Islands Constitution Act 1964, as amended; the MFEM Act 1995–96; the Public Expenditure Review Committee and Audit (PERCA) Act 1995–96; and the Public Service Act 1995–96. A Governance Assessment is in Appendix 2.

28. The Country Performance Assessment (CPA) for 2007, summarized in Appendix 3, rated the Cook Islands highly in economic and financial management compared with peers in the Pacific. It noted the well-defined fiscal policies and consistent macroeconomic stability that has created capacity to absorb external shocks; a well established debt management unit that is supported by efficient systems and has good analytical capacity; and that regular, comprehensive, and accurate statistics are produced and published.

29. However, the constraint to effective fiscal management and, by extension delivery of public services, results from pervasive capacity constraints. Thematic analysis given in the PIER for the Cook Islands identified a need for a comprehensive results-focused service delivery review, review of the economic performance and monitoring indicators developed in the Manila agreement, and an infrastructure governance framework to optimize public asset management and performance.

30. In addition, the performance of the public enterprises, managed by a holding company, the Cook Islands Investment Corporation (CIIC), has been less than optimal, with low return on

equity and high cost of the services to the consumer. Over the past 5 years, the overall financial return has substantially improved moving from losses to a return of NZ\$7.5 million on equity valued at NZ\$125 million and assets valued at NZ\$170 million. However, most profit and all dividends were generated by Telecom Cook Islands with the high rates of return indicating exploitation of monopoly power. The performance of the other public enterprises is clouded by their obligation to perform social service obligations of government. With public enterprise assets equivalent to 65% of GDP, it is important that they be managed to ensure a good return on the substantial capital they absorb. The CIIC was established under the ERP and provides a good basis for improvement to the financial performance of public enterprises. In addition, while formal ministerial involvement has been replaced by independent board members for most public enterprises, the recent politicization of the CIIC is an issue as reflected in frequent changes in the chair of CIIC, whenever political power changed hands.

31. Currently, debt is low, allowing for fiscal expansion. Safeguards against reemergence of fiscal imbalances due to assumption of excessive borrowing are incorporated in the Ministry of Finance and Economic Management Act (MFEM Act) 1995–1996, which sets out a number of principles of responsible fiscal management: (i) ensuring that unless Crown debt is at prudent levels, operating expenses will be less than operating revenues; (ii) levels of Crown net worth will be achieved and maintained that will provide a buffer against factors that may impact adversely on future net worth; (iii) the fiscal risks facing the Crown will be managed prudently; and (iv) policies will be pursued that are consistent with a reasonable degree of predictability regarding the stability of future tax rates.

32. The annual budget provides projections for the budget year and the subsequent 2 years. This could be improved by the adoption of a formal medium-term budget framework that would allow agencies to seek multi-year commitments. This would be particularly suited to the major infrastructure programs now being considered and would link the budget with sector plans and ministry corporate plans that in turn make up the medium-term development goals of the NSDP. The Pacific Financial Technical Assistance Centre (PFTAC) undertook a scoping study for a medium-term fiscal framework.¹⁴ The first phase of the assistance has been completed, and included (i) a sectoral planning mechanism for guiding line ministries in the process; (ii) assistance to line ministries to develop sectoral plans independently, under broad Ministry of Finance and Economic Management (MFEM) guidance; and (iii) a systemic analysis of sectoral and business plans. Further work is required to fully implement the medium-term fiscal (MTFF) and associated budget frameworks.¹⁵

33. The proposed strengthening of planning and public financial management and consolidation of the achievements of the ERP would help to expand the role of the private sector in the economy and to establish a truly foreign-investment friendly environment. It would improve the quality of, and establish effective monitoring of public sector outputs, enhancing government efficiency and productivity, including for rural sector services, and free the economy from distorting tariffs and price controls. The reforms involved include: (i) redefinition of fiscal responsibility by providing policy guidelines on the size of government, external debt policy, fiscal stance, and level of reserves; (ii) introducing the Government Financial Statistics system of the International Monetary Fund, and ensuring reporting required in the MFEM Act; (iii)

¹⁴ A medium-term fiscal framework provides a top-down statement of fiscal policy objectives and sector strategies, typically not disaggregated to spending agencies. It also includes a set of medium-term macroeconomic and fiscal targets and projections.

¹⁵ A medium-term budget framework is a medium-term fiscal framework that in addition incorporates projections of spending (over a multi-year horizon) by individual agencies responsible for allocating resources in line with strategic priorities.

developing a formal public sector investment process; (iv) promulgation of a new foreign investment code to ensure a simplified and transparent foreign investment regime; (v) establishment of a government body with responsibilities for monitoring performance and regulation; and (vi) enhancing performance of the public enterprise sector.

34. To achieve higher levels of performance and efficiency within the Government and its public enterprises, the Government proposes to: (i) make cost-effective improvements to existing public service delivery mechanisms; (ii) address duplication across all agencies and outsource functions that can most effectively be delivered by the private sector or nongovernment organization partners; (iii) remove inconsistencies from the MFEM Act, Public Service Commission Act, and Public Expenditure Review and Audit Act; (iv) build capacity and engage expertise where necessary to ensure successful planning and implementation of government initiatives; (v) strengthen the monitoring and evaluation systems for the entire public service to ensure higher levels of performance, timely implementation of outputs and projects and accountability at all levels; and (vi) examine the merits of establishing a national state services commission to facilitate streamlining of public sector functions.

F. Private Sector

35. Business confidence is high, with the private sector underpinning the country's economic growth. The private sector's GDP contribution has grown impressively since the economic reform. Inclusive of informal sector activity, the private sector is estimated to have grown from 59% of GDP in 1995 to 83% of GDP in 2001, a level it has since maintained. Formal private sector activity is estimated to have grown from 49% of GDP in 1995 to 74% of GDP in FY2007. The Cook Islands' banking sector is stable, with nonperforming loans at about 5% of the total lending portfolio, reflecting productive use of financial resources. The private sector is backed by a commercial and legal environment closely resembling that of New Zealand, and most business activity is carried out by private companies, partnerships or sole proprietorships. The private sector includes a large number¹⁶ of small businesses, across a range of activities, most obviously in the retail, accommodation, car and bike rental, and restaurant industries. Small, family run businesses are widespread. Many private sector participants have more than one main activity, allowing them to benefit from economies of scale in doing business, which is otherwise difficult in a small market like the Cook Islands. Nevertheless, development is centered in Aitutaki and Rarotonga, with little significant private sector activity in the other islands.

36. The manufacturing and agriculture sectors are likely to remain small. Smallholder agriculture coupled with high cost of agriculture inputs in remote island locations are making local production increasingly uncompetitive with respect to imports from the neighboring high-yield agriculture markets. Future growth in income, exports and employment will hinge on tourism-related developments in the services sector. Services (including electricity, water supply, and construction) accounted for 84% of GDP in 2005. While this is less than in 1995 (89%), there has been substantial growth in services related to tourism, such as wholesale and retail trade (which increased by 30% from 1995 to 2005, when it reached 25.3% of GDP) and restaurants and accommodation (up by 63%, to 15.2% of GDP). The public sector contracted by half over the same period, to reach 13% of GDP in 2005.

¹⁶ Some 800 businesses in 150 categories are listed in the telephone business directory. There are currently almost 1,300 active VAT registrations (an increase of almost 100% since 2001), representing businesses with an annual turnover exceeding NZ\$30,000.

37. Formal businesses dominate the private sector, and the monetization of the economy approaches that of developed countries like New Zealand and Australia. The relative importance of the informal sector has declined. Employment in agriculture and fishing, the traditional mainstay of the economy of the Cook Islands, has been decreasing since the early 1980s, while employment in sectors dominated by formal business activities has grown strongly. Formal private sector employment grew by more than 50% prior to the reforms (between 1991 and 1996), while it almost doubled between 1990 and 1999.

38. With the economy largely reliant on tourism related commerce, the binding constraints to growth, infrastructure capacity and quality, and infrastructure service delivery, undermines the private sector role in leading environmentally sustainable economic growth. The inadequacy of water and sanitation systems has meant that developers have had to provide their own facilities for water treatment (mains water being unreliable and untreated) and sanitation (there being no centralized sewage system, even for the densely developed Muri lagoon area on Rarotonga). Removal of these constraints would allow for development of new and expansion of existing businesses.

39. Land tenure has not been a significant constraint to development on Aitutaki and Rarotonga. Land tenure is a customary system, with many people sharing common ownership of land. On those islands governed by the Land Court system, transferable leases may be created but outright sale of land is not possible. Such leases are acceptable collateral for loans from financial institutions. Three islands (Mangaia and Mitiaro in the southern group and Pukapuka in the northern group) retain a traditional land tenure system similar to the landownership concept in most other PDMCs, whereby land may not be alienated by lease and is therefore unavailable as a tradable asset. Foreigners can lease land for up to 60 years. Joint ventures with foreign investors are common, especially in the tourism industry, in which the local investor frequently provides the land. Cook Islanders have readily adapted to commercial cues and increased returns realized through leasing land to investors, with many landowners now living offshore.

G. Infrastructure

40. Over time, the basic infrastructure has become stressed, with consequent risks to the environment. Lack of investment in maintenance, rehabilitation and upgrading has resulted in aging systems that do not provide an appropriate level of service to meet current demand or support future private sector-led growth. Infrastructure, particularly on Aitutaki and Rarotonga, is not adequate for the expanding tourism and associated industries upon which the economy depends. The water supply is not potable and storage capacity does not exist to cater for periods of drought. Deteriorated reticulation systems have high leakage and insufficient capacity, and are in urgent need of replacement. Sewerage relies on individual septic tank systems that are suspected of contributing to lagoon pollution, placing the country's primary industry at risk.

41. Shortcomings in infrastructure result in increased business costs and constrain business development. Energy costs are currently among the highest in the Pacific, and improvements in efficiency are needed to reduce costs to businesses that operate in an internationally competitive and cost-sensitive environment. With rapidly increasing fuel costs, some renewable energy sources may become economically viable. In the transport sector, the main international wharf on Rarotonga has reached the end of its useful life and is in urgent need of major rehabilitation. Realignment of the wharf will allow for larger vessels (up to 110 m from 60 m at present) and consequent reduction in freight rates. Harbor facilities in most outer islands are

inadequate or non-existent. The terminal building at the international airport does not comply with international civil aviation regulations and must be upgraded, along with ageing navigation equipment. While telecommunications coverage is good, and includes the outer islands, the quality of the service is poor, when compared with other Pacific countries with a competitive telecommunications market. The ongoing TA for Preparing Infrastructure Development Project¹⁷ will prepare a prioritized investment program for sustainable infrastructure investments to underpin the tourism sector growth, mainstay of development in the Cook Islands.

42. Overall, infrastructure management suffers from institutional capacity constraints that impact on infrastructure operations, cost recovery, and consequently on infrastructure service delivery. The institutional arrangements are fragmented and overlapping and there is a lack of coordination, resulting in ineffective management regimes and no clear ownership of policies, planning or regulation at the national level. Effective infrastructure management requires comprehensive review and preparation of an infrastructure governance framework for (i) institutional arrangements and capacity development; and (ii) policies, including cost recovery and procedures to support (a) prioritization of infrastructure proposals, (b) optimization of asset management and performance, and (c) private sector participation. This involves a review of institutional structures and performance monitoring arrangements as well as performance targets. Infrastructure is a priority sector for the Cook Islands.

H. Environment

43. The 2005 cyclones highlighted the environmental vulnerability of the Cook Islands. The country experiences tropical cyclones, intense periods of rainfall or droughts, high winds, sea surges and high air temperatures, which have a significant cumulative impact on the physical and social infrastructure. Climate-proofing measures are needed to reduce the impact of such events over time. Global climate change scenarios forecast increased frequency and intensity of extreme climatic events; in the absence of appropriate adaptation and mitigation measures this will perpetuate the cycle of damage and consequent setbacks to development and economic growth. Climate change thus has a profound effect upon current and future development.

44. The Cook Islands has an attractive natural environment. When combined with its vibrant Maori culture and traditions and the friendliness of its people, this makes it an ideal destination for tourists. The natural environment is the foundation for the long-term social and economic well being of local communities. Sustainable economic development depends on guarding against environmental degradation, while providing for the growing demand for services. Appropriate infrastructure is needed to support further growth while preventing negative environmental impacts.

45. The consequences of inadequate protection of the environment are already apparent in some instances. On the main islands, disposal of liquid waste poses a direct threat to lagoon water quality. Eutrophication¹⁸ is occurring, most likely because of seepage of sewerage from sub-standard and poorly maintained septic tank systems. There are no centralized sewerage treatment facilities; some hotels do have individual treatment systems, but these are not systematically monitored or regulated. The reliability of water supply is threatened by climate

¹⁷ ADB. 2007. *Technical Assistance to the Cook Islands for Preparing Infrastructure Development Project*. Manila. (TA 7022-COO for \$825,000).

¹⁸ Eutrophication is a process where water bodies receive excess nutrients and is often the result of nutrient pollution arising from sewage effluent. The high level of nutrients promotes excessive plant growth and decay. In marine environments, the resulting algal blooms reduce the oxygen available to marine life, and result in discoloration of the water.

change as well as by increasing demand. Extended periods of drought will place extreme stress on the limited sources of fresh water. Currently, there is no installed storage capacity and ground water (on Rarotonga in particular) is used to supplement supplies under drought conditions. The Cook Islands is totally dependent on oil imports for power generation, contributing to global greenhouse gas emissions. There is a need to realize energy savings through promotion of high-efficiency appliances, installation of more efficient diesel generators, use of alternative energy sources, and improvement in power transmission and distribution systems. A regional technical assistance for Promoting Energy Efficiency in the Pacific to be financed by the Clean Energy Financing Partnership Facility and Global Environment Facility (GEF) is planned for 2008 for four Pacific island countries, including the Cook Islands and is expected to contribute to a decline in the rate of growth of energy imports.

46. The Environment Act 2003 mandated the development of the National Environment Strategic Action Framework (NESAF)¹⁹ to guide sustainable social and economic progress by focusing on prudent use of natural resources and environmental protection. The NESAF has four strategic goals: (i) to enhance the management, protection, and sustainable use of natural resources; (ii) to reduce and prevent environmental degradation from waste and all forms of pollution; (iii) to increase resilience by strengthening national capacity for climate change, variability, adaptation, and mitigation, and to improve institutional support; and (iv) implementation mechanisms to manage the environment in a sustainable manner. Processes for integrating NESAF goals into national development are strengthened through its incorporation in the NSDP. The implementation of the NESAF is overseen by the National Environment Council, which has the National Environment Service as its secretariat.

47. While applicable to all islands, the Environment Act 2003 is thus far effective only for Aitutaki, Atiu, Mitiaro and Rarotonga where regulations have been promulgated. The NESAF is intended to ensure that all islands are registered and protected under the Act. ADB provided technical assistance (TA)²⁰ to prepare new and revised operational guidelines and procedures for effective implementation of environmental legislation and efficient operation of environmental institutions. The institutional capacity to implement and monitor environmental policies was reviewed²¹ in 2005 with assistance from the United Nations Development Programme (UNDP) and the GEF. The key conclusion was that effective management was constrained by inadequate capacity, and that the situation was likely to worsen, given the limited number of skilled local professional and support staff available to both government and nongovernment organizations.

48. The Cook Islands has received support from the GEF for environmental projects at country as well as a regional level, focusing on biodiversity, climate change, and international waters. At the country level, the assistance has supported enabling activities for a biodiversity strategy and associated action plan, and a national capacity needs self-assessment for global environmental management. At the regional level, the Cook Islands has participated in climate change-related activities; greenhouse gas abatement, through a renewable energy project; an oceanic fisheries management project; a renewable energy program; and training related to biodiversity conservation and climate change, in support of implementation of the United Nations Framework Convention on Climate Change. Current GEF projects include a country-

¹⁹ The complete document can be viewed at: <http://www.environment.org.ck/docs/NESAF-Final-Draft-30-June.pdf>.

²⁰ ADB. 2005. *Legal and Institutional Strengthening of Environmental Management*. Manila.

²¹ National Environment Service. 2005. *National Capacity Self Assessment for Global Environment Management Project*. Rorotonga.

level activity related to persistent organic pollutants, and two regional initiatives on integrated water resources and wastewater management, and energy efficiency.

I. Disaster Risk Management and Climate Change Adaptation

49. The Intergovernmental Panel in its Fourth Assessment Report²² on Climate Change suggested that for small island states, the following scenarios could be predicted with some confidence: (i) a rise in sea level of between 0.5–1.0 m by 2100; (ii) an increase in surface air temperatures of between 1.6–3.4 degrees Celsius by 2100; (iii) changes in rainfall (rise or fall) of up to 20% from current rates by 2100, leading to more intense floods or droughts; and (iv) the possibility that cyclones may become more intense in the future, with wind speeds increasing by as much as 20%. The series of cyclones in 2005 highlighted the poor state of disaster management and preparedness planning, and prompted a comprehensive review. A number of gaps were identified relating to disaster management planning and coordinating, including in coordination of damage assessment reports, aid management, operational response and financial controls needed to ensure recovery funds were properly managed.

50. ADB provided TA²³ to prepare the National Disaster Risk Management Plan (NDRMP) and Disaster Risk Management Bill promulgated in November 2007. The ADB technical assistance strengthened disaster mitigation and preparedness arrangements and developed the Preventive Infrastructure Master Plan (footnote 13), which mainstreams climate proofing into infrastructure development and prioritizes construction of cyclone shelters in the outer-islands. The NDRMP provides the planning framework to support the national, outer islands and village disaster risk reduction and disaster management. Finally, the National Disaster Management Office was restructured to strengthen its leadership role and influence and renamed the Emergency Management Cook Islands (EMCI). New Zealand's International Aid and Development Agency (NZAID) will provide further assistance to EMCI in 2008 to prepare the associated regulations. The European Union intends to finance the construction of a shelter on the island of Pukapuka that was particularly badly affected by the 2005 cyclones and NZAID will finance others under its bilateral aid program.

51. Growth slowed dramatically in 2005, to 1.8% of GDP, due to the effects of the five cyclones experienced in February–March 2005, demonstrating the vulnerability of the tourism-based economy to environmental and natural disasters, and highlighting the need to increase resilience by climate-proofing infrastructure.

J. Gender

52. By regional standards, women in the Cook Islands score highly on the gender development index²⁴ and by gender empowerment measures. Compared with the Cook Islands men, they have substantially longer life expectancy (74.3 years, 6.3 years longer than men) and higher secondary school enrollment. Primary school enrollments and adult literacy rates are equal for males and females. However, they do suffer from subtle forms of gender bias, and their participation in economic activity and politics is lower, as is their earning capacity.

²² IPCC. 2007. *Climate Change 2007: Synthesis Report. Contribution of Working Groups I, II and III to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change*. Geneva, Switzerland.

²³ ADB. 2005. *Strengthening Disaster Management and Mitigation (Component 1: Disaster Management Capacity)*. Manila.

²⁴ United Nations Development Programme. 2004. *Human Development Report 2004*. New Delhi. Oxford University Press.

53. The equality of men and women is recognized by the Cook Islands Constitution and in family law, as well as by tradition concerning the inheritance of land and land use rights. However, no legislation explicitly prevents discrimination against women—such as gender discrimination in job advertisements or sexual harassment at work—and there are no affirmative action initiatives to promote equality between men and women. Although women enjoy equal opportunity in most respects, the National Policy on Women (1995)²⁵ noted that “subtle elements of discrimination against women perpetuated by culture, custom, and tradition continue to exist in Cook Islands society today. The continued stereotyping and confining of women’s roles and responsibilities to the domestic arena limits their participation in the development process.”

54. Census data report higher employment rates for males. These data conventionally underestimate work done by women by defining a large part of their domestic activities as “uneconomic,” while men engaged in similar activities such as village agriculture, or who are unemployed, are more often described as being economically active. Women are clearly increasing their participation in wage employment outside of agriculture, which rose from 38% in 1991 to 44% in 1996 and 46% in 2001. In addition to this paid work, women spend slightly more time than men caring for children and other family members and on such domestic chores as preparing food, house cleaning, shopping, and home repairs. The 2001 census showed that women outnumbered men in the lowest income bracket (less than NZ\$5,000), and men outnumbered women in the highest earning groups.

55. Job opportunities for women have increased since the mid-1990s. Although the public service has contracted, more women now work at its senior levels. However, women are underrepresented in the parliament, with just three women out of a total of 24 elected members. Along with their growing share of paid employment, more women now run small businesses. From 1998 to 2002, the Small Business Enterprise Centre assisted in the startup of 89 businesses, 65% of which were owned by women. Women are involved in handicraft production, agricultural and marine products, and tourism, but not all women are doing well. Female-headed households are more likely to have low incomes or be socially isolated. The majority of the Social Welfare Department destitution allowances go to single females who are heads of households with children to support, but little income. These women generally are too young for old-age benefits, and their children are too old to receive the child benefit. The destitute allowance is essentially a stopgap between other welfare payments (i.e., a de facto unemployment benefit).

56. The Cook Islands will participate in ADB’s study under the proposed Regional Technical Assistance for Strengthening Pacific Economic Analysis and Policy Development, which aims to identify effective methods to mainstream gender equity advocacy in a policy setting.

K. Regional Cooperation and Integration

57. The Cook Islands participates in several regional initiatives aimed at promoting economic and social development. It has signed the Pacific Island Countries Trade Agreement, which aims to create a regional free trade zone, and the Pacific Agreement on Closer Economic Relations, which aims to liberalize trade with Australia and New Zealand. These regional agreements offer opportunities for market expansion, provided that the Cook Islands strengthens its competitiveness. The Government supports the implementation of the Pacific Plan (footnote 5), which focuses on four regional priority areas: good governance, economic

²⁵ Government of the Cook Islands. 1995. *National Policy on Women*. Rarotonga.

growth, sustainable development and security. ADB has supported programs under the Plan, which emphasizes regional public goods and services.

58. ADB's *Pacific Strategy 2005–2009*²⁶ provides a framework for operations in ADB's 14 PDMCs, and in support of regional cooperation in the Pacific. The *Pacific Strategy* perceives regional cooperation as playing an important complementary role to ADB engagement and operations at the country level. The *Pacific Strategy* envisages regional cooperation as “improving the environment for the private sector and supporting the provision of basic social services through providing regional public goods including in specialized skills areas; contributing to service delivery, including strengthened financial management; promoting knowledge sharing and economies of scale; and supporting improved governance and development processes through peer accountability.”

II. THE GOVERNMENT'S DEVELOPMENT STRATEGY

A. Development Goals and Strategy

59. The NSDP was approved by the Government in 2007 and recognizes the need to address the binding constraints to growth existing in physical infrastructure and the delivery of infrastructure services, particularly to underpin the economic growth driven by the tourism sector. NSDP guides development and identifies programs for addressing the constraints to growth for the period until 2020. The plan will be updated every 5 years, with a midterm review during each update period; the first midterm review is planned for January 2009. NSDP's primary strategic objective is “to build a sustainable future that meets economic needs without compromising prudent economic management, environmental integrity, social stability and the needs of future generations.” The NSDP strategy focuses on fostering private sector development by providing a favorable macroeconomic environment as well as institutional and political stability, in addition to critical physical and social infrastructure. The plan identifies eight strategic goals as priority areas for implementation: (i) equal opportunities for health, education, and other social services towards establishing an inclusive and vibrant society; (ii) a society built on law and order and good governance at all levels; (iii) an innovative and well-managed private sector-led economy; (iv) sustainable use and management of natural resources and environment; (v) strengthened and affordable basic infrastructure, transport and utilities to support national development; (vi) a safe, secure, and resilient community; (vii) an effective foreign affairs policy that meets the needs and aspirations of the Cook Islands people; and (viii) strengthened national coordination and support systems for development planning, evaluation and monitoring.

60. To address the key binding constraints to growth, the NSDP recognizes that managing the natural environment is of prime importance, not only to the tourism industry, but also to other important economic sectors, including agriculture, aquaculture, and fisheries. Given the Cook Islands' vulnerability to catastrophic climatic events, the establishment of a coordinated and effective disaster risk reduction and disaster management system is a development priority. The NSDP assigns paramount importance to strong and sustained private sector growth, underpinned by strengthened infrastructure, as a source of sustainable employment and fiscal revenues for strengthening social services as well as for maintaining the grant transfers needed for social service delivery in the non-revenue generating outer island communities. Provision of a high standard of social services is a long-term objective and the Government's commitment,

²⁶ The complete document can be viewed at: <http://www.adb.org/Documents/CSPs/PAC/2004/Pacific-Strategy-2005-09>.

particularly in health and education sectors, has been demonstrated by annual budgetary increases since 1995.

B. Resource Mobilization and Investment

61. The private sector has invested significantly in capital projects, especially for tourism-related ventures, with the majority of financing in the form of foreign direct investment (FDI) that is processed through the Development Investment Board.²⁷ FDI has principally originated from New Zealand, including from returning Cook Islanders setting up businesses. During the period 2001–2006, the Development Investment Board approved investment proposals with a total value of NZ\$81.7 million. However, data on FDI approvals indicate that FDI may be slowing.

62. Medium-term planning of public investment is weak. While projections are provided for the 2 years after the budget year, a medium-term budget framework needs to be upgraded to ensure alignment of investments with the NSDP strategies. The level of public capital investment in infrastructure and other productive sectors has been constrained; since FY2000 budget surpluses have been used to reduce external debt. There has been little strategic public investment and the Government's capital expenditure has been largely determined by the availability of external grants, which have funded minor investment projects in the absence of guidance from a compelling strategic framework.

63. Revenue collection improved from NZ\$66.8 million in FY2005 to a projected NZ\$76.1 million in FY2008, due to an increase in tourism activity and tighter compliance measures. This increase occurred despite the removal of import levies, which was estimated to cost NZ\$6.3 million in FY2007. However, notwithstanding a constrained fiscal environment, recurrent expenditure rose, fuelled partly by civil service pay rises.

64. The FY2008 budget appropriation for the various ministries is NZ\$62.2 million, of which the forecast trading revenue is NZ\$5.0 million, leaving a net appropriation of NZ\$57.2. Of this, the major allocations are for the Ministry of Education (17.7%), Ministry of Health (17.6%), and the Office of the Minister for Outer Islands (14.1%). While the latter appropriation includes infrastructure development on the outer islands, the appropriation for the Ministry of Works (catering for roads, water, sanitation and waste management on Aitutaki and Rarotonga) is only 3% of total appropriation, reflecting ongoing neglect of these essential services. Appropriation for capital expenditure by all ministries is 10.3% of total appropriation, with about half of this administered by MFEM.

C. Role of External Assistance

65. Cook Islands is not a member of the World Bank or International Monetary Fund given its association with New Zealand. As the only international finance institution operating in the country, ADB, along with key bilateral partners, enjoys a unique role as the Cook Islands' principal development partner, with a particularly important role in provision of technical assistance and development finance.

66. Official external loans and grants to the Cook Islands are expected to total NZ\$16.9 million (\$12.7 million equivalent) for FY2008, or 7.3% of GDP. The majority of the external debt

²⁷ The Development Investment Board administers the Development Investment Act 1995–1996, which governs all foreign investments.

is with ADB (NZ\$39 million, or about 68% of the total debt portfolio of NZ\$57 million). The balance is distributed among various other lenders, but all on concessional terms.

67. External development assistance in the form of grant aid has contributed to maintaining broad progress, especially in the social sectors. The Government's policy on external assistance mobilization focuses on improving donor harmonization, ownership and concrete impact of development policies, participation through open processes, and alignment with the NSDP. NZAID and the Australian Agency for International Development (AusAID) have traditionally supported development in the social sectors and have a comparative advantage over other donor partners. Their Joint Country Strategy (JCS) 2008–2017 will continue to focus on health and education. The majority of the public infrastructure was put in place more than 20 years ago with very little external assistance for upgrading or rehabilitation in recent times. Small-scale projects have been undertaken under grant aid, particularly on the outer islands.

68. The majority of aid (99% in FY2007) is grant aid, with NZAID accounting for 56% of the total of NZ\$21.4 million. NZAID also administers AusAID's programs under their JCS. The current annual bilateral allocation from New Zealand and Australia is NZ\$9.0 million and A\$2.6 million respectively, and funding levels are expected to remain at similar levels over the JCS period. The strategy will focus on: (i) support for the delivery of quality health, education, and social services; (ii) provision of sound infrastructure that will support growth and outer island development; (iii) promotion of sustainable livelihoods and a private sector-led economy; and (iv) strengthening of the public sector, civil society governance and service delivery. In recent years, NZAID has concentrated their assistance in the areas of education, human resource development and outer island development. The JCS has strong synergies in infrastructure and governance-related areas with the CPS and collaboration with ADB will improve aid effectiveness.

69. The People's Republic of China (PRC) has recently become a significant contributor of grant aid tied to discrete projects (the Avarua courthouse and the Rarotonga police headquarters buildings), and could be an important source of concessional borrowing in the future. A loan of NZ\$13.0 million for the construction of sporting facilities is being negotiated for 2008. The Government is interested in pursuing soft loans from the PRC.

70. Donor assistance was particularly important for the Cook Islands in 2005, for reconstruction and recovery activities following the series of destructive cyclones early in the year. The Cyclone Emergency Assistance Project (CEAP)²⁸ provided an emergency loan of \$2.83 million, NZAID provided special emergency assistance of NZ\$10 million over 3 years and the EU provided approximately NZ\$1.2 million. Given the vulnerability of the Cook Islands' narrowly-based economy to natural disasters and external shocks, donor assistance is likely to remain important to underpin economic stability and predictability of public resource allocation. A list of development partners and their areas of interest in the Cook Islands is given in Table A1.5.

²⁸ ADB. 2005. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grant to the Cook Islands for the Cyclone Emergency Assistance Project*. Manila. (Loan 2174-COO for \$2.83 million).

D. Asian Development Bank's Assessment of the Government's Development Strategy

71. Frequent changes in the composition of the Government in recent years have resulted in a lack of focus on medium- and long-term development goals. Results-focused implementation of the NSDP requires strengthening of national coordination and institutional systems for development planning, monitoring and evaluation. Monitoring and evaluation has been identified by NZAID and AusAID as a key focal area for assistance under the JCS. This will help prepare and implement a comprehensive monitoring and evaluation framework and gather baseline data in coordination with other regional agencies (para. 105).

72. A central planning office is being established within the Office of the Prime Minister to improve coordination and harmonization of regional, national, and sector issues, strategies, and policies. However, with the exception of infrastructure sectors supported by the Infrastructure Master Plan, the strategies, specific activities and targets have yet to be prioritized or their costs estimated, which are essential to ensure the objectives and timeframes for implementation of the NSDP's components are realistic.

73. There is presently no national sustainable development legislative framework in place to support the NSDP. There are major gaps in terms of supporting and planning capacities at the national, sector, and community levels. Review and development of policy, planning and legislative support is needed. Each government agency currently prepares annual business plans, which are used as a basis for a national budget submission and funding allocation. Under the NSDP, the intention is that each agency should develop medium-term corporate plans, which would be aligned to the sector strategies and to the NSDP. In this regard, the NSDP provides direction to ensure alignment and consistency with national guiding principles and regional and international commitments without being overly prescriptive. Adoption of a formal medium-term fiscal and budget framework (footnotes 14 and 15) is considered essential for translating the NSDP strategies into outputs.

III. ASIAN DEVELOPMENT BANK'S DEVELOPMENT EXPERIENCE

A. Development Impact of Past Assistance

74. As the proposed CPS is the first for the Cook Islands, no country assistance program evaluation has been prepared. The completion report for the previous country strategy updates is in Appendix 4. Major events, particularly adverse weather events and disasters (1997 and 2005) and financial crises (1996) have resulted in displacement of the programmed interventions (especially for infrastructure) by emergency interventions to respond to crisis situations. In the early to mid-1990s, ADB funded PPTA for integrated urban infrastructure in Rarotonga. Because of the economic and financial crisis in 1996, ADB deferred implementation of infrastructure investments and refocused assistance on economic and fiscal reforms. In 2000, PPTA²⁹ delivered feasibility studies for waste management, water supply, and sewerage projects. Both PPTA projects identified deficiencies in urban water supply and waste management as threats to the health of Cook Islanders, as well as to the growing tourism industry. Subsequently, in 2001 ADB approved a \$2.2 million loan for waste management.³⁰ This project has constructed engineered landfills in Aitutaki and Rarotonga; the project

²⁹ ADB. 1998. *Technical Assistance to the Cook Islands for Urban Infrastructure*. Manila. (TA 3085-COO for \$750,000).

³⁰ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan for the Waste Management Project*. Manila. (Loan No 1832-COO(SF) for SDR 1,685,000 approved on 17 July).

completion reports rated the projects “successful.” Assistance provided by ADB has been successful in making a significant contribution to the development of the Cook Islands. ADB prepared a number of evaluations addressing completed projects, TA and regional TA; lessons from prior projects are reflected in the preparation of this CPS and its appendixes.

75. The latest country strategy and program update (CSPU) 2004–2006³¹ focused on building sustainable capacity for sound economic and public sector management, promoting economic growth, and supporting further private sector development. It was directed towards three broad areas: (i) policy reform, (ii) improvement of urban infrastructure, and (iii) outer island development. The strategy aimed to consolidate the reform achievements of the ERP by improving economic planning capacity, reinforcing the rationalization of state-owned enterprises (SOEs) and supporting further private sector growth, especially in the tourism sector, through improved public infrastructure. While the strategy was valid, the proposed support was not delivered as envisaged. The construction of waste management facilities on Aitutaki and Rarotonga has catalyzed significant improvements in the sector, with the Cook Islands considered a leader among Pacific DMCs. However, little progress was made in the area of policy reform, principally due to limited capacity to generate buy-in for the cost recovery measures proposed under the policy dialogue, particularly in light of the political vulnerability of successive coalition governments.

76. The CSPU (2002–2004) identified infrastructure as a binding constraint to economic development, and to private sector-led economic development in particular. Its lending pipeline included projects for investment in water and sanitation, and in power generation in Rarotonga. These projects, however, were not approved due to the cyclones in 2005. In addition, the Integrated Urban Infrastructure project under preparation in 1994 did not proceed due to the economic crisis and fiscal restraint adopted under the reforms, and was replaced by the ERP. While a consistent focus on infrastructure improvement has been evident in ADB’s strategy for many years, with the exception of Loan 1832-COO: Waste Management (footnote 30), ADB has not supported infrastructure rehabilitation and development with a loan project. Intervention of extreme weather events and the consequent need for emergency assistance in 1997³² and 2005 (footnote 28) and the financial crisis in 1996 (and the consequent need for the ERP) has prevented planned projects from proceeding to implementation.

77. The TA provided by ADB under the ERP (footnote 7) dominated the latter half of the 1990s and had a profound and lasting impact upon the economic management of the Cook Islands. In 1996, the Board approved an Asian Development Fund (ADF) loan equivalent to \$5 million in response to economic recession and financial crisis arising as a result of unsustainable fiscal expansion in the early 1990s. The ERP was designed in collaboration with NZAID, PFTAC, and the Pacific Operations Centre of the Economic and Social Commission for Asia. External funding agencies also provided support to the reform program, with ADB taking a lead role. The ERP’s goals of recovery and sustainable growth through major macroeconomic structural reforms and promotion of private sector-led growth were realized and represent a major achievement for the Government; the program was rated “successful.”

78. ADB’s strategy has complemented the assistance provided by other external development partners, which has focused on outer island development and the education and health sectors. ADB has most recently provided TA for developing an integrated system of

³¹ ADB, 2003. *Cook Islands Country Program and Strategy Update 2004-2006*. Manila.

³² ADB, 1997. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Cook Islands for the Cyclone Emergency Rehabilitation Project*. Manila. (Loan 1588-COO for \$800,000).

regulations and laws for effective and coordinated implementation of the Environment Act 2003.³³ The adoption of key regulations (including the Public Health (Sewerage) Regulations³⁴) marks an important step towards addressing pressing pollution problems. TA associated with the Cyclone Emergency Assistance Loan has had a significant impact on disaster preparedness in the Cook Islands, resulting in the promulgation of the Disaster Risk Management Act.³⁵ The Preventive Infrastructure Master Plan has defined investment needs in the context of sustainable and resilient development.

B. Portfolio Performance and Status

79. As of 31 December 2007, cumulative lending to the Cook Islands since 1976 consisted of 13 loans totaling \$29.5 million, and 27 TA projects with a value of \$8.945 million. There is one active loan project for \$2.83 million. Projects and TA in the Cook Islands have been rated generally satisfactory in recent years.

80. Implementation of the current loan project (CEAP, footnote 28) is rated “satisfactory,” notwithstanding implementation delays requiring extension of loan closing by 1 year.³⁶ The main objective of the loan is to contribute to the sustainability of economic growth by minimizing the damaging impact of the five 2005 cyclones. To achieve this, the CEAP supports (i) the Government's capacity for comprehensive recovery to mitigate socioeconomic impacts, through financing of recovery expenditures; and (ii) prudent financial management of the Government's fiscal resources and continued adherence to prudent debt management in accordance with the principles of the Manila Agreement (footnote 12). The associated TA was delivered in a timely and satisfactory manner. While the disbursement performance was challenging, the Project has been successful in catalyzing significant amounts of grant aid to finance the overall reconstruction plan and providing a macroeconomic stabilizing influence at a time when the Government would otherwise have needed to expend its loan reserve fund.

C. Conclusions and Lessons for the Country Partnership Strategy

81. Lessons articulated in the *Pacific Strategy 2005–2009* are relevant to the Cook Islands. For instance, ensuring widespread and appropriate participation and ownership, especially of reforms, is crucial to initial outcomes and sustainability, and was fundamental to the success of the ERP. Building capacity requires careful analysis of institutional issues and constraints, with enhanced regional cooperation an option where human resources are scarce. Given that an infrastructure development project is the centerpiece of the CPS, it is essential that the Government has the capacity to adequately manage and fund recurrent costs and operation (including maintenance) of the rehabilitated and upgraded infrastructure.

82. **Vulnerability and Fragility:** The need to stay engaged to achieve desired outcomes is demonstrated by the ERP. While generally considered successful, longer involvement could have further improved outcome quality and sustainability. While not considered a weakly performing country (WPC), the Cook Islands nevertheless exhibits some of the constraints acknowledged to underlie weak performance (e.g., weak policy and policy implementation, with a low level of management capacity exacerbated by difficulties in retaining skilled staff). ADB's approach to WPCs “recognizes a spectrum of performance and fragility” and in accordance,

³³ ADB. 2003. *Technical Assistance to the Cook Islands for Legal and Institutional Strengthening for Environmental Management*. Manila. (TA 4273-COO for \$350,000).

³⁴ *Public Health (Sewerage) Regulations*, signed into law in January 2008.

³⁵ *Disaster Risk Management Act* signed into law in November 2007.

³⁶ Loan closing is 31 December 2008.

with ADB's WPC policy, flexibility may be exercised in application of the approach to specific country situations.³⁷ Consequently, the CPS for the Cook Islands proposes that the tools, instruments, and modalities included under the WPC approach be utilized under the lending and non-lending program, particularly: (i) longer-term TA, incorporating capacity and institution building; and (ii) TA support for project implementation. These approaches will help ensure effective delivery of CPS support to improve public sector performance and delivery of infrastructure services.

83. Strategic National Planning: Development projects need to be firmly anchored to the sector development plans, which are in turn tied to the national objectives given in the NSDP. While the NSDP provides strategic guidance at the national level, only the Infrastructure Master Plan provides the vision and sector investment platform with associated goals and time bound implementation plans that the subsector and project investment and capacity-building work can support. To strengthen ownership a broad infrastructure governance framework is needed that is linked to coherent policies that are clearly defined for all stakeholders. To ensure project investments are complemented by a comprehensive set of policies, a sector-wide, harmonized governance framework is needed.

84. Policy Implementation: The Government has performed poorly in translating policy into action, as demonstrated by the extended delays in adopting and enforcing environmental regulations and adopting a commercial (e.g., user-pays) approach to operation of the waste management facilities, as was intended. Institutional reform is essential to optimize the benefits of investment in public infrastructure. While the Government's current policies include reforms that will be supported under the CPS, continuous dialogue and long-term TA will be needed to ensure that delivery of reforms is timely and coordinated. In tandem, these will develop advocacy programs that align with the identified political will to assume direct user-pay responsibility for infrastructure services and, where political limitations exist to implementation of such policies, alternatives to ascertain efficient infrastructure management and services.

85. Project Management: Inadequate attention has previously been given to ensuring the executing and implementing agencies have the institutional capacity required to deliver project outputs. The Cook Islands has a small population with a very limited pool of professionals, and utilizing a separate project implementation unit (PIU) for each project may not be efficient. Post evaluation of previous projects has suggested these should be implemented by a single, permanently staffed PIU with experience and knowledge in implementing projects funded by the country's various development partners. This suggestion has largely been implemented with the creation of the Aid Management Division (AMD). Supplementary capacity and expertise, comprising technical specialists from the concerned ministries or agencies along with contracted specialists, will still be required on a project-specific basis to ensure AMD has sufficient capacity. Most agencies will only infrequently require supplementary capacity to implement major projects, meaning that maintaining permanent implementation capacity in each agency would be an inefficient use of resources. The Government has tended to overestimate its own capacity, and this should be fully and carefully evaluated at the project design stage, and on a project-specific basis.

³⁷ ADB. 2007. *Achieving Development Effectiveness in Weakly Performing Countries*. Manila (page 11).

IV. ASIAN DEVELOPMENT BANK'S STRATEGY

A. Summary of Key Development Challenges

86. Maintaining macroeconomic stability depends on removing the binding constraints to environmentally sustainable private sector-led economic growth and improving the quality of public sector governance. Environmentally sustainable growth is also central to the medium-term objectives of the NSDP, including achieving basic social service outcomes in the outer islands. However, both adverse weather conditions and demand-side pressure on the capacity of the physical infrastructure constitute binding constraints to growth, and restrain development. Climate change will add to the challenge of providing sustainable infrastructure and is a key development challenge in the Cook Islands.

87. In the NSDP, the Government has placed high priority on infrastructure improvements for the short and medium term, recognizing the risks to the economy should it fail to do so. Careful selection and prioritization of investments is required to ensure that the limited resources directly support the objective of environmentally sustainable private sector-led economic growth.

88. The condition of public infrastructure reflects the current weaknesses in the national planning and institutional capacity needed to support achievement of national development goals. The ERP reform process needs consolidation and re-invigoration to ensure that the planning and implementation of development is not constrained and that the Government will be effective in addressing the binding constraints to growth and development. Improvements in public service performance are required, along with systems to monitor and regulate SOEs and monopolies, and to develop a formal public sector investment program. Insufficient alignment of the fiscal budget (the traditional planning instrument in the Cook Islands) with the NSDP leaves implementation of development outcomes vulnerable to politicization. This has resulted in diversion of resources from planned to unplanned objectives in the past, and resulted in large expenditures being made that were related to narrow political objectives. Maintenance of the achievements of the ERP is at risk due to the lack of a medium- to long-term results-focused planning framework.

B. Focus of Country Partnership Strategy

89. The strategic focus proposed for the CPS 2008–2012 is derived from the NSDP and addresses the binding constraints to private sector-led environmentally sustainable economic growth, through improved economic and social infrastructure and public sector service delivery. This directly supports implementation of the NSDP, with a particular emphasis on the achievement of four of its eight strategic goals, specifically: (i) an innovative and well managed private sector led economy; (ii) strengthened and affordable basic infrastructure, transport, and utilities to support national development; (iii) sustainable use and management of natural resources and the environment; and (iv) a safe, secure, and resilient community. The CPS 2008–2012 is fully consistent with ADB's Pacific Strategy 2005–2009 and its midterm review, is generally aligned with ADB's Long Term Strategic Framework,³⁸ and is an area where ADB has comparative advantages over other development partners. The country partnership strategy and formulation is discussed in Appendix 5.

³⁸ ADB. 2008. *Strategy 2020: The Long Term Strategic Framework of the Asian Development Bank 2008-2020*. Manila.

C. Assistance for the Strategic Priorities

90. The country cost-sharing ceiling of up to 99% for lending and nonlending products was determined in accordance with ADB's staff instructions of 15 March 2006. Country cost-sharing arrangements and other parameters are given in Appendix 6. A macroeconomic assessment addressed the following criteria: (i) fiscal policy stance, (ii) quality of public finance management systems, (iii) structure and characteristics of public expenditure program, (iv) debt sustainability issues, (v) balance of payments, and (vi) qualitative aspects of the Government's ownership and commitment. Taxes and duties are reasonable at present levels and are unlikely to form an excessively high share of project costs, and may therefore be financed by ADB.

91. The Cook Islands has been a Group B1 country and eligible for ADF with limited access to ADB's OCR. The country-specific ADF lending allocations have been derived on the basis of the results of the 2005 CPA exercise, after applying the performance-based allocation (PBA) formula. ADF allocations for the Cook Islands for 2007–2008 have been set at \$3.42 million. An additional \$3.80 million has been allocated from unused allocations from other PDMCs. After adjusting for the negative balance of \$0.34 million for 2005–2006, the total remaining ADF allocation is estimated at about \$6.88 million. The Cook Islands will graduate to a Group C country classification in 2009 and will no longer be eligible for the ADF.³⁹

92. To identify an appropriate level of borrowing, a debt sustainability assessment (DSA) has been conducted as part of the thematic assessments supporting the CPS process within the context of the PIER (footnote 4) for the Cook Islands. Total government borrowing for prudent economic investments could be \$37.5 million (or about 25% of GDP, including current debt stock) on the basis of forecast economic growth of 3.5% per annum over the medium term. This is compatible with the funding needs of the Infrastructure Master Plan that calls for a total expenditure of NZ\$237 million over 20 years. Required funding of \$7.5 million per year corresponds to about 4% of GDP.

93. The CPS will include support for an infrastructure sector development project targeting the rehabilitation and upgrading of prioritized basic public infrastructure. Expected outcomes are safe and reliable water supplies, environmentally sustainable liquid and solid waste management, secure international shipping facilities, and reliable and efficient energy supplies that will underpin private sector growth and catalyze future investment. An Infrastructure Development Project (IDP) has been included in the lending program for \$21.88 million, comprising \$6.88 million from ADF and \$15.0 from ordinary capital resources (OCR) that will address priority infrastructure development in (i) transport; (ii) water supply, solid waste and sanitation; and (iii) energy efficiency. The project will be implemented in two phases, the first of which will involve the urgent rehabilitation of the country's only international wharf (at Avatiu on Rarotonga). The Project will include realignment of the domestic wharf to permit larger vessels to use the port, thus inducing lower freight rates and greater efficiency. The project will also utilize ADF resources that will expire at the end of 2008. The physical components of the second phase, utilizing OCR, will be identified during project preparation but are expected to target water and sanitation on Aitutaki and Rarotonga as a priority.

³⁹ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank* (approved 25 April 2008). Manila.

94. Indicative annual TA support under the non-lending program is set at \$500,000 and will focus on capacity development and institutional improvement. Effective development of infrastructure and results-focused service delivery and asset management require a comprehensive review of institutional arrangements (including those of the CIIC) and support for preparation of an infrastructure governance framework. TA associated with the IDP, and carefully coordinated with ensuing loan projects, will support a review of infrastructure governance and develop support programs to achieve effective infrastructure service delivery and develop capacity, both in the context of the two municipality-sized service areas of Aitutaki and Rarotonga and in the outer islands. The outcome is expected to be improved customer-orientated management and delivery of basic infrastructure services.

95. TA will also be provided to support review and improvement of public sector performance, including support for improved financial management and capacity development. The outcome and the impact of the reforms under the ERP will be reviewed and the non-lending pipeline will support implementation of medium-term economic and public sector improvements. Introduction of a medium-term fiscal framework will be supported, including preparation of an updated set of prudent financial ratios that would help ensure fiscal sustainability. A concept paper for initial advisory TA that will prepare a cluster TA for the period of the CPS is in Appendix 7. The country operations business plan is in Appendix 8.

D. External Funding Coordination and Partnership Arrangements

96. External funding is coordinated through the AMD of the MFEM. MFEM is seeking to consolidate aid under the purview of the fiscal budget and public expenditure management to ensure coordination, including with future recurrent expenditure needs of aid-funded capital investments. The policy of AMD is that all external assistance should accord with the priorities set out in the NSDP and be provided in a manner consistent with the Paris Declaration. The AMD is also the designated executing agency for donor- and/or loan-funded activities and is responsible for planning and management of project activities. The preeminence of the NSDP make the goals of aid coordination and effectiveness achievable.

97. The CPS has been developed in partnership with NZAID, and with AusAID through joint financing of economic and thematic assessments for the Cook Islands PIER. Regular consultations between ADB and NZAID have resulted in a common approach to policy and advocacy, particularly on governance issues, and the development of a collaborative and coordinated program of TA that will be further developed during CPS implementation. A donor partnership and harmonization agreement (DPA) is proposed, initially between NZAID, ADB, and the Government, with the intention that other key donors should join or subscribe to its principles. NZAID will consider TA cofinancing for public sector performance improvement. Existing TA for monitoring and evaluation of public sector performance (provided by AusAID but administered by NZAID) is a significant and complimentary component of a joint strategy with NZAID.

98. Medium-term funding requirements for infrastructure and achievement of the associated governance objectives dictate the need for a closely coordinated and cooperative approach among donors. NZAID will cofinance the PPTA for the IDP, ensuring close collaboration with ADB during subsequent implementation. In pursuit of sustainable improvement in governance of infrastructure and infrastructure services, NZAID will consider financing of infrastructure investments through loan buy-back arrangements. The EU also intends to provide assistance in the infrastructure sector, and will participate in the PPTA to allow EU assistance to be appropriately integrated.

99. The PRC is potentially a major contributor of grant or concessional loan funding for infrastructure investments. The extent to which funding from the PRC can be harnessed to an IDP coordinated among all major development partners may be limited, given the significantly different modalities used by the PRC in delivering its programs. Previous experience would indicate that assistance from the PRC will be directed to a few discrete projects for delivery by contractors from the PRC on an “in kind” basis. In order to maximize the potential for support from the PRC for the IDP, the PRC will be informed and engaged to the extent possible during CPS implementation.

100. ADB will explore the use of trust funds that have recently been established, or are in the process of being established, that are intended to promote climate change adaptation in project design. Reducing climate-related risks through climate change adaptation is an integral part of the CPS, through mainstreaming of climate proofing.

V. RISKS AND PERFORMANCE MONITORING AND EVALUATION

A. Risks

101. Indecisiveness arising from political instability has in the past been a major risk to successful project and program delivery. Recent trends towards a more stable political environment and adoption of the widely accepted NSDP as a guiding framework should help ensure that medium- and long-term objectives are prioritized.

102. The economy of the Cook Islands remains vulnerable to weather-related and economic risks beyond the country’s control. The tourism industry is particularly vulnerable to damage by extreme weather and other external factors that could cause a decline in tourist numbers. Such risks are best mitigated by maximization of concessional and grant financing, although the Cook Islands has accumulated a debt reserve fund amounting to approximately NZ\$26 million in 2007. The country is in a considerably better position to implement medium-term programs than in the past. Extreme weather events could delay physical project implementation, as disaster recovery would become the priority in the short-term.

103. The level of debt that can be sustained by the Cook Islands depends on the level of economic growth and is conditioned by the use of borrowing for sound and economically beneficial investments. Potential (albeit concessional) lending from the PRC could be in excess of prudent borrowing, and could effectively “crowd out” ADB financing of the IDP.

B. Results-Based Monitoring Process and Plan

104. The CPS for the Cook Islands comprises an IDP that includes TA for reform of key institutions in the infrastructure sectors. Project outcomes as described in the infrastructure sector road map (Appendix 9) will therefore correspond with CPS outputs and will be measured through reporting of project progress. Detailed implementation targets and baseline indicators will be developed under the PPTA. Project review missions will be undertaken every 6 months and country portfolio review missions will be conducted annually. These frequent opportunities for dialogue will ensure that the project remains focused on achieving the strategic outcomes of the CPS. The CPS monitoring and evaluation system will therefore be simple, cost-effective and appropriate.

105. Country-level outcomes will be measured in accordance with the country partnership strategy results framework. However, the Government will receive assistance under the JCS to develop a results framework for the NSDP, and NZ\$600,000 has been allocated for this purpose within the 2007/2008 Forward Aid Program. The NSDP results framework will develop current Cook Islands monitoring and evaluation systems at all levels, and be rolled out to the ministries and departments with the aims of (i) informing national planning, (ii) supporting sector policy and program design, (iii) informing the budget allocation process, (iv) inducing continuous management improvement, and (v) enhancing transparency and accountability. The CPS results framework will be updated and harmonized with the broader country results framework at the midterm review of the CPS, the Government's results indicators developed under the ongoing JCS assistance will be adopted, thus ensuring support for and ownership of the results-based monitoring plan.

COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

Country Development Goals		Country Partnership Strategy (CPS) Outcomes		Key Areas of ADB's Intervention	Assumptions
Country-Level Outcomes	Key Constraints	CPS Outcomes	Outcome Indicators		
Strategic Goal 3: Innovative and well managed private sector-led economy.	Capacity, efficiency and effectiveness of the public sector agency performance.	Improved efficiency and effectiveness in performance of the public sector and public service delivery, contributing to achievement of medium and long-term strategies given in the NSDP, providing an improved enabling environment for the private sector.	Reforms and capacity development requirements of public sector agencies identified by October 2009 and implemented by December 2012. Government personnel cost as a percentage of GDP remains below 15%, operating (non-personnel) costs remain below 11%. Net debt to GDP ratio stays below 25%. Improved performance of public service agencies (benchmarks and indicators to further be developed in project design, drawing on outputs of NZAID and AusAID TA for monitoring and evaluation of public service efficiency and performance).	<ul style="list-style-type: none"> • Ongoing PPTA for Infrastructure Development Project and infrastructure governance framework. • Future TA for Public Finance Management and Public Sector Performance Review and Improvement. Cluster TA for Public Sector Financial Management and Performance Improvement. 	Government's commitment to recommended reforms will be managed by continued and regular joint advocacy of reform objectives by ADB and development partners, and effective loan covenants.
	Weak institutional arrangements for infrastructure management.	Improved governance and institutional arrangements for delivery of infrastructure services.	Implementation of medium term fiscal framework and budgeting by June 2010.		
	Infrastructure capacity	Prioritized infrastructure investments to underpin environmentally	Expanded Avatiu port capacity capable of handling larger vessels		

Country Development Goals		Country Partnership Strategy (CPS) Outcomes		Key Areas of ADB's Intervention	Assumptions
Country-Level Outcomes	Key Constraints	CPS Outcomes	Outcome Indicators		
		sustainable growth.	by 2011; developed sewerage management system by 2012; expanded power and potable water supply.	Loan for Infrastructure Development Project Phase 2 to implement priority projects in water sanitation and energy.	
Strategic Goal 4: Sustainable use and management of natural resources.	Capacity of infrastructure to protect the natural environment and conserve water resources.	Reduced pollution of streams, waterways and lagoons. Sustainable use of water resources.	Improved water quality in streams, waterways and lagoons (benchmarks and indicators to be included in project design, drawing on current work being undertaken by the South Pacific Geoscience Commission).	TA for institutional strengthening of environmental management. RETA for incorporating climate proofing in the design of projects • Future Loan for Infrastructure Development Project Phase 2 to implement priority projects in water sanitation and energy.	Community support for improved water and sanitation systems to be engendered by public awareness campaigns.
Strategic Goal 5: Strengthened and affordable basic infrastructure, transport and utilities to support national development.	Capacity, reliability and safety of existing physical infrastructure.	Improved, customer-orientated management and delivery of basic infrastructure services. Safe and reliable water supplies, environmentally sustainable liquid and solid waste management and reliable and efficient energy supplies.	Governance framework for infrastructure developed by December 2008 and implemented by June 2011. Reformed agency for water and sanitation by June 2011. Cost recovery for water and sanitation implemented in Aitutaki and Rarotonga by June 2011.	• Ongoing PPTA for Infrastructure Development Project and infrastructure governance framework. • Future Loan for Infrastructure Development Project Phase 2 to implement priority projects in water sanitation and energy. Cluster TA for Implementation of	Government commitment to changes in infrastructure governance arrangements, including cost recovery, will be managed by policy dialogue and effective loan covenants. Crowding out of borrowing capacity by assumption of loans for non-priority objectives will be managed by (i)

Country Development Goals		Country Partnership Strategy (CPS) Outcomes		Key Areas of ADB's Intervention	Assumptions
Country-Level Outcomes	Key Constraints	CPS Outcomes	Outcome Indicators		
			<p>Improved access by households and commercial facilities in Rerouting and Aitutaki to potable water supply.</p> <p>Coliforms and <i>E. Coli</i> levels in Rarotonga water supply system within levels specified by WHO by 2012.</p> <p>Wastage reduced from 70% to 20% in Rarotonga by 2012 (other benchmarks and indicators to be included in project design).</p> <p>Improved access by households and commercial facilities to environmentally sustainable liquid and solid waste disposal (benchmarks and indicators to be included in project design).</p> <p>Improved access by households and commercial facilities to reliable energy supplies (benchmarks and indicators to be included in project design).</p>	<p>reforms of agencies responsible for water and sanitation.</p> <p>Loan for Infrastructure Development Project Phase 1 (Avatiu Port).</p>	<p>maximum mobilization of grant and concessional funding sources; and (ii) advocacy of prudent financial management.</p> <p>Insufficient funding for recurrent infrastructure costs will be addressed by (i) institutional reforms, (ii) appropriate loan covenants, and (iii) policy dialogue.</p> <p>Public acceptance of user-pay principles for safe and efficient sewerage and water supplies to be engendered by public awareness campaigns.</p>

Country Development Goals		Country Partnership Strategy (CPS) Outcomes		Key Areas of ADB's Intervention	Assumptions
Country-Level Outcomes	Key Constraints	CPS Outcomes	Outcome Indicators		
Strategic Goal 6: A safe, secure and resilient community.	<p>Periodic damage to infrastructure through cyclone and extreme weather events.</p> <p>Capacity, safety and reliability of existing physical infrastructure.</p>	Secure and efficient port infrastructure in Rarotonga.	Secure and efficient port infrastructure delivered by December 2011.	<ul style="list-style-type: none"> • Future Loan for Infrastructure Development Project Phase 1 (Avatiu Port). 	

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, CPS = country partnership strategy, GDP = gross domestic product, NSDP = National Sustainable Development Plan, NZAID = New Zealand's International Aid and Development Agency, PPTA = project preparatory technical assistance, TA = technical assistance, WHO = World Health Organization.

Source: *Te Kaveinga Nui* (Pathway for Sustainable Development in the Cook Islands) Living the Cook Islands Vision—A 2020 Challenge, National Sustainable Development Plan 2007–2010.

COUNTRY AND PORTFOLIO INDICATORS

Table A1.1: Progress Toward the Millennium Development Goals and Targets

Goals and Targets	1990	1995	Latest Year	
Goal 1: Eradicate Extreme Poverty and Hunger				
Target 1: Halve, between 1990 and 2015, the proportion of people whose income is less than \$1 a day.				
1. Proportion of population below \$1 per day (PPP-values) (%)	—	—	—	
Population below the National Poverty Line (%)	—	—	0 ^a	(2005)
2. Poverty gap ratio	—	—	—	
3. Share of poorest quintile in national consumption (%)	—	—	—	
Target 2: Halve, between 1990 and 2015, the proportion of people who suffer from hunger.				
4. Prevalence of child malnutrition (% of children under 5)	—	—	10.0	(1999)
5. Proportion of population below minimum level of dietary energy consumption (%)	—	—	—	
Goal 2: Achieve Universal Primary Education				
Target 3: Ensure that, by 2015, children everywhere, boys and girls alike, will be able to complete a full course of primary schooling.				
6. Net enrollment ratio in primary education (%)	—	84.8 (1999)	92.0	(2005)
7. Proportion of pupils starting grade 1 who reach grade 5	—	—	51.5	(1998)
Girls	—	—	46.8	(1998)
Boys	—	—	55.7	(1998)
8. Literacy rate of 15–24 year olds (%)	—	—	—	
Goal 3: Promote Gender Equality and Empower Women				
Target 4: Eliminate gender disparities in primary and secondary education, preferably by 2005, and in all levels of education no later than 2015.				
9. Ratio of girls to boys in: (%)				
Primary education	98.0	95.0 (1999)	98.0	(2003)
Secondary education	112.2	108.0 (1999)	102.0	(2003)
Tertiary education	86.0	—	100.0	(2001)
10. Ratio of young literate females to males (% of age group 15–24)	—	—	—	
11. Share of women in wage employment in the non-agricultural sector	38.4	43.6 (1996)	44.6	(2001)
12. Proportion of seats held by women in national parliament	—	6.0	8.0	(1999)
Goal 4: Reduce Child Mortality				
Target 5: Reduce by two thirds, between 1990 and 2015, the under-5 mortality rate.				
13. Under-5 mortality rate (per '000 live births)	32.0	29.0	19.0	(2006)
14. Infant mortality rate (per '000 live births)	24.9	23.5 (1996)	16.0	(2006)
15. Proportion of 1 year old children immunized against measles	67.0	96.0	99.0	(2005)

Goals and Targets	1990	1995	Latest Year	
Goal 5: Improve Maternal Health				
Target 6: Reduce, by three-quarters, between 1990 and 2015, the maternal mortality rate.				
16. Maternal mortality ratio (per 100,000 live births)	—	—	—	
17. Births attended by skilled health staff (% of live births)	70.0 (1988)	100.0 (1998)	98.0	(2002)
Goal 6: Combat HIV/AIDS, Malaria, and Other Diseases				
Target 7: Have halted by 2015, and begun to reverse, the spread of HIV/AIDS.				
18. HIV prevalence rate among: (%)				
15–24 year old pregnant women	—	—	—	
Adult rate (aged 15–49)	—	—	—	
19. Contraceptive prevalence rate (% of women aged 15–49)	46.8 (1991)	52.3 (1997)	43.8	(2000)
20. Number of children orphaned by HIV/AIDS	—	—	—	
Target 8: Have halted by 2015, and begun to reverse, the incidence of malaria and other major diseases.				
21. Malaria:				
Prevalence rate (per 100,000 people)	—	—	—	
Death rate (per 100,000 people)	—	—	6.0	(2000)
22. Proportion of population in malaria risk areas using effective malaria prevention & treatment measures	—	—	—	
23. Tuberculosis:				
Prevalence rate (per 100,000 people)	49.0	32.1	26.0	(2005)
Death rate (per 100,000 people)	12.0	—	5.0	(2005)
24. Proportion of TB cases:				
DOTS detection rate (%)	—	62.1 (1998)	77.0	(2005)
DOTS treatment success (%)	—	50.0 (1997)	100.0	(2002)
Goal 7: Ensure Environmental Sustainability				
Target 9: Integrate the principles of sustainable development into country policies and programs and reverse the loss of environmental resources.				
25. Forest area (% of total land area)	63.9	—	66.5	(2005)
26. Nationally protected areas (% of total land area)	—	—	15.1	(2003)
27. GDP per unit of energy use (PPP \$ per kg oil equivalent)	—	—	—	
28. Carbon dioxide emissions (per capita metric tons)	1.2	1.2	2.0	(2004)
Target 10: Halve, by 2015, the proportion of people without sustainable access to safe drinking water.				
29. Access to an improved water source (% of population)				
Total	94.0	—	94.0	(2004)
Urban	99.0	—	98.0	(2004)
Rural	87.0	—	88.0	(2004)

Goals and Targets	1990	1995	Latest Year	
Target 11: By 2020, achieve a significant improvement in the lives of at least 100 million slum dwellers.				
30. Access to improved sanitation (% of population)				
Total	95.0	—	100.0	(2004)
Urban	100.0	—	100.0	(2004)
Rural	88.0	—	100.0	(2004)
31. Access to secure tenure (slum population as % of urban population [secure tenure index])	0.0	—	0.0	(2001)

— = not available; < = less than the specified amount; DOTS = directly observed treatment, short course; GDP = gross domestic product; kg = kilogram; HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome; PPP = purchasing power parity; TB = tuberculosis, USP = University of the South Pacific.

^a The Cook Islands National Millennium Goals Report 2005 reports that extreme hunger and poverty has been eradicated.

Sources: Cook Islands Statistics Office (CISO), *Cook Islands Annual Statistical Bulletin* (2003, 2004); CISO, *Cook Islands Quarterly Statistical Bulletin* (December 2004); Secretariat of the Pacific Community (SPC), *Pacific Islands Regional Millennium Development Goals Report 2004*, Statistical Annex (available: <http://www.spc.int/mdgs>); United Nations Development Programme (UNDP), *Pacific Human Development Report 1999*; United Nations Educational, Scientific and Cultural Organization (UNESCO), *Education for All (EFA) Global Monitoring Report 2003/4*; UNESCO, Institute for Statistics (<http://portal.unesco.org/uis>); UNESCO, *The EFA 2000 Assessment: Cook Islands Country Report*, available online at <http://www2.unesco.org/wef/countryreports>; United Nations Statistics Division (UNSD), Millennium Indicator Database (2003) (available: <http://millenniumindicators.un.org>); World Health Organization (WHO), Regional Office for the Western Pacific (WPRO), Western Pacific Region Health Databank, various revisions (available: <http://www.wpro.who.int>); WHO, *The World Health Report* (2004-2005); Asian Development Bank (ADB), *Key Indicators 2007* (available: http://www.adb.org/Documents/Books/Key_Indicators/2007/default.asp); and ADB statistical database system (available: <http://lxapp1.asiandevbank.org:8030/sdbs/index.jsp>), accessed on 27 March 2007.

Table A1.2: Country Economic Indicators

Item	Fiscal Year					
	2002	2003	2004	2005	2006	2007
A. Income and Growth						
1. GDP Per Capita (\$, current prices)	5,564	7,782	8,453	9,071	8,265	—
2. GDP Growth (% , in constant prices)	2.6	8.2	4.3	0.2	1.4	3.0
Agriculture	9.5	28.3	(2.6)	(3.7)	(4.5)	—
Industry	(0.3)	16.7	10.6	(10.9)	(0.1)	—
Services	1.7	3.7	4.8	2.3	2.5	—
B. Saving and Investment (% of GDP)						
1. Gross Domestic Investment	—	—	—	—	—	—
2. Gross Domestic Saving	—	—	—	—	—	—
C. Money and Inflation (annual % change)						
1. Consumer Price Index	3.4	2.0	0.9	2.5	3.4	2.4
2. Total Liquidity (M2)	—	—	—	—	—	—
D. Government Finance (% of GDP)						
1. Total Revenue and Grants	36.2	35.0	34.3	37.1	37.6	37.0
2. Total Expenditure	36.0	31.6	29.5	32.0	32.3	32.6
3. Overall Fiscal Surplus (Deficit)	0.2	1.2	1.8	2.4	2.5	0.1
E. Balance of Payments						
1. Merchandise Trade Balance (% of GDP)	6.2	6.1	4.4	10.3	14.2	—
2. Current Account Balance (% of GDP)	13.4	10.4	7.0	13.3	14.1	(6.4)
3. Merchandise Export Growth (\$ f.o.b, annual % change)	3.2	34.9	7.8	18.9	1.7	—
4. Merchandise Import Growth (\$ f.o.b, annual % change)	4.7	40.3	12.1	9.2	1.0	—
F. External Payments Indicators						
1. Gross Official Reserves (\$ million, end of period)	—	—	—	—	—	—
2. External Debt Service (% of exports of goods and services)	—	—	—	—	—	—
3. General Government Debt (% of GDP)	—	—	—	38.0	21.2	—
G. Memorandum Items						
1. GDP (current prices, \$ million)	102.4	143.2	171.6	183.2	176.0	—
2. Exchange Rate (year average, NZ\$ per \$)	2.2	1.7	1.5	1.4	1.5	1.4
3. Population (midyear, '000)	18.4	18.4	20.3	20.2	20.8	21.1

() = negative, — = data not available, f.o.b = free on board, GDP = gross domestic product, M2 = money supply, NZ\$ = New Zealand dollar.

Sources: Cook Islands Statistics Office (CISO) Quarterly Statistical Bulletin, various issues; CISO Online Statistics (available: <http://www.stats.gov.ck/>); Government of the Cook Islands, Budget Estimates 2007/2008, June 2007; Reserve Bank of New Zealand (available: <http://www.rbnz.govt.nz/>); Standard & Poor's Credit Rating, December 2006; United Nations Economic and Social Development, *World Population Prospects (WPP): The 2004 Revision Population Database* (available at <http://esa.un.org/unpp>); Asian Development Bank Statistics Department (ADB), *Key Indicators 2007* (available: http://www.adb.org/Documents/Books/Key_Indicators/2007/default.asp); and ADB. 2008 *Asian Development Outlook*. Manila.

Table A1.3: Country Poverty and Social Indicators

Item	Period		
	1990	1995	Latest Year
A. Population Indicators			
1. Total Population ('000)	17.0	19.4	21.1 (2007)
2. Annual Population Growth Rate (% change)	3.0	-0.5	0.9 (1995–2006)
B. Social Indicators			
1. Total Fertility Rate (births/woman)	4.2	3.7 (1995–1996)	2.6 (2005)
2. Maternal Mortality Rate (per 100,000 live births)	—	—	20.0 (1998)
3. Infant Mortality Rate (below 1 year/1,000 live births)	24.9	23.5 (1996)	17.0 (2005)
4. Life Expectancy at Birth (years)	69.9 (1995–1997)	—	71.0 (2003)
a. Female	71.5 (1995–1997)	73.3 (1999)	74.0 (2003)
b. Male	68.4 (1995–1997)	69.2 (1999)	68.0 (2003)
5. Adult Literacy (%)	99.0 (1994)	93.2 (1996)	100.0 (2002)
a. Female	99.0 (1994)	94.0 (1996)	99.0 (2002)
b. Male	99.0 (1994)	93.0 (1996)	100.0 (2002)
6. Primary School Gross Enrollment (%)	—	101.2 (1998/99)	96.0 (2000/01)
7. Secondary School Gross Enrollment (%)	—	61.6 (1998/99)	60.2 (2000/01)
8. Child Malnutrition (% below age 5)	—	—	10.0 (1999)
9. Population with Access to Safe Water (%)	94.0	—	95.0 (2002)
10. Population with Access to Sanitation (%)	95.0	—	100.0 (2002)
11. Public Health Expenditure (% of GDP)	5.5	4.8	4.4 (2004)
12. Public Education Expenditure (% of GDP)	6.4	5.8	5.2 (2004)
13. Human Development Index (Pacific)	—	0.985 (1994)	0.789 (2002)
Pacific Rank / number of PDMCs	—	1/12	1/15
14. Gender-Related Development Index	—	—	1.17 (2002) 1/15
C. Poverty Indicators			
1. Poverty Line (NZ\$ per capita per year)	—	—	—
2. Poverty incidence (%)	—	—	12.0 (1998)
3. Poverty Gap	—	—	—
4. Poverty Severity Index	—	—	—
5. Inequality (Gini Coefficient)	—	—	—
6. Human Poverty Index (Pacific)	—	6.1 (1999)	7.3 (2002)
Pacific Rank/Number of PDMCs	—	2/14	4/15

— = not available; GDP = gross domestic product; NZ\$ = New Zealand dollar, PDMC = Pacific developing member country.

Sources: Abbott, D. and S. Pollard, *Hardship and Poverty in the Pacific* (2004); Cook Islands Statistics Office (CISO), *Cook Islands Annual Statistical Bulletin* (2002, 2003, and 2004); CISO, *Cook Islands Quarterly Statistical Bulletin* (Dec-04); Secretariat of the Pacific Community (SPC), Oceania Population 2000 and 2003 posters (available: <http://www.spc.int/demog>); United Nations Development Programme (UNDP), *Pacific Human Development Report* (1994, 1999, 2006 forthcoming); United Nations Educational, Scientific and Cultural Organization (UNESCO), *Education for All (EFA) Global Monitoring Report 2003/4*; UNESCO, Institute for Statistics (available: <http://portal.unesco.org/uis>); United Nations Statistics Division (UNSD), Millennium Indicator Database (2003) (available: <http://millenniumindicators.un.org>); World Health Organization (WHO), Regional Office for the Western Pacific (WPRO), Western Pacific Region Health Databank, various revisions (2001, 2002, and 2004), (available: <http://www.wpro.who.int>); WHO, *The World Health Report*, various years (2000–2005); Asian Development Bank (ADB), *Key Indicators 2007* (available http://www.adb.org/Documents/Books/Key_Indicators/2007/default.asp); and ADB. 2008. *Asian Development Outlook*. Manila.

Table A1.4: Country Environment Indicators

Indicator	1990	Latest Year	
A. Energy Efficiency of Emissions			
1. GDP/Unit of Energy Use (PPP\$/kgoe)			
2. Traditional Fuel Use (% of total energy use)			
3. Carbon Dioxide Emissions			
a. mt ('000)	22.0	29.3	(2004)
b. mt per capita	1.2	1.5	(2002)
B. Water Pollution: Water and Sanitation			
1. % Urban Population with Access to Safe Water	99.0	98.0	(2002)
2. % Rural Population with Access to Safe Water	87.0	88.0	(2002)
3. % Urban Population with Access to Sanitation	100.0	100.0	(2002)
C. Land Use and Deforestation			
1. Forest Area (km ²)	—	160	(2007)
2. Average Annual Deforestation			
a. km ²	—	—	
b. % change	—	—	
3. Rural Population Density (people/km ² of arable land)	386 (1991)	292	(2001)
4. Arable Land (% of total land)	8.7	17.4	(2002)
5. Permanent Cropland (% of total land)	17.4	8.7	(2002)
D. Biodiversity and Protected Areas			
1. Nationally Protected Area			
a. km ²	22.0 (1994)	23.0	(2004)
b. % of total land	9.0 (1994)	10.0	(2004)
2. Mammals (number of threatened species)	0 (1996)	1	(2004)
3. Birds (number of threatened species)	6 (1996)	15	(2004)
4. Higher Plants (number of threatened species)	12 (1997)	1	(2003)
5. Reptiles (number of threatened species)	2 (1996)	2	(2004)
6. Amphibians (number of threatened species)	0 (1996)	0	(2004)
E. Urban Areas			
1. Urban Population			
a. '000	10.9 (1991)	13	(2005)
b. % of total population	58.5 (1991)	70.2	(2003)
2. Per Capita Water Use (liters/day)	—	—	
3. Wastewater Treated (%)	—	—	
4. Solid Waste Generated per Capita (kg/day)	—	—	

— = data not available, GDP = gross domestic product, kg = kilogram, kgoe = kilogram oil equivalent, km² = square kilometer, mt = metric tons, PPP = purchasing power parity.

Sources: Cook Islands Statistics Office (CISO), *Cook Islands Annual Statistical Bulletin 2004*; Food and Agriculture Organization (FAO) of the United Nations, Statistical Databases (FAOSTAT) (available: <http://faostat.fao.org>); International Union for Conservation of Nature and Natural Resources (IUCN), *The IUCN Red List of Threatened Species* (1996, 1997, 2003, and 2004) (available: <http://www.iucnredlist.org>); Secretariat of the Pacific Community (SPC), Pacific Islands Regional Millennium Development Goals Report 2004, Statistical Annex (available: <http://www.spc.int/mdgs>); United Nations Statistics Division (UNSD), Millennium Indicator Database (2003) (available: <http://millenniumindicators.un.org>); and Asian Development Bank Statistical Database System (available: <http://xapp1.asiandevbank.org:8030/sdbs/index.jsp>), accessed on 27 March 2007.

Table A1.5: Development Coordination Matrix

Sectors and Themes	Alignment with NSDP Strategic Goals ¹	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
			Multilateral Institutions and the UN System		Bilateral	
Sector						
Agriculture and Natural Resources	Goal 4		FAO SPC SOPAC FFA	Agriculture sector policy Coastal and oceanic fisheries Ocean monitoring Fisheries	New Zealand and Australia Joint Country Strategy (NZAID/AusAID JCS)	TA for improvement of marine resource management.
Education	Goal 1		EU SPC UNICEF	Educational support, school facilities, HRD Human resource development	NZAID/AusAID JCS	Support for planning, financing, managing and improving quality of services; improving quality of teacher supply; building of institutional capacity through an Education Sector Program; post-secondary and tertiary scholarships; and in-country and off-shore short-term training opportunities linked to priority national human resource needs.

¹ The NSDP Strategic Goals are (i) Goal 1 – Equal opportunities for health, education and other social services; (ii) Goal 2 - A society built on law and order and good governance; (iii) Goal 3 – Innovative and well-managed private sector-led economy; (iv) Goal 4 – Sustainable use and management of natural resources and environment; (v) Goal 5 – Strengthened and affordable basic infrastructure, transport and utilities; (vi) Goal 6 – A safe, secure and resilient community; (vii) Goal 7 – An effective foreign affairs policy; and (viii) Strengthened national coordination and institutional support systems for development planning, evaluation and monitoring.

Sectors and Themes	Alignment with Priorities NSDP	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
			Multilateral Institutions and the UN System		Bilateral	
Sector						
Health, Nutrition, and Social Protection	Goal 1		EU WHO UNFPA SPC	Health facilities Various Various Public health	NZAID/AusAID JCS	Medical specialist support. Pacific Regional Initiative for Development in medical equipment maintenance, immunization, HIV/AIDS, reproductive health and family planning.
Law, Economic Management, and Public Policy	Goal 2 Goal 8	TA for improvement and reform of public sector institutions	UNDP UNESCO PFTAC SPC PIFS	Policy development Capacity development Financial management and planning Statistics and demography Policy development	NZAID/AusAID JCS	TA for capacity building and supplementation of needs of public sector institutions.
Transport and Communications	Goal 3 Goal 4 Goal 5 Goal 6	PPTA for infrastructure development and institutional reforms	PASO	Policy development	NZAID/AusAID JCS	Outer islands: construction of harbors and jetties.

Sectors and Themes	Alignment with Priorities NSDP	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
			Multilateral Institutions and the UN System		Bilateral	
Sector						
Water Supply, Sanitation, and Waste Management	Goal 3 Goal 4 Goal 5 Goal 6	PPTA for infrastructure development and institutional reforms	GEF EU SOPAC	Integrated water resources management	NZAID/AusAID JCS	Outer islands: construction of small scale water supplies.
Energy	Goal 3 Goal 4 Goal 5 Goal 6	PPTA for infrastructure development and energy efficiency RETA for energy efficiency	SOPAC	Feasibility study for wind power generation on Rarotonga		
Multisector (Cyclone recovery assistance)	Goal 6	Cyclone recovery assistance	EU	Cyclone recovery assistance; cyclone shelter on Pukapuka	NZAID/AusAID JCS	Cyclone recovery assistance including reconstruction of schools, public buildings and jetties.
Theme						
Environmental sustainability	Goal 4 Goal 5 Goal 6	PPTA incorporating climate change adaptation and environmental protection in project design. TA for institutional strengthening of environmental management RETA for incorporating climate change considerations in the design of projects			India Italy	Sustainable development Climate change adaptation

Sectors and Themes	Alignment with Priorities NSDP	Current ADB Strategy/Activities	Other Development Partners' Strategies and/or Main Activities			
			Multilateral Institutions and the UN System		Bilateral	
Theme						
Inclusive social development	Goal 1		UNESCO	Participation programs	NZAID/AusAID JCS	Core funding to organizations implementing the National Disability Strategy. Small grants scheme for NGOs.

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, EU = European Union, FAO = Food and Agriculture Organization, FFA = Forum Fisheries Agency, GEF = Global Environment Facility, HIV/AIDS = human immunodeficiency virus/acquired immunodeficiency syndrome, HRD = human resource development, JCS = joint country strategy, NSDP = national sustainable development plan, NGO = nongovernment organization, NZAID = New Zealand's International Aid and Development Agency, PASO = Pacific Aviation Safety Office, PFTAC = Pacific Financial Technical Assistance Centre, PIFS = Pacific Islands Forum Secretariat, PPTA = project preparatory technical assistance, RETA = regional technical assistance, SOPAC = South Pacific Applied Geoscience Commission, SPC = Secretariat of the Pacific Community, TA = technical assistance, UNDP = United Nations Development Programme, UNESCO = United Nations Scientific and Cultural Organization, UNFPA = United Nations Population Fund, UNICEF = United Nations Children's Fund, WHO = World Health Organization.

Source: Aid Management Division, Ministry of Finance and Economic Management, Government of the Cook Islands.

Table A1.6: Portfolio Indicators—Portfolio Amounts and Ratings
(public sector loans, as of 31 December 2007)

Sector	Net Loan Amount		Total		Rating ^a						Potential Problem ^b		At Risk ^c			
	\$ Million	%	No.	%	Highly Satisfactory		Satisfactory		Partly Satisfactory		Unsatisfactory		No.	%	No.	%
Agriculture and Natural Resources																
Education																
Energy																
Finance																
Health, Nutrition, and Social Protection																
Industry and Trade																
Law and Public Sector Management																
Multisector	2.9	100.0	1	100.0			1	100.0								
Transport and Communications																
Water Supply, Sanitation, and Waste Management																
Total	2.9	100.0	1.00	100.0			1	100.0								

No. = number.

^a One rating for implementation progress and development objectives, based on the lower rating of either.

^b Potential problem loans are satisfactory loans but have four or more risk factors associated with partly satisfactory or unsatisfactory performance.

^c A loan is "at risk" if it is rated as partly satisfactory, as unsatisfactory, or as a potential problem.

Source: Asian Development Bank estimates.

Table A1.7: Portfolio Indicators—Disbursements and Net Transfers of Resources
(public sector loans, as of 31 December 2007)

Disbursements and Transfers	OCR	ADF	Total
Disbursements^a			
Total Funds Available for Withdrawal (\$ million)		1.430	1.430
Disbursed Amount (\$ million, cumulative)		1.456	1.456
Percentage Disbursed (disbursed amount/total available)		33.82	33.82
Disbursements (\$ million, latest year)		0.89	0.89
Disbursement Ratio (%) ^b		6.13	6.13
Net Transfer of Resources (\$ million)			
2002		0.02	0.02
2003		1.14	1.14
2004		0.53	0.53
2005		(0.34)	(0.34)
2006		(0.32)	(0.32)
2007		(0.717)	(0.717)

ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes all loans with disbursements during 2007.

^b Ratio of disbursements during the year over the undisbursed net loan balance at the beginning of the year less cancellations during the year. Effective loans during the year are added to the beginning balance of undisbursed loans.

Source: Asian Development Bank estimates.

Table A1.8: Portfolio Implementation Status
(public sector loans, as of 31 December 2007)

Sector	Loan No.	Seg	Title	Net Loan Amount		Cumulative Disbursements		Approval Date (dd/mm/yy)	Effective Date (dd/mm/yy)	Closing Date		Progress (% complete)
				OCR (\$ million)	ADF (\$ million)	OCR (\$ million)	ADF (\$ million)			Original (dd/mm/yy)	Revised (dd/mm/yy)	
AG					0.00							0.00
ED					0.00							0.00
EN					0.00							0.00
FI					0.00							0.00
HL					0.00							0.00
IN					0.00							0.00
LW					0.00							0.00
MS	2174		Cyclone Emergency Assistance		2.893		1.456	30/06/05	14/07/05	31/10/07	31/12/08	50.33
TC					0.00							0.00
WS					0.00							0.00
Total					2.893		1.456					

ADF = Asian Development Fund; AG = agriculture and natural resources; ED = education; EN = energy; FI = finance; HL = health, nutrition, and social protection; IN = industry and trade; LW = law and public sector management; MS = multisector; No. = number; OCR = ordinary capital resources; Seg = segment (pertaining to loans with more than one withdrawal authority); TC = transport and communications; WS = water supply, sanitation, and waste management.

Source: Asian Development Bank.

Table A1.9: Evaluation Rating by Sector, Public Sector Loans (1998–2006)^a

Sector	Highly Successful		Successful		Partly Successful		Unsuccessful		No. Rating		Total	
	No.	%	No.	%	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources												
Education			1	33.3								33.3
Energy												
Finance					1	33.3						33.3
Health, Nutrition, and Social Protection												
Industry and Trade												
Law and Public Sector Management			1	33.3								33.3
Multisector												
Transport and Communications												
Water Supply, Sanitation, and Waste Management												
Total				66.7		33.3						100.0

No. = number.

^a Three of 13 loans to the Cook Islands have been post-evaluated.

Sources: Asian Development Bank project (program) audit reports.

GOVERNANCE ASSESSMENT

A. Introduction

1. The Cook Islands was formerly a British protectorate, annexed to New Zealand (then a British colony). Since 1965, the Cook Islands has been self-governing in free association with New Zealand, with a Constitution that provides the right to move to full independence. Under current arrangements, the Cook Islands is responsible for internal affairs while New Zealand, in consultation with the Cook Islands, is responsible for external affairs. The Cook Islands has a Westminster parliamentary style of government,¹ within which the Legislative Council's 25 members are elected for a 4-year term in single-seat constituencies. Its judicial system comprises three levels: the High Court, which deals with all civil, criminal and land matters; the Court of Appeal, which hears appeals against High Court decisions; and the Privy Council (London), which is the final Appellate Tribunal for the country. The Cook Islands has two dominant political parties, and it would be extremely difficult for anyone achieve electoral success under the banner of any other party. The most recent election was held in September 2006.²

2. Public sector governance and economic management in the Cook Islands reached a low point in the mid-1990s. Efforts to maintain political support resulted in the public sector becoming unnecessarily large and increasingly unwieldy, and in combination with serious economic mismanagement, almost resulted in the country becoming bankrupt in 1996. A wide-ranging economic reform program, including civil service downsizing, was adopted to correct the fiscal imbalances. The public service was reduced to little more than a third of its former size and the salaries of remaining staff were reduced. The Ministry of Finance and Economic Management (MFEM) Act 1995–96 set out a number of principles for responsible fiscal management, including maintaining operating surpluses in each financial year unless crown debt is at prudent levels. The Government then embarked on a policy of private sector development that is now considered a model for other countries to follow.

3. As Table A2.1 illustrates, the Cook Islands today has a vastly improved governance profile. In fact, on the four governance indicators for which data are available, the Cook Islands achieved the highest governance score of any Pacific island country in 2006. As part of its broader Second Governance and Anti-corruption Action Plan (GACAP II), the Asian Development Bank (ADB) is focusing its 2007 governance assessments in Pacific developing member countries on three key issues: public financial management, procurement, and anti-corruption issues. The following synopsis of the status of the Cook Islands' progress in each of these areas is based on readily available information rather than new analysis.

¹ The Legislative Assembly has 25 elected Members of Parliament, 24 of whom represent districts of the Cook Islands, and one who represents Cook Islanders living overseas. The upper house, or House of Ariki, is made up of traditional leaders, who provide consultation and advice. Each of the outer islands has at least one elected Member of Parliament and some have two or three. The islands are also administered by government representatives in addition to their own mayors and island councils.

² Elections were held in 1965, 1978, and 1989. From then on, they have been held every 5 years up to and including 2004. The next election should have been due in 2009, but was precipitated in 2006 when the opposition Cook Islands Party (the country's oldest political party) won a by-election in Matevera, leaving the government without a majority. The result was a narrow victory for the Democratic Party.

Table A2.1: Governance Indicators, 2006

Item	Voice and Accountability	Political Stability	Government Effectiveness	Regulatory Quality	Rule of Law	Control of Corruption
Cook Islands	n/a	n/a	0.12	0.55	1.07	0.66
Pacific Average	0.33	0.62	-0.51	-0.66	0.11	-0.39

Source: World Bank. 2007. *Governance Matters VI: Governance Indicators for 1996–2006* (June).

Notes: The Pacific average has been calculated for those countries for which data are available for the particular year, from the group comprising Fiji Islands, Federated States of Micronesia, Kiribati, Marshall Islands, Papua New Guinea, Samoa, Solomon Islands, Timor-Leste, Tonga, Tuvalu, and Vanuatu. The indicators are measured in the range of -2.5 to +2.5, with a higher score indicating better governance.

B. Public Financial Management

4. The Cook Islands has a population of about 14,000, less than 10,000 of whom are resident. It relies heavily on the tourism industry for employment and revenue. The country is import-dependent, with a limited manufacturing production base. Unfortunately, it is also prone to debilitating natural disasters.³ Nevertheless, the Cook Islands has a clear economic strategy⁴ and its overall economic outlook has improved over the past 5 years. Notwithstanding frequent changes in government brought about by weak party affiliations, the country enjoyed relative political stability and sustained growth of 3.8% from 2002 to 2006. Prudent fiscal management and the building of financial reserves from budget surpluses assured by rapid private sector growth enabled the Cook Islands to reduce its debt substantially over this period, to about 8% of gross domestic product. In 2006, the Cook Islands had virtually full employment, inflation was low and the overall economic environment remained conducive to economic growth. In addition, effective from 1 July 2006, most import duties in the Cook Islands were removed.

5. Budgetary and financial management in the Cook Islands is generally of high quality, governed by the MFEM Act and the *Financial Policies and Procedures Manual*,⁵ first issued in 2002 and usually updated annually. In recent years, the budget outturn has largely been in line with the approved budget; banking and fiscal records are reconciled satisfactorily on a monthly basis; and monitoring and control systems are in place and effective, although they could be improved if a more advanced information system was available.⁶ Distortions in the tax system were greatly reduced during the economic restructuring program undertaken through the late 1990s, and the tax system in the Cook Islands today is broad, simple and free of arbitrary exemptions. Tax collection has improved significantly, and tax administration is effective, rule-based, and cost-effective; compliance is high, and an efficient and effective appeals mechanism is in place. The inland revenue and customs departments have been integrated and strengthened, but would benefit from continued policy support.

6. Areas with weak public financial management performance remain; for example, to date the budgetary (financial) review is the sole performance measure; the budget has not been formulated on the basis of effective consultation with spending ministries; and work has been undertaken only recently to establish systems to avoid uncontrolled expenditures, including an effort to place all donor assistance under a centralized budget. There are also continuing

³ In 2005, for instance, the Cook Islands experienced five damaging cyclones in 5 weeks, resulting in the provision by ADB of an emergency assistance loan to promote budget stability.

⁴ Focused on a private sector-led growth model that includes tourism, fishery, agriculture, and pearl farming.

⁵ Government of the Cook Islands. 2006. *Financial Policies and Procedures Manual*. Rarotonga.

⁶ Note that each department in the Cook Islands operates its own financial management information system.

problems with the timeliness of the preparation of public accounts (delay of about 1 year) and the annual audit report (delay of about 1.5 years), although the Government is working to improve its performance by 2008. Limited meaningful actions are taken on budget reports or audit findings.

7. The current national development strategy (2006–2010) was presented by the Government in February 2007, although consultations to formulate the strategy began in 2003, with the FY2006 budget being the first attempt to align the budget with the medium-term objectives. The development priorities are broadly reflected in this budget, and some elements of forward budget planning are in place. Prior to this, lack of a strategic framework and capacity constraints in most line ministries seriously hampered MFEM efforts to coordinate the formulation of consistent sector and corporate plans. Although the Government is working to enhance policy coordination to capture national development priorities and align the budget more effectively, further work is needed, especially in prioritizing action plans based on their cost, implementation, and monitoring and evaluation plans. Although the Public Service Commissioner requires heads of ministries to submit biannual departmental performance reports, the last formal assessments were done in 2000. Assessments for FY2006 were reportedly taking place in early 2007, and the Public Service Commissioner is eager to see improvement in the specification of the performance measures. Improvement is required in the quality of performance measures and the degree to which performance information is scrutinized.

8. The issue of public sector wages and how best to address the continuing rise in the cost of living is also an ongoing challenge for the Cook Islands. A related concern is the loss of human capacity within the public service as a result of emigration and population decline.⁷ Following a 7%–8% cost-of-living adjustment for public servants in 1992, there was no further adjustment until May 2006, when Cabinet approved a 12% pay rise and a NZ\$5 per hour minimum-wage package. Concern is now emerging over the lack of capital investment and the rising public service wage bill. There is also a public perception that service delivery has not been improving. Although the economic reforms of the late 1990s resulted in a dramatic reduction in public service employment, the size of the civil service has begun to increase recently, and the FY2006 budget indicated there is evidence of overstaffing in some ministries. While it is important that ministries offer sufficient remuneration to attract and retain skilled staff, greater attention needs to be given also to improving efficiency within ministries, and consideration given to tying wage increases to performance.

C. Procurement

9. With the exception of specific conditions imposed by donors on projects they finance, most government procurement follows the *Financial Policies and Procedures Manual*, which seeks to ensure procurement is contestable, transparent, accountable, at arms-length, and without favoritism. The MFEM is responsible for the design of the Cook Islands procurement policies, standards and procedures but individual ministries and Crown-funded agencies have the authority to execute government procurement within the limits of the approved budget. Most ministries have designated procurement teams within their finance and administration staff. Procurement valued at \$30,000 or more is subject to competitive bidding and must be reviewed by a tender committee.⁸ Below that level, quotes from at least three potential suppliers must be

⁷ Some 3,000 Cook Islanders are employed in the public service, representing more than 21% of the country's population. The public sector consists of 25 departments and 10 outer-island administrations.

⁸ This committee is composed of the Financial Secretary and the Solicitor General or their respective nominees, and other experts chosen as required.

obtained. No rules address situations in which too few or no bids or quotes are received, or in which no bid or quote meets the specified technical requirements.⁹

10. Public officials involved in a public procurement process are required to declare any potential conflict of interest, and anyone intending to supply goods and services to the Government is prohibited from being involved in the evaluation of quotes or tenders. Beyond this, however, there are no other procedures for strengthening the integrity of bidders.¹⁰ In the event of any complaint of impropriety, the Audit Office conducts ad hoc investigations. Although the legislation does not include procurement-specific sanctions, the act of accepting a bribe or offering a bribe to a public official can result in imprisonment under the Crimes Act.

11. Clearly areas remain that require further strengthening or refinement in the interest of assuring complete transparency, accountability and integrity in relation to all aspects of public procurement. Beyond the issues identified above, the Asian Development Bank and Organization for Economic Co-operation and Development Anti Corruption Initiative for Asia-Pacific¹¹ has suggested the Cook Islands consider establishing standard tender documents. These should include a clause requiring bidders to declare explicitly that they will abstain from using corruption or other undue means to influence the procurement procedures.

D. Anticorruption

12. In spite of its small population size, governance in the Cook Islands is challenging. The country is made up of 15 islands spread across an exclusive economic zone of 1.8 million square kilometers. Extensive legislation and institutional arrangements are in place to prevent or address corruption; according to the Solicitor General's Office, the strong legal framework established as part of the legal reform undertaken in 1995–1996 has largely prevented public officials from shaping policies to further their private interests.

13. At the same time, Transparency International's 2004 study of national integrity systems in the Cook Islands¹² found that, in practice, governance is heavily influenced by the traditional practice of respect for elders and leaders, which leads to a reluctance to question their actions. There appears to be an acceptance that people will not be punished if they misuse, for private benefit, power entrusted to them. The problem is exacerbated by the inadequate capacity of the police force and Crown Law office, which means a backlog of pending cases cannot be prosecuted. Transparency International has called for the establishment of an independent commission on corruption in the Cook Islands to expose and minimize corruption in the public sector and to educate the community on corruption. It has also recommended that greater use of twinning and other secondment arrangements would benefit the capacity and objectivity of the Cook Islands as it seeks to address issues relating to finance, police, audit, crown law, fraud investigation and financial supervision.

⁹ Although *Controlling Corruption in Asia and the Pacific* (2005) report on government progress towards systems for curbing corruption in public procurement indicated these rules were being developed in 2004, they do not appear in the latest update of the manual (December 2006).

¹⁰ *Controlling Corruption in Asia and the Pacific* (2005) suggests the need for broader conflict of interest provisions, such as requirements to declare abstention from corruption or the use of other illicit means to improperly influence the procurement process, or requirements to disclose commissions, gratuities, or fees that have been legally paid to third parties for their services in relation to the bidding in a public tender.

¹¹ Asian Development Bank and the Organization for Economic Co-operation and Development. 2005. *Controlling Corruption in Asia and the Pacific*. Manila.

¹² Transparency International. 2004. *National Integrity Systems, Transparency International Country Study Report, Cook Islands*. Canberra.

14. The legal system in the Cook Islands is based on New Zealand laws and practices. It is comprehensive and highly regarded in the Pacific. Contracts are observed and legally enforceable. Overall, the judicial system has a reputation for being transparent and competent, with judges (usually from New Zealand) who are of high calibre and independent, free from allegations of bribery and political intimidation. Of growing concern, however, is the increasing use of justices of the peace to sit on criminal and land cases in an effort to reduce costs. This is of concern because the justices of the peace are purportedly appointed by the Government based on political favors and general acceptance. They are not appointed on merit and do not necessarily have relevant qualifications or experience. Some analysts claim justices of the peace have been known to reach judgements that run completely counter to the evidence.

15. As part of the sweeping reform process of the mid-1990s, the *Public Expenditure Review Committee and Audit Act* (PERCA) was introduced in July 1996 to help ensure financial management oversight and improve accountability and transparency. As a result of this legislation, the current Audit Office was established and given responsibility for external audits.¹³ Although financial statement audits form the bulk of the work of the Audit Office, it also undertakes special reviews targeted at specific problems ranging from internal control structure issues to allegations of criminal wrongdoing in the public service. The Audit Office functions as a safeguard to maintain the financial integrity of the country's parliamentary system of government. Although the Audit Office is independent of the executive branch of government, it is not entirely independent of the political process.¹⁴ Nevertheless, it has effective policies and investigative skills, and the standard of auditing has improved in recent years, in spite of a pronounced decline in the effectiveness of the Ombudsman's office.

16. In November 2001, The Government of the Cook Islands endorsed the ADB and the Organization for Economic Co-operation and Development Anti-Corruption Initiative for Asia and the Pacific. As part of its self-assessment for that initiative, the Government noted it had developed codes of conduct for both members of parliament and public servants, but these had yet to be approved. At that time, ethics were lacking at all levels of government and there was serious disregard for transparent processes and decision making. Today, the public service is governed not only by both the Public Service Act and a code of conduct for the public service and senior executives. Merit-based selection and promotion and ethical standards are applied more commonly and public servants are generally competent.

17. Although there have been improvements in the integrity of public sector management, some serious challenges remain. For example, management is now supposedly performance-based, but the Public Service Commission lacks the capacity to measure the performance of any staff other than heads of agencies at line ministries. Corruption and political nepotism exist and there have been four criminal prosecutions of senior public servants in recent years, including a former minister of health. In relation to members of parliament, a long-held perception persists that parliamentarians do little legislative work for their salaries and benefits.¹⁵

18. There have also been various initiatives to encourage greater public participation in governance in the Cook Islands. As part of the reforms, for instance, all members of the caucus

¹³ Prior to this, external audit functions were carried out by the New Zealand Office of the Auditor General and private sector chartered accounting firms, while an Office of Audit and Inquiries within the Cook Islands Treasury Department undertook internal audits that focused primarily on the integrity of centralized imprest system, the supply and sale of liquor, stamps, and cash counts.

¹⁴ The director is responsible to the finance minister, and Cabinet approves the budget.

¹⁵ By January 2006, for example, parliament had reportedly only sat for 30 days since the general election in 2004.

were drawn into the Cabinet. This transformed the decision-making process, allowing a free-flowing exchange and promoting increased awareness of key issues. Civil society has also become increasingly involved in public affairs, assisted by the increased availability of information, especially through the internet but also through radio and print media, and improved access to government documents. An Official Information Act, requiring full disclosure of public information, is being prepared in 2007 and will be based on the New Zealand act.

E. Conclusion

19. The fact that the Cook Islands is a small country, in fact a microstate, will remain a key constraint on the effective functioning of its many Western-style political, legal and administrative institutions. There is no question that these various institutions are of high quality. The challenge now is to ensure their practical implementation is of equally high quality. Performance in this regard has been uneven, although overall there have been clear improvements since the reforms of the 1990s were introduced.

COUNTRY PERFORMANCE ASSESSMENT RATINGS (2007)

Country Performance Assessment	Rating	Cluster Rating
A. Economic Management		4.8
1. Macroeconomic Management (33.3%)	5.0	
2. Fiscal Policy (33.3%)	4.5	
3. Debt Policy (33.3%)	4.5	
B. Structural Policies		4.2
1. Trade (33.3%)	4.0	
2. Financial Sector (33.3%)	4.5	
3. Business Regulatory Environment (33.3%)	4.0	
C. Policies for Social Inclusion/Equity		4.3
1. Gender Equality (20.0%)	4.5	
2. Public Resource Use (20.0%)	4.5	
3. Building Human Resources (20.0%)	4.0	
4. Social Protection and Labor (20.0%)	4.5	
5. Policies and Institutions for Environmental Sustainability (20.0%)	4.0	
D. Public Sector Management and Institutions		4.4
1. Property Rights and Rule-based Governance (20.0%)	4.0	
2. Quality of Budgetary and Financial Management (20%)	4.0	
3. Efficiency of Revenue Mobilization (20.0%)	5.0	
4. Quality of Public Administration (20%)	4.0	
5. Transparency, Accountability, and Corruption in the Public Sector (20.0%)	4.5	
E. Portfolio Performance		4.0
1. Portfolio Performance	4.0	
Economic and Social Policy and Institutional Performance (Average A, B, C)		4.4
Public Sector Management and Governance Performance		4.4
Portfolio Performance		4.0
Composite Rating		18.8

Source: Asian Development Bank.

COMPLETION REPORT FOR PREVIOUS CSPU 2004–2006

Item	Major Achievement	Lessons and/or Recommendations
<p>Country Development Goals^a</p> <ul style="list-style-type: none"> • Sustainable economic growth through support for tourism and development of marine resources. • Good governance, accountability and effective management. • Infrastructure to meet the needs of economic and social activities. • Improved environmental management capacity. 	<p>Sanitation sites (sanitary landfills) were established on both Aitutaki and Rarotonga, the primary tourism destinations in the Cook Islands.</p> <p>TA for Legal and Institutional Strengthening of Environmental Management prepared key regulations for the Environment Act 2003, including the Public Health (Sewage) Regulations.</p> <p>TA associated with the Cyclone Emergency Assistance Loan has supported the preparation of the Disaster Risk Management Act.</p> <p>A 20-year infrastructure master plan was prepared that supported the preparation of the National Sustainable Development Plan, prioritizing infrastructure needs.</p>	<p>The specific interventions of the 2004–2006 CSPU were deflected by the extreme weather events to the extent that progress towards expected CSPU outputs and outcomes was limited, particularly as the water and power supply projects were not prepared.</p> <p>Future weather events of this type are inevitable and predicted to be more severe. Consequently, ADB interventions should focus on adaptation and resilience. Investment projects must be screened to ensure that climate and climate change factors are considered.</p> <p>In 2007, the Cook Islands adopted its first national plan. Future activities should be firmly aligned with the national plan, ensuring government ownership and commitment to the assistance program.</p>
<p>Expected CPSU Outcomes</p> <ul style="list-style-type: none"> • Consolidation of reform achievements through improved economic development planning and rationalization of SOEs. • Support for private sector development through improved public infrastructure. 	<p>The policy dialogue during the period of the CSPU has contributed to sustaining the prudent macroeconomic management that resulted from the economic restructuring of the 1990s.</p> <p>The provision of Loan 2174-COO: Cyclone Emergency Assistance Project in response to the cyclone damage of March–April 2005 supported the Government's fiscal position, enabling it to respond rapidly without needing to draw on its own reserves or resort to commercial borrowing, while waiting for</p>	<p>To the extent possible, indicators that are being developed for the national plan with the assistance of other development partners should be supported and used to monitor the results of the CPS, thereby supporting a results focus for the national plan.</p> <p>A long-term commitment is required to ensure that achievements stemming from the reforms of the 1990s are consolidated. Support for improved economic development planning, rationalization of SOEs and improving the efficiency of the public sector should continue to be a focus area of the CPS. While the CSPU 2004–2006 was intended to provide</p>

Item	Major Achievement	Lessons and/or Recommendations
	<p>emergency assistance in the form of grants from other donors to be mobilized.</p> <p>The implementation of an engineered landfill on Rarotonga under Loan 1632-COO: Waste Management has made garbage collection and disposal more efficient, resulting in a more attractive environment for tourism-related activities.</p> <p>As indicated in the CPA for 2007, the development of environmental regulations to support the Environment Act, 2003, under TA 4273-COO: Legal and Institutional Strengthening of Environmental Management, has strengthened the Government's efforts to protect the environment from development-related impacts, including those of the tourism industry.</p> <p>Capacity for disaster preparedness and mitigation was enhanced under TA 4605-COO: Strengthening Disaster Management and Mitigation. This supported preparation of the National Disaster Risk Management Plan and the Disaster Risk Management Bill. Development is under constant threat from natural disasters, particularly cyclones, and improved management will result in greater resilience. Further progress towards resilience was made through the emphasis placed on climate proofing in the Preventive Infrastructure Master Plan, also provided under TA 4605-COO. The plan will assist the Government in determining its priorities and the needed level of infrastructure investment for the next 20 years.</p> <p>Specific CSPU-programmed activities were</p>	<p>continued support in these areas, the Government's commitment appears to have been insufficient. There should be regular policy dialogue during the next CPS period to ensure present performance is maintained and improved upon if possible.</p> <p>Investments under the Infrastructure Development Project are being prepared during 2008. Government commitment to planned ADB-financing investment projects suffered due to the impact of political instability on medium-term planning. The advent of the national plan will help create a better planning environment. Adoption of a medium-term fiscal and budgeting framework will further strengthen medium-term planning, and the CSP should support this.</p> <p>The significant improvement in the fiscal position has lessened the risk of project delays resulting from the diversion of resources to disaster recovery activities, although this cannot be entirely discounted. However, the projects will contribute to greater resilience and improved economic performance, and therefore ADB's response to future disasters should include advocacy for a longer-term perspective, and commitment to the agreed investment plan.</p>

Item	Major Achievement	Lessons and/or Recommendations
	<p>affected by competing priorities resulting from the cyclones of early 2005, with the result that the lending and associated nonlending pipeline could not be implemented. However, ADB assistance has been consistent with and supported the CSPU 2004–2006 strategy and the country development goals.</p>	
<p>CSPU Implementation</p> <p>Quality and Portfolio Management</p> <p>Results Management</p> <p>Partnership with the Government</p> <p>Development Partners Coordination</p>	<p>Portfolio management was generally satisfactory. The rate of progress under the Cyclone Emergency Assistance loan was problematic as identified components were taken up by other agencies using grant funding. The loan nevertheless achieved its objective of stabilizing the country's finances in the immediate aftermath of the cyclones until funds from other donors became available.</p> <p>The CSPU was not results-based.</p> <p>The relationship with the Government and government agencies was satisfactory, with ADB able to respond flexibly and appropriately to cyclone-related disruption to economic and development progress in 2005.</p> <p>Coordination with development partners (and particularly NZAID) was satisfactory, and no coordination issues arose. The relationship with NZAID has developed well, with still closer cooperation envisaged for the next CPS period.</p>	<p>Capacity for implementation of physical work is limited. Project implementation units must be properly resourced with technically experienced personnel, particularly given that larger and more technically demanding interventions are envisaged under the next CPS.</p>

ADB = Asian Development Bank, CPA = country performance assessment, CPS = country partnership strategy, CSPU = country strategy and program update, NZAID = New Zealand's International Aid and Development Agency, SOE = state-owned enterprise, TA = technical assistance.

^a As the Cook Islands had not prepared a national plan in recent years, the CSPU was aligned to development priorities as set out in the Budget Policy Statement 2003–2004.

Source: Asian Development Bank.

COUNTRY PARTNERSHIP STRATEGY AND PROGRAM FORMULATION

1. The formulation process for the first country partnership strategy (CPS) for the Cook Islands began in March 2007 with a review of existing thematic and sector assessments prepared by the Asian Development Bank (ADB), the Government of the Cook Islands and other development partners. The review drew on the Pacific Island Economic Report, the Preventive Infrastructure Master Plan, the Government's National Sustainable Development Plan (NSDP), and ADB's experience in the Cook Islands. There is no country assistance program evaluation for the Cook Islands. Therefore, lessons have been drawn from all available program performance audit reports¹ for the Cook Islands prepared by ADB's Operations Evaluation Department on recent ADB loans. ADB fielded a CPS pre-programming mission to Rarotonga from 19 to 27 April 2007, following the launch of the NSDP in January 2007, which was developed following broad consultation. The pre-programming mission validated the consensus regarding the NSDP among civil society stakeholders—including members of the parliamentary opposition party, and nongovernment organizations, including the Chamber of Commerce and other civil society stakeholders—and further validated the NSDP's key findings. The Infrastructure Master Plan contributed significantly to the preparation of the NSDP, and was also the subject of extensive recent consultation with stakeholders. A formulation mission was fielded from 30 July to 3 August 2007, during which the strategic priorities for ADB's assistance were coordinated with those of other development partners, discussed with key stakeholders, and agreed with the Government. The formulation process is summarized in Table A5.1.

Table A5.1: The Country Partnership Strategy Formulation Process

Activity	Date
Pre-CPS Formulation Mission	19–27 Apr 07
Conceptual Design Meeting/Stock-Taking Meeting	11 May 07
Initiating meeting	20 Jun 07
CPS Formulation Mission	30 Jul–3 Aug 07
Draft CPS for Interdepartmental and Peer Review	22 Feb 08
Management Review Meeting	11 Mar 08
Draft CPS for Government Review and Endorsement	27 Mar 08
Government Endorsement	2 Apr 08
Submit to Management for Circulation to the Board	30 May 08
Management Approval for Circulation to the Board	6 Jun 08
Printing	19 Jun 08
Board Circulation	24 Jun 08
Board Discussion	15 Jul 08
Chair's Summary	16 Jul 08
CPS Web Release	16 Jul 08

CPS = Country Partnership Strategy.
Source: Asian Development Bank.

¹ ADB. 2002. *Project Performance Audit Report on the Economic Restructuring Program (Loan 1466-COO(SF)) in the Cook Islands*. Manila; and ADB. 2004. *Project Performance Audit Report on the Education Development Project (Loan 1317-COO(SF)) in the Cook Islands*. Manila.

COUNTRY COST-SHARING ARRANGEMENTS AND OTHER FINANCING PARAMETERS

**Table A6.1: Financing Parameters for Cook Islands
Approved by the President on 15 February 2008**

Item	Parameter	Remarks/Explanation
Country cost-sharing ceiling for the loan portfolio over the period 2008–2012	Up to 99%	Higher percentages of financing would be provided for non-income earning projects with strong evidence of ownership and commitment that address binding constraints to growth and development. ^a Lower percentages of financing would be provided for income-earning projects so as to encourage local ownership including private sector participation.
Country cost-sharing ceiling for the TA portfolio and other grants over the period 2008–2012	Up to 99%	Higher percentages of financing would be provided for projects and activities with strong evidence of ownership and commitment that address binding constraints to growth and development. ^a This is in line with the TA financing of other development partners.
Cost-sharing ceiling for specific sectors	None	Sector-specific variations have not been proposed. However, lower percentages of financing are expected for income-earning projects in transport and infrastructure so as to encourage local ownership.
Recurrent cost financing	No country limits	At the project level, recurrent cost financing would be considered if consistent with project objectives, provided there is strong demonstration of arrangements to ensure sustainability after ADB financing ceases. Integration of ADB financing in budget and planning processes would be strongly emphasized to help ensure that increased recurrent costs from ADB projects avoid adverse impacts on fiscal sustainability.
Taxes and duties	None. There are no taxes and duties that ADB would not finance.	Taxes and duties are considered reasonable, and there are no taxes and duties specifically targeted at ADB projects. Tax and duty arrangements set out in ADB's charter are complied with. At the project level, ADB would consider whether taxes and duties constitute an excessively high share of project costs. ADB would monitor local taxes for possible distortions and ensure these remain consistent with acceptable practices.

ADB = Asian Development Bank, TA = technical assistance.

^a The assessment of ownership and commitment would take into account the quality of budget and planning processes and the availability of locally funded staff to coordinate and supervise assistance provided by ADB.

Source: Asian Development Bank.

PUBLIC SECTOR PERFORMANCE REVIEW AND IMPROVEMENT

Concept Paper

Date: 13 February 2008

PART I. GENERAL INFORMATION								
<p>A. Modality of Nonlending Assistance</p> <p><input type="checkbox"/> Grant-financed assistance (specify source)</p> <p style="margin-left: 20px;"><input type="checkbox"/> Japan Fund for Poverty Reduction</p> <p style="margin-left: 20px;"><input type="checkbox"/> Others _____</p> <p><input checked="" type="checkbox"/> Technical assistance (TA) (specify TA type)</p> <p style="margin-left: 20px;"><input type="checkbox"/> Project preparatory</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Advisory</p> <p style="margin-left: 40px;"><input type="checkbox"/> Economic, thematic, and sector work</p> <p style="margin-left: 40px;"><input checked="" type="checkbox"/> Institutional development</p> <p style="margin-left: 40px;"><input type="checkbox"/> Plan formulation</p> <p style="margin-left: 40px;"><input type="checkbox"/> Implementation, operation, and management of Asian Development Bank (ADB)-financed projects</p> <p style="margin-left: 20px;"><input type="checkbox"/> Regional</p>								
<p>B. Assistance Focus</p> <p>1. If TA, specify if it is sovereign (i.e., to be provided in response to a request(s) from the DMC government(s)) or nonsovereign (i.e., other than sovereign TA):</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> Sovereign TA <input type="checkbox"/> Nonsovereign TA</p> <p>2. If financial assistance focuses on a particular sector or subsector, specify the</p> <p style="margin-left: 20px;">Sector: Law, economic management, and public policy</p> <p style="margin-left: 20px;">Subsectors: National government administration, economic management, public finance and expenditure management</p> <p>3. Targeting classification</p> <p style="margin-left: 20px;"><input type="checkbox"/> Targeted intervention</p> <p style="margin-left: 20px;"><input checked="" type="checkbox"/> General intervention</p> <p>4. Key thematic area(s)</p> <p style="margin-left: 20px;">Themes:</p> <table style="width: 100%; border: none;"> <tr> <td style="width: 50%;"><input type="checkbox"/> Sustainable economic growth</td> <td style="width: 50%;"><input type="checkbox"/> Environmental sustainability</td> </tr> <tr> <td><input type="checkbox"/> Inclusive social development</td> <td><input type="checkbox"/> Regional cooperation</td> </tr> <tr> <td><input checked="" type="checkbox"/> Governance</td> <td><input type="checkbox"/> Private sector development</td> </tr> <tr> <td><input type="checkbox"/> Gender and development</td> <td><input checked="" type="checkbox"/> Capacity development</td> </tr> </table> <p style="margin-left: 20px;">Subthemes: Financial and economic governance, public governance, institutional development</p>	<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability	<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation	<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development	<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development
<input type="checkbox"/> Sustainable economic growth	<input type="checkbox"/> Environmental sustainability							
<input type="checkbox"/> Inclusive social development	<input type="checkbox"/> Regional cooperation							
<input checked="" type="checkbox"/> Governance	<input type="checkbox"/> Private sector development							
<input type="checkbox"/> Gender and development	<input checked="" type="checkbox"/> Capacity development							
<p>C. Coverage</p> <p><input checked="" type="checkbox"/> Country <input type="checkbox"/> Regional <input type="checkbox"/> Interregional <input type="checkbox"/> Internal policy development</p>								
<p>D. Responsible Division/Department: South Pacific Subregional Office</p>								

E. Responsible ADB Officer(s): R Phelps

PART II. DESCRIPTION OF ASSISTANCE

A. The Proposed Technical Assistance (TA)

- 1. Linkage to Country/Regional Strategy.** The strategic focus of the country partnership and strategy (CPS) 2008–2012 addresses the binding constraints to private sector-led and environmentally sustainable economic growth through improved economic and social infrastructure and public sector service delivery. Outcomes of the CPS 2008–2012 are improved economic and social infrastructure and delivery of public services. The proposed small-scale technical assistance (SSTA) for public sector performance review and improvement will develop a detailed plan for improvement in public finance management and public sector operations, enabling these to support effective public service delivery and economic performance.

An economic reconstruction program (ERP) implemented in the mid-1990s with ADB assistance¹ was successful in building a solid platform for long-term growth. Economic reforms adopted in response to the crisis provided the catalyst to growth by building a clear private sector-led economic development strategy, and the country made a steady recovery from the economic crisis of the mid-1990s, achieving 7 consecutive years of economic growth to 2006. The economy slowed somewhat in 2005 and 2006, in part as a result of the 2005 cyclones, but real gross domestic product (GDP) has nevertheless increased by an average of more than 3.5% per annum since commencement of the economic reform program. Growth is forecast to remain steady through 2010.

Accomplishments under the ERP are fundamental to an efficient public finance management system, and include: (i) significantly reducing government expenditure through reduction in the size of ministries and the number of public servants (from 3,205 in April 1996 to 1,319 by May 1999); (ii) causing passage of key legislation establishing principles of fiscal responsibility, improved accountability, and transparency, to be followed by heads of department and the Government; (iii) generating significant progress towards improved public expenditure management, with respect to specification of outputs and associated performance indicators; (iv) creating substantial and effective public participation in the reform process; (v) improving governance, especially with respect to the key principles of predictability, transparency and participation; (vi) achieving considerable progress in debt restructuring; and (vii) creating a business environment conducive to private-sector investment.

The improved fiscal and debt position is also a direct result of the Manila Agreement,² under which the Government made a commitment not to undertake new commercial borrowings for 7 years and to ensure that (i) debt as a proportion of GDP does not exceed 29%, (ii) government personnel costs as a proportion of GDP do not exceed 15%, and (iii) other (non-personnel) operating costs as a proportion of GDP do not exceed 11%. The improved fiscal position is

¹ The Economic Reconstruction Program comprised: ADB. 1996. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and Technical Assistance Grants to the Cook Islands for the Economic Reconstruction Program*. Manila. (Loan 1466-COO, and TA 2650/2651-COO, approved in September for \$5 million); ADB. 1995. *Technical Assistance to the Cook Islands for Strengthening Institutional Capacity for Financial and Economic Management*. Manila. (TA 2424-COO approved in October for \$892,000); ADB. 1996. *Technical Assistance to the Cook Islands for Management of the Cook Islands Development Bank and Business Ventures Development*. Manila. (TA 2650-COO approved in September for \$740,000); ADB. 1996. *Technical Assistance to the Cook Islands for Institutional Support to the Development Investment Board*. Manila. (TA 2651-COO approved in September for \$251,000); and ADB. 1997. *Technical Assistance for the Cook Islands for Strengthening Institutional Capacity for Financial and Economic Management (Phase II)*. Manila. (TA 2750-COO approved in January for \$600,000).

² The Manila Agreement of 1998 was supported by ADB and facilitated debt rescheduling and significant write-down of Cook Islands debt to official creditors.

reflected in the "BB/Stable/B" rating issued by Standard & Poor's in December 2007, with four upgrades since the Cook Islands was issued its first rating in 1998 (of B-/C outlook stable). While the Manila Agreement is no longer binding, maintaining economic indicators at prudent levels can benefit from a multi-year fiscal framework, and the adoption of robust targets for benchmark indicators can help guide policy-planners toward strong economic performance.

The Government's fiscal surpluses since 1999 enabled accumulation of reserves and the repayment of much of the past debt in 2006 from the accumulated reserves. The current level of public debt is 8% of GDP. The improved financial position enables the Government to finance prioritized infrastructure improvements. Safeguards against re-emergence of fiscal imbalances due to assumption of excessive borrowing are incorporated in the Ministry of Finance and Economic Management Act (MFEM Act) 1995–1996 and set out in the principles of responsible fiscal management ensuring that (i) unless Crown debt is at prudent levels, operating expenses will be less than operating revenues, (ii) Crown net worth will be increased to and maintained at a level that provides a buffer against future factors that may impact adversely on net worth, (iii) the fiscal risks facing the Crown will be managed prudently, and (iv) policies will be pursued that are consistent with a reasonable degree of predictability about the stability of future tax rates. These principles, however, could be amplified and operational guidelines adopted to complement the legislation, as was done in the mid-1990s through the indicators established under the Manila Agreement.

In addition, there are indications that poor transparency and accountability in the Government have reemerged as significant issues. An important change under the ERP was separation of the roles of ministers and heads of ministries on a purchaser-provider model, giving heads of ministries operational discretion and control, and a contractual obligation to produce agreed outputs for an agreed level of funding. However, ministers appear to be again involving themselves with operations, which biases government expenditures towards political agendas rather than community needs, and weakens budget overrun controls. The immediate economic crisis has ended and the economy is now growing, producing a risk of complacency and a lack of urgency to advance the reform agenda, which could threaten the sustainability of the reforms. Finally, the size and efficiency of the public service is reemerging as a potential problem. In FY2007, personnel costs were budgeted at 13.8% of GDP, up from 13.0% in FY2006. While these levels are below the benchmark of 14.1%, established in FY2002, the actual cost increase has been NZ\$4.5 million. Cost-of-living salary adjustments will be made over the next 3 years, adding to personnel costs. On the other hand, the Government's purchases of goods and services have declined to 6.4% of GDP, down from 8.7% in FY2002. While apparently satisfactory relative to the Manila indicators, this decline is indicative of insufficient capital spending and has compromised the delivery of outputs, and by extension the sustainability of the projected economic growth.

The project performance audit report³ for the ERP recommended follow-on actions to consolidate the achievements of the ERP, a number of which remain relevant to strengthening public financial management: (i) redefinition of fiscal responsibility through provision of policy guidelines on the size of government, external debt policy, fiscal stance (size of deficit), and level of government reserves; (ii) revision of the Government's financial statements by introduction of the Government Financial Statistics system of the International Monetary Fund, and ensuring compliance with the reporting requirements of the MFEM Act; (iii) promulgation of a new foreign investment code to ensure a simplified and transparent foreign investment regime; (iv) establishment of a government body with responsibility for monitoring performance, regulation and reforms in state-owned enterprises (SOEs); and (v) developing a formal public sector investment process.

The reform process needs to be consolidated and re-invigorated to ensure that development planning and implementation are not constrained. The Government recognizes (through its

³ ADB. 2002. *Program Performance Audit Report on the Economic Restructuring Program (Loan 1466-COO[SF]) in the Cook Islands*. Manila.

Budget Policy Statement 2007/2008) that performance and efficiency within the Government and its public enterprises must be improved if the country's medium and long-term strategies, strategic targets and national vision are to be achieved. The Government's current institutional arrangements are fragmented, overlapping, and uncoordinated, resulting in ineffective management and a lack of clear ownership of policies, planning, and regulatory responsibility. Pervasive capacity constraints impact public sector operations and result in ineffective use of public finance. An assessment of the ERP's reform achievements is needed to determine why existing institutional arrangements are inefficient, and identify areas where further technical assistance could produce improvements in public service performance. The Pacific Financial Technical Assistance Centre undertook a scoping study for the development of a medium-term fiscal framework; implementation of such a framework is integral to improvement of government-wide planning processes, and will contribute to achievement of the medium and long-term goals contained in the country strategy. Frequent changes in government composition in recent years have resulted in a lack of focus on medium- and long-term development goals. Successful and results-focused implementation of NSDP, which aims to place greater focus on national development objectives and results, requires that national coordination and systems for development planning, monitoring and evaluation be strengthened, and a medium-term fiscal framework be adopted.

2. **Impact.** The impact will be a contribution to improved efficiency and effectiveness of the public sector in achieving the medium and long-term goals of the NSDP.
3. **Outcome.** The outcome will be adoption and implementation by the Government of recommendations seeking to increase the efficiency of public sector and public finance management, and promote private sector-led growth, employment and social service delivery. The SSTA outputs will form the basis for the design of the cluster TA for Public Finance Management and Public Sector Performance Improvement, proposed for approval in 2009, and designed to support implementation of the recommendations and provide related capacity building.
4. **Expected Outputs and Time Frame.** The output will be a review and diagnostic study of the of the public sector efficiency and public service provision, including (i) a review and identification of appropriate public sector performance benchmark indicators, involving updating the Manila Agreement indicators to provide guidance to decision-makers in managing the economy; (ii) a plan for establishment, capacity building, and management of a medium-term fiscal framework, to support public investment and financial decision-making in alignment with NSDP objectives; and (iii) a public sector performance review, including an SOE performance review, and recommendations for streamlining operations and maximizing private sector participation.

The TA will identify areas for cost-effective improvements and prepare detailed reform plans. The review will identify areas across all public sector agencies where operations are duplicated, and opportunities for outsourcing of services. Revisions of the Ministry of Finance and Economic Management Act, the Public Service Commission Act, and the Public Expenditure and Audit Act will be recommended to remove inconsistencies and to improve implementation efficiency. As part of a review of the civil service structure, the merits of establishing a national state services commission and its performance under its current structure will be examined, with a view toward streamlining public sector functions. Additionally, the study will assess the Government's readiness for capacity building under the above four areas.

5. **Potential Issues and Risks.** Potential Issues and risks are political instability, unsound macroeconomic management, reduced or absent political commitment to the implementation of economic and public sector reforms and lack of commitment from the public administrators involved.

6. Plans for Disseminating Results.

- Internal
- Announcement in ADB Today
 - Article in ADB Review
 - Seminar, workshop, brown bag
- External
- Publication of articles in external journals or books
 - Posting article on adb.org
 - Media plan to be drafted (includes news releases, op-eds, press briefings/interviews/tours)
 - Presentation at external conferences
 - Others Presentation to Government and relevant stakeholders

B. Proposed Executing/Implementing Agency or Agencies. Ministry of Finance and Economic Management

C. Stakeholder Participation and Consultation. The Ministry of Finance and Economic Management, the Public Service Commissioner and the Office of the Prime Minister have been consulted about the TA during CPS pre-programming and formulation missions. The objectives of the TA coincide with those set out in the Government's Budget Policy Statement 2007/2008, "Paving the way for better performance within the Public Service." As part of the Government's National Sustainable Development Plan, wide consultation was undertaken with stakeholders during preparation of the policy. The government of Australia, under its joint country strategy with the government of New Zealand, will prepare a monitoring and evaluation framework for implementation of the national plan that will include monitoring and evaluation of the performance of the public service.

D. Financing Plan

- JFPR:
- TASF:\$135,000
- JSF:
- Other:

If cofinancing is required, indicate amount and sources sought: \$____, from _____.

Source	Amount (\$)
ADB Financing	\$135,000
Government Financing	\$ 15,000
Other Financing	
Total Cost	\$150,000

Source: ADB estimates.

PART III. TIMETABLE FOR ASSISTANCE DESIGN, PROCESSING, AND IMPLEMENTATION

A. Year included in a regional or country operations business plan or an annual work plan of interregional TA: 2008.

B. Expected date of submission for approval: July 2008

C. Period and duration of assistance: From September to December 2008

ADB = Asian Development Bank, CPS = country partnership strategy, DMC = developing member country, ERP = economic restructuring program, GDP = gross domestic product, JFPR = Japan Fund for Poverty Reduction, JSF = Japan Special Fund, MAFEM Act = Ministry of Finance and Economic Management Act 1995–1996, NSDP = National Sustainable Development Plan, SOE = state-owned enterprise, SSTA = small scale technical assistance, TA = technical assistance, TASF= technical assistance special fund.

INDICATIVE ROLLING COUNTRY OPERATIONS BUSINESS PLAN 2008–2010

I. INDICATIVE LENDING AND NONLENDING PROGRAM

A. Lending Program

1. The Cook Islands has been a Group B1 country eligible for Asian Development Fund (ADF) assistance, with limited access to the Asian Development Bank's (ADB's) ordinary capital resources (OCR). The country-specific ADF lending allocations have been derived on the basis of the results of the 2005 country performance assessment (CPA) exercise, after applying the performance-based allocation (PBA) formula. ADF allocations for the Cook Islands for 2007–2008 have been set at \$3.42 million. An additional \$3.80 million has been allocated from unused allocations from other ADB Pacific developing member countries (PDMCs). After adjusting for the negative balance of \$0.34 million for 2005–2006, the total ADF allocation is estimated at \$6.88 million. Cook Islands will graduate to a Group C country classification in 2009 and will no longer be eligible for ADF financing.¹ The ADF allocation for 2007–2008 of \$6.88 million is assumed for the purpose of planning a loan that will be approved in 2008 and disbursed in 2009–2012. The appropriate level of OCR access will be identified by updating the debt sustainability assessment that was conducted as part of the thematic assessments supporting the CPS process, within the context of the Pacific Island Economic Report for the Cook Islands. An indicative amount of \$15.0 million has been included in the lending pipeline, but the availability of more concessional loan funds for the project from other development partners may result in a reduced OCR borrowing requirement.

2. Two infrastructure development projects have been included in the lending program. The projects will address priority infrastructure development in the (i) transport; (ii) water supply, solid waste and sanitation; and (iii) energy sectors and will incorporate measures for “climate proofing.”² The first project will comprise urgent rehabilitation of the Avatiu port on Rarotonga and will use the ADF allocation before it expires at the end of 2008. The second project will comprise priority infrastructure investments determined under project preparatory technical assistance (TA) and be financed by OCR. Additional information on the project is in Table A8.2.

B. Nonlending Program

3. The indicative annual nonlending program for the Cook Islands is \$500,000 for 2008–2010. TA for Strengthening Disaster Management and Mitigation³ completed an infrastructure master plan and provided a general framework to guide infrastructure development projects. Project preparatory TA for the proposed infrastructure development projects was approved in 2007⁴ for implementation in 2008. This will prepare feasibility studies for prioritized least-cost infrastructure projects, and financing plans. In 2008, the nonlending program includes an advisory TA project to support a diagnostic analysis of the public sector performance and financial management systems and capacity. The TA will support preparation of a cluster TA for public sector performance and financial management improvement for approval in 2009.

¹ ADB. 2008. *Review of the 1998 Graduation Policy of the Asian Development Bank* (approved 25 April 2008). Manila. 2008.

² Vulnerability of infrastructure to severe climatic conditions and increased intensity of severe climatic events arising from projected climate changes will be taken account of in design of physical component.

³ ADB. 2005. *Strengthening Disaster Management and Mitigation*. Manila.

⁴ ADB. 2007. *Technical Assistance to the Cook Islands for Preparing the Infrastructure Development Project*. Manila. (TA7022-COO).

4. Drawing on the biennial nonlending allocation for 2006–2007, the project preparatory TA for the infrastructure development project will be cofinanced by the Government of Japan through the Japan Special Fund (\$500,000) and the New Zealand Agency for International Development (\$200,000). Additional TA, focused on capacity building and institutional reform, will be processed as an associated cluster TA project for Phase 1 of the proposed infrastructure development project for approval in 2008. This TA is designed to enhance the efficiency and sustainability of the proposed infrastructure investments and the delivery of infrastructure services. The TA project will be implemented over 3 years commencing in 2009 and will cost an estimated \$1,000,000. The TA for Public Finance Management and Public Sector Performance Review is designed to build capacity for and implement the medium-term financing and budget framework. A diagnostic study of public service performance will be undertaken to identify measures needed to improve its efficiency, with an estimated cost of \$135,000. The ensuing cluster TA will be implemented over 3 years commencing in 2009, and will cost an estimated \$1,000,000. Additional information is provided in Table A8.3.

II. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

5. It is estimated that 77 person-weeks of professional staff and national officer time will be required for the processing and administration of the lending program and 64 person-weeks of professional staff and national officer time will be required for the processing and administration of the nonlending program.

Table A8.1: Indicative Assistance Pipeline for Lending Products, 2008–2010

Sector Project/Program Name	Targeting Classifi- cation	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)					
						OCR	ADB		Total	Gov't.	Co- financing
							Loans	Grants			
2008 Firm Loans											
Transport and Communication, Social Infrastructure											
Infrastructure Development Project Phase 1 (Avatiu Port)	GI	ECG	SPSO	2007		0.0	6.9	0.0	6.9	TBD	TBD
2009 Firm Loans											
Transport and Communication, Social Infrastructure											
Infrastructure Development Project Phase 2	GI	ECG	SPSO	2007		15.0	0.0	0.0	15.0	TBD	TBD
Total						15.0	6.9	0.0	21.9		

ADB = Asian Development Bank, ADF = Asian Development Fund, ECG = economic growth, Gov't. = Government, GI = general intervention, OCR = ordinary capital resources, SPSO = South Pacific Subregional Office, TBD = to be determined.
Source: Asian Development Bank.

Table A8.2: Indicative Assistance Pipeline for Nonlending Products and Services, 2008–2010

Sector Assistance Name	Responsible Division	Assistance Type	Sources of Funding				Total (\$'000)
			ADB		Others		
			Source	Amount (\$'000)	Source	Amount (\$'000)	
2008 Firm							
Law, Economic Management, and Public Policy							
Public Sector Performance Review and Improvement	SPSO	ADTA	ADB	135.0	Gov't	15.0	150.0
2008 Standby							
Transport and Communications, Social Infrastructure							
Cluster Infrastructure Services Delivery Improvement ^a	SPSO	ADTA	ADB	1,000.0	Gov't	110.0	1,110.0
2009 Firm							
Transport and Communications, Social Infrastructure							
Cluster Infrastructure Services Delivery Improvement ^a	SPSO	ADTA	ADB	1,000.0	Gov't	110.0	1,110.0
					Others	TBD	
Law, Economic Management, and Public Policy							
Cluster Public Finance Management and Public Sector Performance Improvement ^a	SPSO	ADTA	ADB	1,000.0	Gov't	110.0	1,110.0
					Others	TBD	
Total				3,135.0		345.0	3,480.0

ADB = Asian Development Bank, ADTA = advisory technical assistance, Gov't = Government, SPSO = South Pacific Subregional Office, TBD = to be determined.

^a Amounts include indicative allocations for nonlending products and services for 2009–2012 with implementation of cluster TA 2009–2012.

Source: Asian Development Bank.

Table A8.3: Summary Information on Proposed Indicative Lending Products and Services for 2008

Project Name	Description
<p>Cook Islands Infrastructure Development Project</p>	<p>Impact The goal is to support the environmentally sustainable economic development of the Cook Islands.</p> <p>Major Components The major components will be delivery of priority infrastructure projects that will support the development of its key industries, incorporating environmental proofing to reduce (i) vulnerability to extreme weather events and (ii) environmental (and by extension, economic) impacts stemming from inadequate infrastructure. The first project will rehabilitate the Avatiu port and in particular, strengthen critically deteriorated wharf structures. The project will be processed in 2008. Further priority components will be determined under project preparatory technical assistance, to be undertaken during 2008, and the project will be processed in 2009. Associated technical assistance will target reform of institutional structures and improvement in service delivery.</p> <p>Expected Outputs and Outcomes The outputs will be improved physical infrastructure. In phase 1, the output will be enhanced safety and capacity at the sole international port. The outcome for both phase 1 and phase 2 will be improved efficiency, reliability and safety of infrastructure services and decreased environmental vulnerability.</p>

Source: Asian Development Bank.

Table A8.4: Summary Information on Proposed Indicative Nonlending Products and Services for 2008

Project Name	Description
Infrastructure Services Delivery Improvement	<p>Impact The goal is to support the environmentally sustainable economic development of the Cook Islands through improved delivery of infrastructure related public services.</p> <p>Major Components The major component will be cluster technical assistance supporting capacity development, improvement and reform of infrastructure agencies, including governance of the state-owned infrastructure sector enterprises.</p> <p>Expected Outputs and Outcomes The expected output and outcome is a governance framework for improved and reformed infrastructure service agencies and appropriate institutional structures capable of effective management of assets and efficient service delivery, both in the two municipality-sized service areas of Aitutaki and Rarotonga, and in the outer islands.</p>
Public Finance Management, Public Sector Performance Review and Improvement	<p>Impact The goal is to support review and improvement of the public sector including support for improved financial planning.</p> <p>Major Components The major component will be a diagnostic analysis of the public sector performance and financial management systems and capacity that will support the design of cluster technical assistance for public finance management and public sector performance improvement.</p> <p>Expected Outputs and Outcomes The expected outputs are (i) a readiness assessment for implementation of a medium-term fiscal and budget framework, including preparation of a set of financial ratios for fiscal sustainability; and (ii) an assessment of public sector performance and recommendations for improvement. The outcome will be cluster technical assistance to support improved capacity for medium-term planning and public service efficiency gains.</p>

Source: Asian Development Bank.

COUNTRY SECTOR ROAD MAPS

1. During the country partnership strategy (CPS) period, the Asian Development Bank (ADB) will concentrate on the following priority sectors and themes:

A. Sectors

1. Multisector ((i) Energy sector development; (ii) multimodal transport and sector development; and (iii) integrated water supply, sanitation and waste management).

B. Themes

1. Sustainable economic growth
2. Environmental sustainability
3. Capacity development

A. Sectors

1. Multisector – Energy, Transport and Communication, Water Supply, Sanitation, and Waste

2. This document describes key issues in the public infrastructure sectors of the Cook Islands, the Government's responses to these challenges, and how the Asian Development Bank (ADB) proposes to work with the Government and other stakeholders to address these challenges in the period 2008–2012.

3. The road map was formulated through consultations over the past 2 years with the Cook Islands agencies involved in the management and development of public infrastructure, namely the Ministry of Finance and Economic Management (MFEM), the Ministry of Works (MOW), the Ministry of Transport, the Office of the Minister for Island Administration (OMIA), and the Cook Islands Investment Corporation (CIIC). Additionally, discussions have been held with the other main donor agencies active in the area—the New Zealand's International Aid and Development Agency (NZAID) and the European Union (EU). The Preventive Infrastructure Master Plan,¹ draft outputs of regional technical assistance (TA) for Improving the Delivery of Infrastructure Services,² and sector knowledge and experience gained through ADB projects in the Cook Islands have been used in preparing the analysis and commentary in this road map.

a. Key Issues in the Sector

4. Between 4 February and 8 March 2005, the Cook Islands experienced five damaging cyclones within a period of 5 weeks, four of which were very severe (category 5) cyclones. As with most Pacific island states, the infrastructure of the Cook Islands is vulnerable to weather-related impacts. The Climate Change Adaptation Project for the Pacific³ warns that more severe conditions can be expected in the future. The country's inherent geographical vulnerability to climate change can be mitigated through integrated infrastructure and social development, including capacity development. Consequently, there is a need to enhance the country's adaptive capacity and resilience to climate change, including the impact of extreme events.

¹ ADB. 2005. *Strengthening Disaster Management and Mitigation (Component 2: Preventive Infrastructure Master Plan)*. Manila.

² ADB. 2005. *Improving the Delivery of Infrastructure Services in the Pacific*. Manila.

³ ADB. 2005. *Climate Change Adaptation in the Pacific*. Manila (November).

5. Investment in physical infrastructure in the Cook Islands has been insufficient to keep pace with the infrastructure demands resulting from the country's economic development, particularly in the water and sanitation sectors, where water is untreated even in the main centers, and liquid waste is collected in individual septic tanks, which are suspected of contaminating the groundwater and lagoons. There are no charges levied for reticulated water, and the supply is not metered. In the ports sector, the country's primary wharf at Avatiu on Rarotonga needs urgent and major repairs, and the wharf requires realignment to cater for larger vessels. Outer islands have very basic harbors or rely on barges to transport goods ashore through shallow water or across reefs. No port fees are charged for any harbor in the outer islands except for Aitutaki. The airport terminal facilities in Rarotonga urgently require upgrading to comply with international civil aviation regulations, and key navigational equipment at the airport is reaching the end of its useful life. Outer island airstrips are poorly maintained. The Cook Islands relies on increasingly costly diesel generation of electricity, and the cost of power to consumers is extremely high, even relative to other Pacific nations. The National Sustainable Development Plan (NSDP) aims to lower per capita energy consumption through an increase in efficiency of energy use, energy conservation and adoption of new technologies, but an increase in demand appears inevitable given continuing tourism sector development. The NSDP also aims to reduce reliance on fossil fuels by identifying and adopting technically feasible and financially viable alternative energy sources, and increasing the use of renewable resources by 30% by 2010. However, current renewable energy use is mostly in the form of solar energy to supply hot water. Preliminary studies have identified the potential for wind generation on Rarotonga, although the use of a wind power generator on Mangaia was unsuccessful. Energy generation from ocean currents has also been mooted. Solar electricity generation using photovoltaic cells was introduced to Pukapuka but high maintenance costs, particularly the cost of replacement of batteries, led to the abandonment of the project. All islands have access to telephones, including the remote northern group, where each inhabited island has its own earth station. However, telecommunications costs are above average and the quality of service does not meet world standards.

6. The management of infrastructure suffers from institutional capacity constraints that impact infrastructure operations, cost recovery, and infrastructure service delivery. The institutional arrangements are fragmented and overlapping; the lack of coordination results in ineffective management regimes, and there is no clear ownership of policies, planning or regulation at the national level.

7. The performance of the state-owned enterprises (SOEs) is clouded by their obligation to perform the Government's social obligations (e.g., providing services that are not commercially viable or charging less than the cost of supply). Such social obligations should be costed and funded through the budget as community service obligations, as this would increase accountability and transparency, and enable the performance of SOEs to be gauged from their financial outcomes. SOE assets are equivalent to 65% of gross domestic product (GDP), making it important that they be managed to ensure a good return from the substantial capital they control.

b. Government's Sector Policy and Planning Framework

8. The Government acknowledges (through the NSDP) the need for better infrastructure management structures. Effective implementation of infrastructure development and results-focused service delivery and asset management require a comprehensive review and preparation of an infrastructure governance framework, involving institutional arrangements, capacities, and policies, including cost recovery. The Government aims to identify and

implement a broad infrastructure governance framework for vetting infrastructure proposals and optimizing asset management, cost recovery possibilities, asset performance, and private sector participation. The nonlending program of the CPS 2008–2012 will focus on assisting the Government achieve its aims with respect to governance of infrastructure agencies.

9. The NSDP has adopted the Preventive Infrastructure Master Plan as its infrastructure planning framework. The plan identifies infrastructure investments (in all sectors) for implementation over the next 20 years, which are estimated to cost \$175 million. The Government's relatively sound financial position enables it to prioritize financing of infrastructure improvements. Provided that investment is largely directed towards priority projects that will contribute to sustainable economic growth and the Cook Islands continues to receive grant and concessional loan funding from its development partners, implementation of the plan, and in particular, the priority investments, is feasible. The Government will prepare an investment plan for priority infrastructure costing approximately \$40 million, to be implemented over 2008–2012.

c. Government's Institutional Arrangements and Capacity in the Sector

10. All infrastructure services in the Cook Islands have either been corporatized or are private companies, with the exception of the water supply, solid waste, roads, and energy (electricity supply in the outer islands), which remain divisions of the MOW. Corporatized service providers include the Airport Authority (CIAA), Ports Authority (CIPA), Telecom Cook Islands (TCI), and Te Aponga Uira (TAU, for Rarotonga power supplies).

11. MFEM has adopted an active role in overseeing MOW's infrastructure line departments, including by setting key performance targets in each sector, making provision for maintenance expenditures, and monitoring performance. Procurement is also administered by MFEM.

12. The CIIC provides oversight of the SOEs, regulates tariffs and monitors performance. The CIIC lacks the staff and budget needed to fill this function effectively, however, and often can do little more than rubberstamp the board decisions of the respective entities. The CIIC has less than 20 staff, most of whom are involved in repairs and maintenance in the Property Division, but is responsible for oversight of aviation, marine transport, telecommunications, and urban electricity in the Cook Islands. The capacity of the CIIC needs to be expanded through an increase in staff and on-the-job training to enable it to work effectively with the SOEs, and CIIC management is keen to pursue "twinning" arrangements with counterpart organizations in the Pacific, Australia and/or New Zealand. There are no regulatory arrangements for infrastructure in place. Both SOEs and non-corporatized services suffer from inadequate maintenance of assets, indicating generally dysfunctional financial management.

13. **Water and Sanitation.** Under existing legislation,⁴ three government agencies—the MOW, Ministry of Health (MOH), and the National Environment Service (NES)—share the major responsibilities for water, sanitation and solid waste on Aitutaki and Rarotonga. In the outer islands OMIA is responsible for provision of these services, and relies on island councils to implement projects and undertake maintenance.

14. **Energy.** MOW's Energy Division is responsible for the development of national energy policy and energy planning. It regulates and monitors standards for safety, quality, quantity and

⁴ The *Public Health Act 2004* provides the authority for MOH to regulate the quality of discharges. The *Environment Act 2003* authorizes NES to deal with "specific areas of concern including the protection of foreshores, siting of septic tanks etc." The *Building Control and Standards Act 1991* and the *Building Control and Standards Regulation 1991* require MOW to develop specifications for the building code.

efficiency of electricity generation and transmission as well as for setting tariffs. Two SOEs (TAU and Aitutaki Power Supplies [APS]), operate power supplies on Rarotonga and Aitutaki respectively. TAU has developed an investment plan to improve capacity and efficiency over the next 15 years at a cost of approximately \$50 million. On the outer islands, the island authorities are responsible for their own power needs, assisted by grants channeled through the OMIA.

15. **Transport.** Airstrips in the outer islands are operated by the island administrations, licensed by the Cook Islands Airports Authority (CIAA). Cook Islands Ports Authority (CIPA) has responsibility for the harbors in Aitutaki and Rarotonga, with OMIA responsible for outer island facilities. Air services are vital to the development and social well-being of the islands, but are dependent on inter-island shipping services to transport aviation fuel to the outer islands (transport of large fuel loads on aircraft severely limits passenger and cargo capacity, resulting in very high costs). At present, the Government does not have an air and marine transport policy to define national objectives or sector strategies. The outer islands depend on private sector air and shipping services that do not receive financial assistance from the Government. In the roads sector, MOW has responsibility for maintenance on Rarotonga while island authorities have responsibility for their respective roads, with OMIA acting as a “liaison” point with MOW for planning and design assistance. However, MOW lacks the capacity to develop plans and strategies for the road sector.

16. **Telecommunications.** All telecommunications services are provided by a single government-owned corporate monopoly. Its guarantee of exclusivity expired in July 2007, and the Government now intends to open the sector to competition. However, there are presently no telecommunications regulations, without which it will be impossible to create conditions suitable for market liberalization, issuance of competitive licenses, or protection of consumers.

d. ADB Sector Experience

17. The Preventive Infrastructure Master Plan, developed by ADB in 2006, comprises the NSDP’s infrastructure road map. With a focus on environmentally sustainable infrastructure, ADB has provided TA for environmental management through TA 4273 COO: Legal and Institutional Strengthening of Environmental Management, which drafted implementing regulations for the Environment Act 2003. A regional TA (RETA) has also been provided, including support for climate change adaptation planning.⁵ Currently, RETA 6257, Improving Delivery of Infrastructure Services, aims to identify needed reforms and develop innovative regional and private sector approaches for management of infrastructure service delivery in ADB Pacific developing member countries, including exploring opportunities for regional collaboration and private sector participation.

18. TA 3085, Urban Infrastructure, prepared an Urban Infrastructure project in 2000 that was intended to include projects in waste management, energy and water and sanitation, but only the waste management component has been supported with a loan, with needed work in the other sectors deferred. Landfills were constructed on Aitutaki and Rarotonga, with the project rated as successful by the project completion report. However, cost recovery plans were not implemented, suggesting corporatization of water and sanitation service delivery may be difficult, although the consumers are clearly able to pay for these services. Diversion of resources to cyclone recovery activities resulted in deferment of infrastructure improvements under the previous Country Strategy and Program Update (2004–2006).

⁵ ADB. 2002. *Climate Change Adaptation Program for the Pacific*. Manila.

e. Role of Other Development Partners in the Sector

19. Ad hoc assistance has been provided in the sector by NZAID, the EU and the People's Republic of China (PRC). Most recently, the EU and NZAID have provided grant assistance for the repair of infrastructure damaged in the 2005 cyclones. NZAID focused primarily on outer island infrastructure and is presently supporting infrastructure related to water supplies and harbors, and construction of cyclone shelters; the EU will finance the construction of a cyclone shelter on the island of Puka Puka. The PRC constructed the main courthouse and police station of Rarotonga under grant financing and is expected to provide a loan for NZ\$13.0 million in 2008 for the construction of sporting facilities.

20. Both NZAID and the EU are supportive of ADB's project preparatory TA (PPTA) for an Infrastructure Development Project (IDP) and expect to support the priority projects it identifies. NZAID will cofinance the PPTA, providing sufficient additional resources to allow national (including the outer islands) infrastructure management issues to be considered and addressed as part of an infrastructure governance framework. The PPTA will also identify projects in the outer islands suitable for grant financing by donor partners. Subsequent funding for infrastructure development is expected to align with the PPTA recommendations. The EU will provide grants for the water and sanitation sectors under their 10th European Development Fund. Implementation of the PPTA will feature extensive consultation, with both NZAID and the EU expected to participate. There is a need for enhanced cooperation with the PRC to access concessional loan funds for priority infrastructure investments; these funds are presently directed towards "nation building" projects that do not support economic development. The PRC will also be encouraged to participate in review missions for the PPTA, as a means of explaining ADB's approach to supporting infrastructure development in the Cook Islands.

f. Intended Sector Outcomes and Key Outputs Supported by the Asian Development Bank

21. The sector outcome is intended to contribute to environmentally sound infrastructure in power, water supply, sanitation, solid waste, and transport sectors that will support sustained growth and development and generate increased financial resources on a sustainable basis to support the Government's pro-poor objectives. Key outputs that will be supported are (i) strengthening of the Cook Islands infrastructure governance framework, and capacity development of the Cook Islands implementing agencies; and (ii) construction of priority infrastructure.

g. Links to CPS Outcomes and Other Sectors and Themes

22. The IDP and its associated TA for capacity development and institutional reform is the only program in the CPS; the impact of the project will therefore be the outcome of the CPS. The physical components of the IDP will be designed to enhance the capacity of infrastructure to prevent environmental degradation and incorporate climate proofing and adaptation thereby contributing directly to the environmental sustainability of tourism related development and to sustainable economic growth generally.

h. Indicative Areas for Interventions

23. Indicative areas for interventions will be investment in priority infrastructure required to address the binding constraints to environmentally sustainable economic growth. The priority areas are likely to be upgrading of water and sanitation systems, urgent repairs and upgrading

of the international port, and energy efficiency on Aitutaki and Rarotonga. The Government has indicated that improvements for the Rarotonga international airport will be financed by commercial loans. The TA will be provided for capacity building and institutional reform, including corporatization of water and sanitation services, and improvements in performance of SOEs.

i. Monitoring Mechanism

24. A detailed monitoring plan will be prepared under the PPTA and validated in the detailed design of the IDP's physical infrastructure components. The PPTA will set goals for the achievement of institutional reforms and associated capacity building, both in terms of establishment and performance of the reformed agencies. The Government will establish a monitoring and evaluation framework for the NSDP with the assistance of the Australian Agency for International Development. Monitoring mechanisms for the IDP will be harmonized to the extent possible at the level of the NSDP.

Table A9.1: Sector Results Framework

Relevant CPS Outcomes		Sector-Level Outputs		ADB Assistance	Risk
CPS Outcomes Relevant to the Sector	Key Opportunities and Constraints	Subsector Outcome/Key Sector Outputs	Sector Milestone/Tracking Indicators/Interim Indicators		
<p>Improved governance and institutional arrangements for infrastructure management.</p> <p>Improved, customer-oriented management and delivery of basic infrastructure services.</p> <p>Reduced pollution of streams, waterways and lagoons.</p> <p>Sustainable use of water resources.</p> <p>Safe and reliable water supplies, environmentally sustainable liquid and solid waste management, and reliable and efficient energy supplies.</p> <p>Secure and efficient port infrastructure in Rarotonga.</p>	<p>Behavioral changes (particularly attitudes towards cost recovery) will be needed to establish efficient service delivery (especially in water, sanitation and waste management) to ensure that reformed agencies are able to operate efficiently. Sustained government commitment to the objectives will be a challenge.</p>	<p>A governance framework and efficient institutional arrangements for infrastructure and related services countrywide.</p> <p>Reformed agency for water and sanitation with a firm road map for improving quality and efficiency of service delivery and cost recovery.</p> <p>Safe, reliable and efficient water supplies and environmentally sustainable liquid and solid waste management.</p> <p>Rehabilitated and strengthened wharf facilities at Avatiu port on Rarotonga with capacity for catering for 100 m vessels (increased from 60 m vessels).</p>	<p>PPTA will prepare proposals for an infrastructure governance framework and reform of institutional arrangements, to be agreed with the Government by August 2008.</p> <p>ADB will provide a loan for the Phase 1 (Avatiu Port) with associated cluster TA for institutional reform for approval by October 2008. Phase 2 (Infrastructure Development Project) will be prepared for approval by June 2009.</p> <p>Cluster TA will be provided for undertaking reforms, capacity development and change management, to be implemented by December 2012.</p> <p>IDP will deliver selected prioritized and environmentally sustainable infrastructure by December 2012.</p>	<p>• Ongoing</p> <p>PPTA for Infrastructure Development Project.</p> <p>• Future</p> <p>Loan for Infrastructure Development Project (IDP) Phases 1 and 2.</p> <p>Cluster TA for Infrastructure Services Delivery Improvement.</p>	<p>Crowding out of borrowing capacity by assumption of loans for non-priority objectives will be managed by (i) maximum mobilization of grant and concessional funding sources, and (ii) advocacy for prudent financial management.</p> <p>Insufficient funding of recurrent infrastructure costs will be addressed by (i) institutional reforms, (ii) appropriate loan covenants, and (iii) policy dialogue.</p>

ADB = Asian Development Bank, IDP = Infrastructure Development Project, PPTA = project preparatory technical assistance, TA = technical assistance.

Source: Asian Development Bank.