

ASIAN DEVELOPMENT BANK

COUNTRY STRATEGY AND PROGRAM UPDATE (2002-2004)

COOK ISLANDS

July 2001

CURRENCY EQUIVALENTS

(as of 30 June 2001)

Currency Unit	—	New Zealand dollar (NZ\$)
NZ\$1.00	=	US\$0.403949
US\$1.00	=	NZ\$2.475554

ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
CIDB	-	Cook Islands Development Bank
CSP	-	Country Strategy and Program
EU	-	European Union
GDP	-	gross domestic product
NZODA	-	New Zealand Official Development Assistance
OCR	-	Ordinary Capital Resources
O&M	-	Operation and Maintenance
TA	-	technical assistance
UNDP	-	United Nations Development Programme

NOTE

The fiscal year (FY) of the Government and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g, FY2001 begins on 1 July 2000 and ends on 30 June 2001.

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I. DEVELOPMENT SITUATION

A. Recent Political and Social Developments

1. The coalition government that was formed in late 1999 is consolidating its policy of stabilizing the administration as a means of steadying the country on a path of solid economic growth. The Government has established four overarching goals to capture the essence of promoting the interests and welfare of “people first,” and contribute to a framework for socio-economic development:

- (i) maintaining macroeconomic stability to sustain private sector growth and put additional resources into the growth sectors: marine resources, tourism, agriculture, and offshore financial services;
- (ii) empowering people of the outer islands by advancing the principles of good governance, including decentralized administrative infrastructure and improved management systems;
- (iii) advancing social justice through equal access to basic services such as health, education, law and order, welfare, and reduction of interisland disparities; and
- (iv) protecting the country’s security and promoting national interests abroad by working actively with the international community.

2. The solidarity of the coalition government has been settled by a legal decision, which determined the outcome of a long-running dispute on the election results in the island of Pukapuka in favor of the Government. With the support of two independent members of parliament, the Government has an assured two-thirds majority that is required to effect constitutional change. Mayoral elections were held in the outer islands during April 2001, marking another step in the increased empowerment of island councils.

3. The Cook Islands recently celebrated a centenary of ties with New Zealand, which have been captured in a Joint Centenary Declaration between the two countries. If requested, New Zealand will continue to provide assistance in matters such as foreign affairs, defense, and security. Cook Islanders retain New Zealand citizenship.

4. The Government has indicated its intention to increase social cohesiveness, particularly by giving attention to education (by addressing issues raised in the recent education sector review), human resources (by establishing a stand-alone human resources development agency), health (by addressing issues raised in the recent health sector review), police, internal affairs (by concentrating on initiatives that benefit the family at home and youth enterprise, and by clarifying the benefits of social welfare), environment (with an improved legislative framework, and by increasing the capacity of the Environment Service), superannuation (by establishing a national superannuation scheme), and by protecting landowners against unfair land arrangements.

5. The minimum wage was recently raised to NZ\$4.0 per hour, and is not now categorized by age group. Taxes on alcohol and tobacco were increased to contribute to the cost of treatment and effects of diseases. Additional assistance has been provided for the elderly, and an improved facility was established to provide treatment in mental health cases.

B. Economic Assessment and Outlook

6. The Cook Islands economy is recovering from a significant downturn in the mid-1990s,

and recovery is expected to continue in the medium term. Real gross domestic product (GDP) grew by 2.7 percent in 1999 and 4.1 percent in 2000, and is projected to grow by 4 percent in 2001, clearly indicating that the rebound from the negative growth of 9.3 percent experienced over 1995–1998 has continued (Appendix 1).

7. Tourism, the black pearl industry, and commercial agriculture led the growth in 2000. Tourism receipts amounted to above 51 percent of GDP in 2000. Visitor numbers increased sharply to about 73,000 in 2000 from about 56,000 in 1999, reflecting the impact of the improved marketing efforts of the Cook Islands Tourist Corporation, the weak currency, and a shift in Pacific tourist destinations due to political instability in the Fiji Islands. The black pearl industry also continued its strong growth despite an epidemic among pearl-bearing oysters that the industry faced around the end of 2000. Employment expanded significantly in 2000, as increased tourist arrivals stimulated demand in the retail, commercial agriculture, and restaurant and hotel sectors. Public sector employment showed signs of expansion in 2000, which has been maintained since its contraction of nearly 60 percent in 1996.

8. The Cook Islands Government recorded a budget surplus of NZ\$1.0 million, equivalent to 0.6 percent of GDP in FY2000, with Government expenses at NZ\$62 million, amounting to 40 percent of GDP. Tax revenue is the principal source of revenue and it constituted about 70 percent of the total revenue in FY2000. In the current FY2001, the budget surplus is projected to increase to NZ\$3 million, equivalent to 1.8 percent of GDP. A rise in Government expenses largely reflects higher spending on infrastructure to support the tourism industry, debt repayments, and policy spending on the social sector, health, education, and the environment. Most of the rise in total revenue reflects improved tax revenue caused by a rise in visitors, and settlement of many large tax assessments. The value added tax is the largest part of the tax revenue and is projected to account for about 42 percent of the total tax collection in FY2001. In terms of percentages of GDP both Government expenses and total revenue are maintaining a rising trend in the last few years and are projected to reach 46 and 44 percent respectively in FY2001.

9. Net Government debt stood at 77.2 percent of GDP in FY1999, and is projected to fall to 76 percent of GDP in FY2001, 71.8 percent in FY2002, and 68.5 percent in FY2003. However, the projected improvement reflects the projected growth in GDP rather than a fall in net debt. Net debt is projected to increase to NZ\$118 million in FY2001, compared with NZ\$117 million in FY2000. The Government is committed to maintaining manageable debt levels and meeting all its current and past obligations and has a policy of setting aside a reserve of NZ\$1 million per year for future debt payments. In the FY2001 Appropriation Amendment Bill the reserve was increased to NZ\$2 million for that year, bringing the total to NZ\$3 million. The Government is committed to continue working within the framework of affordability for all future debt commitments, and to meet all current and past obligations where, when, and as they fall due. However the debt burden is expected to remain high, even with the Government's commitment.

10. Inflation in 2000 increased to 3.15 percent compared with 1.35 percent in 1999 reflecting rising fuel prices, weak currency, and the buoyant demand. Although the currency in use is the New Zealand dollar, inflation reflects factors in the Cook Islands, rather than in New Zealand. It takes some time for global inflationary factors to be reflected throughout the Cook Islands. Oil price rises in 2000 are being felt only now in the outer islands. The domestic financial sector is small and underdeveloped. There is no central bank. A Monetary Board, which effectively comprises the Cook Islands cabinet, is the licensing authority for banks. There is therefore no effective banking supervisory function.

11. Two commercial banks are foreign owned. The two locally owned banks, the Cook Islands Development Bank (CIDB) and Cook Islands Savings Bank, are being merged in consultation with the stakeholders, with assistance from ADB's Third Cook Islands Development Bank Project. The merger is to (i) provide economies of scale, (ii) establish a larger resource base,¹ (iii) create an opportunity to eliminate services that are no longer critical, (iv) upgrade information systems, and (v) create comprehensive banking services based on sound commercial principles. The merger is consistent with the Government's strategy for promoting private sector development. A major Government policy is to support a general increase in the level of credit available for business development, as well as promote the development of a sound partnership between government and business. In this regard, the vision, purpose, and mandate of the new bank will help the Government meet its private sector development initiatives. The new bank, to be called the Bank of the Cook Islands, will begin services on 1 July 2001.

12. During FY2000 aid assistance was equivalent to 6.4 percent of GDP. The Government expects to maintain this level on the average in the medium term. In June 2000, the Cook Islands became party to the partnership agreement between the African, Caribbean, and Pacific states, and the European Union (EU). This may improve access to the EU's trade and tourism market.

13. Projections of economic growth are conservative. Factors that led to conservatism include the following.

- (i) Labor supply. Outward migration has caused a steady decline in the resident population over the last few years. The result is a serious manpower shortage, particularly in the clerical, trades, and semiskilled occupations. The resident population was estimated as 14,600 in mid-2000—a 6 percent decline from 15,500 in 1999. By 1 April 2001, the number was estimated to have fallen to 14,000. The figure stood at 18,800 in 1996.
- (ii) Construction industry. Projections do not include several large projects that may be implemented during the next 2-3 years (completion of the Vaima'anga Hotel, expansion of the Rarotonga Beach Resort, and development of the Rapae Hotel in Aitutaki) and a number of potential aid-assisted projects, including the construction of ports, airports, and roads in the outer islands.
- (iii) Shifts in consumption and production patterns. Imported goods are becoming more of a way of life for communities in Rarotonga and in the outer islands.

C. Implications for the Country Strategy and Program (CSP)

14. ADB's operational strategy in the Cook Islands focuses on building sustainable capacities of sound economic and public sector management, promoting of economic growth, and supporting private sector development. It is directed to the three broad areas of policy reform, improvement of urban infrastructure, and outer islands development.

15. The need for capacity building within Government services is becoming increasingly apparent as the Government consolidates its reform program. Government services have been significantly downsized, and restructuring continues. Government departments and services are more accountable for their actions and must achieve specific objectives. At the same time, pressure on Government budgets is increasing. However, lack of experience in performance-

¹ While the overall resource base will be larger, savings deposits will not be used for developmental purposes.

based management practices is leading to inappropriate management of financial, personnel, and other resources. ADB's strategy focuses, first, on building within the Government services the capacity to apply appropriate business planning mechanisms and management information systems, and second on assisting frontline services to better identify the needs of the public, and to respond to those needs in a timely and cost-effective manner.

16. The significant growth in tourist arrivals is resulting in increased generation of waste, which in turn increases demands on the already overloaded waste management system in the principal island of Rarotonga. The second largest island, Aitutaki, is also benefiting from increased tourist arrivals, but has no formal waste management facilities. The natural environment of the islands is one of the major attractions for tourists but lack of sustainable waste management facilities and systems is causing environmental stress. ADB's strategy is to provide assistance for developing new waste management facilities. The private sector will manage the facilities and an appropriate system of user charges will be implemented, to ensure system sustainability. Capacity building in operation and maintenance (O & M) will be provided. Capacity building in environmental regulation and monitoring will be provided later, to assist the Government in developing environmental policies and environmental conservation measures.

17. Signs of absolute poverty in the Cook Islands are few, due partly to the informal support network that exists within extended families in Polynesian society. However, there are marked income and social disparities between Rarotonga, which is the principal island, and some outer islands that have not benefited from the growth in tourism or from development of the black pearl industry. There is a notable paucity of basic services in several outer islands. The Government is addressing the issue of outer islands development with assistance from the United Nations Development Programme (UNDP), New Zealand Official Development Assistance (NZODA), and from ADB. ADB will provide assistance to establish an outer islands trust fund. The trust fund will be self-sustaining, and its yield will contribute to the development and maintenance of facilities in the outer islands.

18. ADB is to support capacity building in outer islands councils, focusing on O & M of infrastructure in outer islands, in support of the Government policy of empowering islands councils. ADB's assistance will be carefully tailored to complement UNDP's and NZODA's ongoing assistance for outer islands development.

II. IMPLEMENTATION OF THE COUNTRY STRATEGY AND PROGRAM

A. Poverty Reduction

19. The Cook Islands has the highest level of human development and the second lowest poverty index among ADB's Pacific developing member countries² (Appendix 2). This means that nearly all Cook Islanders have a good standard of living. But income and socioeconomic discrepancies between Rarotonga and the outer islands are significant and have triggered internal migration from the outer islands to Rarotonga, and external migration from Rarotonga and the outer islands to New Zealand.

20. Financial mismanagement in the early 1990s precipitated a fiscal and external debt crisis, which led to public sector restructuring in 1996-1997. The number of public sector employees was halved. Widespread unemployment was averted by emigration to New Zealand, to which Cook Islanders have free access. In fact, emigration is increasing to the point where

² UNDP Report 1999.

the Cook Islands population has fallen to its lowest levels since the 1970s.

21. Credit access in the outer islands has improved. In 1997, 10 percent of all loan approvals—representing 37 percent by value of approvals—were for the outer islands. Most of the loans were to tourist operators and black pearl farmers.

22. Many Cook Islanders who choose to emigrate see the New Zealand social welfare system as a social safety net. Migrants who are employed in New Zealand can avail themselves of New Zealand retirement benefits even if they return to the Cook Islands.

23. Another social safety net is the culture of providing support to extended families thus ensuring that food is redistributed. Formal Government safety nets are in the form of child benefits and old age benefits amounting to about 4 percent of the income of the lowest quartile income group.

24. To address the socioeconomic discrepancies between Rarotonga and the outer islands, ADB will finance a loan for outer islands development in 2003. It will be a program loan and will establish an outer islands trust fund whose proceeds will finance development projects and maintenance of infrastructure in the outer islands. The loan will have a finance component to assist in fostering private enterprise.

B. Thematic Priorities

1. Economic Growth

25. The preparation of a new Cook Islands economic report assisted by ADB TA (one of ADB's Pacific Island Economic Report series) in mid-2001 will assist the Government and its development partners to identify opportunities for economic growth, and identify the policy and institutional frameworks that are necessary to ensure sustainability. The Government is giving priority to stimulating economic growth in the outer islands.

26. ADB will provide TA for Capacity Building in Island Councils, particularly with regard to the maintenance of assets. Through TA for regulating and managing utilities, ADB will assist the Government to prepare institutional and policy changes that will ensure efficient O & M of infrastructure through the increased participation of the private sector.

2. Human Development

27. The ADB-financed Education Development Project is being concluded in 2001; the loan has been fully disbursed. A proposed waste management project, for approval in 2001, will assist human development as well as environmental protection.

3. Gender and Development

28. Women play an important role in Cook Islands society. While they are underrepresented in parliament, they are important traditional leaders and are leaders in Nongovernment Organizations. Women also play a significant role at the managerial level in the commercial sector and in government departments. The CSP is gender-neutral in that benefits will accrue to males and females alike.

4. Good Governance

29. Improvements in Government have increased significantly during the economic restructuring that commenced in 1996. Decentralization of administration of the outer islands is gradually enabling outer islanders to assume more responsibility and accountability over time. The challenge to the Government is to ensure that the process is both equitable and fiscally neutral. The 2000-2001 Budget Policy Statement indicates a commitment to responsible government, which will be of particular concern until the country's significant debt servicing obligations can be reduced. Subject to debt management requirements, the challenge will be to restore equitable levels of social investment to pre-1995 crisis levels.

30. An important factor in achieving political stability has been a transformation of the decision-making process, under which all members of the Government's caucus are drawn into the Cabinet. Broad participation has allowed free-flow exchange and has promoted open government based on increased awareness of key issues.

31. The Government is committed to the following measures.

- (i) Establishing a commerce commission and banking authority, to uphold legislation that enforces fair trading, promotes competition, provides protection from predatory behavior, and monitors banking services.
- (ii) Expanding the capacity of the Office of the Offshore Financial Services Commissioner to manage added responsibilities, including establishing a financial intelligence unit, and international cooperation on global taxation issues.
- (iii) Implementing a job-sizing regime to restore relativity into Government service remuneration levels by establishing and implementing a remuneration structure linked to job size, responsibilities, and performance.
- (iv) Concentrating attention on acquiring United Nations membership and full membership of the Commonwealth in the medium term. The Government will continue to strengthen relations with partners in the international community.

32. ADB is to assist the Government to strengthen ministries' accountability through improved policies, procedures, and reporting, and by providing additional training, through TA for improving corporate management in government services. TA for capacity building in islands councils, will focus on maintenance of assets.

5. Private Sector Development

33. The Government will continue to develop clear guidelines and a framework for managing assets and handing back Crown lands to landowners. The management of important utilities will be based on the private sector's right to operate, with ownership of the assets remaining in public hands. The private sector will operate facilities created under the proposed Waste Management Project.

34. The Government's responsiveness to local businesses on issues important for continued private sector development is to be improved. The business sector indicated that it has been able to better participate in decision - making.

35. The role of the Small Business Centre to support enterprises and communities in the outer islands will be expanded by providing assistance with business plans and meeting the

requirements of the Outer Islands Development Grant Fund.³

6. Environmental Protection

36. Pressure on the natural environment of the Cook Islands is reaching levels that are likely to adversely impact economic growth. The environment is relatively fragile and is being severely tested by coastal erosion, the impact of development growth, and susceptibility to climate change. Conservation of the natural environment is essential for the sustained development of tourism, and is important for the protection of its marine resources.

37. The Environment Service is to undertake further efforts to provide an appropriate legislative framework for environmental management throughout the Cook Islands. The Service will institute environmental impact assessments as a routine procedure and continue to promote public awareness of environmental issues.

38. ADB is assisting the Government to conserve the natural environments of Rarotonga and Aitutaki through a loan for a Waste Management Project, which will incorporate capacity building in waste management. TA to build the capacity for environmental monitoring and regulation, and promoting community participation is proposed to assist the Government to expand its environmental management capabilities.

7. Regional Cooperation

39. The Cook Islands continues to demonstrate a strong commitment to regional development. It is a member of several Pacific regional bodies, of which the Pacific Islands Forum is one of the most prominent. The forum's economic ministers held their annual meeting in Rarotonga in June 2001. During a subsequent Consultative Group Meeting, chaired jointly by the Government and ADB, the Government announced its intention to seek membership in the International Monetary Fund and the World Bank.

40. The Cook Islands is also actively participating in several ADB-financed regional initiatives. They include initiatives against anti-money laundering, the use of traditional environmental management measures, and performance benchmarking for Pacific power and water utilities.

III. PORTFOLIO MANAGEMENT ISSUES

A. Portfolio Performance Implementation

41. ADB has financed 11 loan projects in the Cook Islands. Project completion reports have been prepared for nine of them (another project completion report is in preparation), and two projects have been postevaluated and rated partly successful. These other projects, were rated as generally successful, one was partly successful, one was unsuccessful, and two were not rated. Lessons learned emphasize the need for capacity building and familiarizing project management personnel with ADB's procedures, in the light of public service downsizing and personnel movements. Two projects also highlighted the need for improved community participation in project design and implementation.

42. The current loan portfolio is limited to two small loans (Appendix 3). The scope of the

³ The fund is jointly financed by NZODA and the Cook Islands Government.

Third Cook Islands Development Bank (CIDB) Project (Loan 1380-COO[Sf]) was changed to assist the merger of the Savings Bank and the CIDB. The Education Development Project loan (Loan 1588-COO[Sf]) has been fully disbursed and will be closed. The recently approved TA 3554-COO Review of Pension (Superannuation) and Insurance Schemes will be completed in 2001. TA 3085-COO Urban Infrastructure Project, which prepared feasibility studies for the Waste Management Project and for the Water Supply and Sewerage Project, is in its final phase; assistance is being given in public consultation and institutional development. Public objections that delayed the processing of the Waste Management Project for Rarotonga have since been resolved. The results of TA 3509-COO Preparing an Economic Report are expected to be available in April 2001, and will point the way to a future development strategy in the Cook Islands. The TA will be concluded by mid-2001.

43. The overall performance of ADB's portfolio in the Cook Islands during the last three years has been good. The Government has demonstrated a high level of ownership of ADB-financed projects, and commitment to policy and institutional reforms that are associated with ADB lending operations.

B. Counterpart Funding

44. During the past three years, budgetary allocations have enabled the Government to commit counterpart funds as and when required. Budgetary allocations are planned on the basis of ADB's updated CSP, ensuring that counterpart funding will be available when required.

C. Monitoring and Evaluation

45. ADB's project monitoring and evaluation (M & E) techniques are being introduced in the Cook Islands, in step with their development within ADB. M & E carried out on ADB-financed projects indicated good progress in project implementation.

IV. COUNTRY PERFORMANCE AND LENDING LEVELS

A. Proposed Lending Level

1. Lending Level

46. On the basis of performance in implementing ADB-financed projects, ensuring project sustainability, and implementing policy reforms associated with recent ADB lending and TA operations, the Cook Islands is eligible to borrow \$3 million equivalent from ADB's Asian Development Fund (ADF) resources during 2002–2004.

47. ADB's lending to the Cook Islands is very small and relatively infrequent, with lending operations of about \$3 million equivalent and \$5 million equivalent foreseen during the next five years. Lending of less than \$5 million in one year is not readily divisible into ordinary capital resources (OCR) and ADF components. Projects that include a high poverty reduction component will be eligible for full ADF financing. Larger projects, that have components that include private sector participation or which will be operated on commercial lines will incorporate OCR lending components. OCR lending is considered most appropriate for projects in the energy, transport, and water supply sectors. Performance indicators that will trigger access to ADF resources are described in Appendix 4. In view of the nature and scale of ADB's program in the Cook Islands, failure to meet the requirements of the performance indicators will result in deferral of lending.

2. Graduation Policy

48. Under the terms of a graduation policy for ADB's Developing Member Countries (1998), the Cook Islands is a Group B1 country and is eligible for ADF borrowing, with limited amounts of borrowing from ADB's OCR. However, the graduation policy states that limited OCR eligibility will be applied only after the external debt position improves. The country's debt position will be assessed in 2001 or early in 2002, and the issue of the Cook Islands' eligibility for OCR lending will be discussed with the Government after the assessment.

B. Loan Program

49. A loan for outer islands development is proposed for 2003. This will be of the nature of a program loan, with the establishment of an outer islands trust fund as a prime objective. The proposed loan is \$3 million equivalent (Appendix 5). The project selection brief is in Appendix 6.

C. Technical Assistance and Economic Sector Work Program

50. TA grants will be provided for capacity building for economic and public sector management as follows: (i) Improvement of Corporate Management in Government Services, for \$200,000 in 2001; and (ii) Improvement of Frontline Services, for \$200,000, in 2002. TA will also be utilized flexibly to support the reform program, in the amounts of \$200,000 in 2003 and \$400,000 in 2004 (Appendix 5).

51. To support capacity building in environmental management and to prepare the policy reforms that will be necessary to ensure the sustainability of water supply and sanitation improvements, TA grants will be provided as follows: (i) Capacity Building in Environmental Monitoring, Regulation, and Community Participation, for \$250,000, in 2002; and (ii) Utilities Regulation and Management, for \$100,000, in 2004.

52. To support the Government's initiatives in reducing the income disparity between Rarotonga and the outer islands and for empowering island councils, TA grants will be provided: (i) project preparatory TA for the proposed Outer Islands Development loan, for \$300,000, in 2001; and (ii) Capacity Building in Island Councils, particularly in maintaining assets, for \$250,000, in 2003. The TA concept papers are in Appendix 7. The economic and sector work program is in Appendix 8.

D. Summary of Changes

53. Changes from the previous country assistance plan are as follows: (i) consideration of the proposed Waste Management Project loan by ADB's Board in 2001; (ii) consideration of the proposed Outer Islands Development Project loan by ADB's Board in 2003; (iii) project preparatory TA for the proposed Outer Islands Development Project for ADB approval in 2001; (iv) advisory TA for Improvement of Corporate Management in Government Services for ADB approval in 2001; (v) advisory TA for Capacity Building in Environmental Monitoring, Regulation, and Community Participation for ADB approval in 2002, replacing advisory TA for Community Participation in Environmental Sanitation; (vi) advisory TA for Utilities Regulation and Management for ADB approval in 2004; and (vii) deferral of a proposed Water Supply and Sanitation Project loan until 2005.

APPENDIXES

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ECONOMIC INDICATORS

Item	1995	1996	1997	1998	1999	2000	2001 ^a
A. Income and Growth							
1. GDP per Capita (dollars, current)	5,246	5,449	5,493	4,582	5,060	4,983	5,242
2. GDP Growth (%, in constant prices)	-4.4	-0.2	-2.8	-2.3	2.7	4	4
Agriculture (% of GDP)	18	20	21	23	23	22	—
Industry (% of GDP)	7	7	7	7	7	7	—
Services (% of GDP)	75	73	71	70	70	71	—
B. Saving and Investment (current market prices)							
	(Percent of GDP)						
1. Gross Domestic Investment	—	—	—	—	—	—	—
2. Gross Domestic Saving	—	—	—	—	—	—	—
C. Money and Inflation							
	(Annual percent change)						
1. Consumer Prices (annual average)	0.9	-0.6	-0.4	0.7	1.4	3	4
2. Broad Money (M2) by end-June Quarter	-30	-3	31	12	17	-2	8
D. Government Finance							
	(Percent of GDP)						
1. Total Revenue and Grants	41.7	37.7	31.7	31.4	30.5	33.7	34.5
2. Total Expenditure and Net Lending	44.3	44.8	31.1	39.0	31.4	32.3	34.2
3. Overall Surplus/Deficit (-)	-2.6	-7.2	0.6	-7.6	-0.9	1.5	0.3
E. Balance of Payments							
1. Merchandise Trade Balance (% of GDP)	-43.2	-39.2	-47.2	-45.6	-48.5	-58	—
2. Current Account Balance (% of GDP)	-4	0	-4	-3	-3	-3	—
3. Export (\$) Growth (annual percent change)	10.4	-31.0	-10.1	13.8	10.7	156.4	—
4. Import (\$) Growth (annual percent change)	-0.4	-10.8	10.8	-20.9	9.8	22.9	—
F. External Payments Indicators							
1. International Reserves (billion dollars, end of period)							
- months of imports	—	—	—	—	—	—	—
2. External Debt Service (% of exports of goods & services)	15	17	11	4	5	4	4
3. External Debt (% of GDP)	34	34	33	83	77	74	76
G. Memorandum Items							
GDP (current prices, million <i>local currency</i>)	155.1	149.1	144.2	142.0	148.2	158.8	165.2
Exchange Rate (NZ\$ per US\$, annual average)	1.52	1.46	1.51	1.87	1.89	2	2
Population (midyear, million)	0.01940	0.01880	0.01740	0.01660	0.01550	0	0

— = not available, GDP = gross domestic product, GNP = gross national product.

^a Estimates.

Sources: Ministry of Finance and Economic Management, Cook Islands, OPO staff estimates.

SOCIAL INDICATORS

Item	1990	Latest Year (1999)	
Population Indicators			
Total Population	18,600 (1991)	16,100	
Annual Population Growth Rate (% change)		-7.50	(1990-98)
Social Indicators			
Total Fertility Rate (births per woman)			
Maternal Mortality Rate (per 100,000 live births)	3.5	3.7	(1996)
Infant Mortality Rate (below 1 year; per 1,000 live births)	26	20.7	
Life Expectancy at Birth (years)			
	—	71.5	(1996)
	—	68.4	(1996)
Adult Literacy (%)	—	99	
Primary School Enrollment (% of school age population)	—	99	
	—	99	
Secondary School Enrollment (% of school age population)	—	98	
	—	98	
Child Malnutrition (% of under age 5)	—	—	
Population Below Poverty Line (%)	—	—	
Income Ratio of Highest 20% to Lowest 20%	—	—	
Population with Access to Safe Water (%)	—	99	
Population with Access to Sanitation (%)	—	96	
Public Education Expenditure as % of GNP	—		
Public Health Expenditure as % of GDP	—		
Human Development Index	—	0.985	
Human Development Ranking	—	62	(1998)
Human Poverty Index	—	6.1	

— = not available, GDP = gross domestic product, GNP = gross national product.

Source: Pacific Human Development Report 1999.

PORTFOLIO PERFORMANCE INDICATORS
Table A3.1 : Implementation, Disbursement Performance and Postevaluation Results of
Public Sector Projects
 (as of 31 December 2000)

A. Project Portfolio	Net Loan Amount		Rating (No.) ^a										
			Total		Implementation Progress				Development Objectives				
	\$ million	%	No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Energy	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Finance	2.68	51.3	1	50.0	0	1	0	0	0	1	0	0	0
Social Infrastructure	2.55	48.7	1	50.0	0	1	0	0	0	1	0	0	0
Transport and Communications	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Others	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Total	5.23	100.0	2	100.0	0	2	0	0	0	0	2	0	0

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	0.00	5.87	5.87
(2) Disbursed amount (\$ mn, cumulative, active loans only)	0.00	4.78	4.78
(3) Percentage disbursed [(2)/(1)] (%)	0.00	81.44	81.44
(4) Disbursements (\$mn, active loans only, latest year)	0.00	0.39	0.39
(5) Disbursement ratio (%) ^b	0.00	28.37	28.37

C. Net Transfer of Resources ^c (\$ million)	OCR	ADF	Total
Net transfer in 1996	0.00	3.80	3.80
Net transfer in 1997	0.00	2.20	2.20
Net transfer in 1998	0.00	1.70	1.70
Net transfer in 1999	0.00	0.60	0.60
Net transfer in 2000	0.00	0.10	0.10

D. Post-Evaluated Projects (By Year of PPAR Circ.)	1996 - 2000	
	No.	%
1. Postevaluation Rating (as of 31 December 2000)		
Highly Successful (HS)	0	0.0
Successful (S)	0	0.0
Partly Successful (PS)	1	100.0
Unsuccessful (U)	0	0.0
No Rating (NR)	0	0.0
Total	1	100.0

2. Postevaluation Rating by Sector 1996-2000 (as of 31 December 2000)	HS		S		PS		U		NR		Total	
	No.	%	No.	%	No.	%	%	No.	%	No.	%	
Agriculture and Natural Resources	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Energy	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Finance	0	0.0	0	0.0	1	100.0	0	0.0	0	0.0	1	100.0
Social Infrastructure	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Transport and Communications	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Others	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	0	0.0	0	0.0	1	100.0	0	0.0	0	0.0	1	100.0

^a HS: Highly satisfactory; S: Satisfactory; PS: Partly satisfactory; U: Unsatisfactory; NR: No Rating

^c Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

^e Source: Postevaluation Information System

Table A3.2: Status of Project Implementation
Public Sector Projects
(as of 31 December 2000)

Sector ^a	Project Title	Net Loan Amount		Approval Date	Effectivity Date	Closing Date		Project Progress (% complete)	Cum Contract Awards (\$ million)	Cummulative Disbursement (\$ million)	Project Performance Rating ^b	
		OCR	ADF			Original	Revised				Implementation Progress	Development Objective
SOC	Education Development Project	2.549		22 Sep 94	28 Feb 95	31 Jul 00	31 Oct 00	100%	2.48	2.53	S	S
F	Third Cook Islands Development Bank Project	2.681		26 Sep 95	22 Jan 96	22 Jan 00	30 Jun 01	98.5%	1.83	1.61	S	S
Total		5.230							4.31	4.14		

^a Sector:
AGR: Agriculture & Natural Resources
ENE: Energy
F: Finance
SOC: Social Infrastructure
T&C: Transport and Communications
OTH: Others

LENDING TRIGGERS

Compliance with the following will give the Cook Islands access to the Asian Development Bank's (ADB's) Asian Development Fund (ADF) resources:

- (i) A budget operating surplus will be maintained.
- (ii) Future debts will be affordable.
- (iii) A policy of empowerment of outer islands councils will be maintained.
- (iv) A countrywide policy of improving environmental management and monitoring will be maintained.

Failure to comply with the above indicators may result in the deferral of ADB's lending from its ADF resources.

LENDING AND TECHNICAL ASSISTANCE PROGRAMS
Table A5.1: Lending Program, 2002-2004

Sector/Project Name	Poverty Classification	Thematic Priority	Responsible Division	Year of PPTA	Project Cost (\$ million)				Gov't Cofinancing (Others)
					Total	ADB		Total	
						OCR	ADF		
2002 Firm Loans									
None									
2003 Loan Pipeline									
Others									
1. Outer Islands Development	PI	ECO	POHQ	2001	3.0	0.0	3.0	3.0	0.0
Subtotal					3.0	0.0	3.0	3.0	0.0
Total					3.0	0.0	3.0	3.0	0.0
2004 Loan Pipeline									
None									

ADF = Asian Development Fund, ECO = economic growth, OCR = Ordinary Capital Resources, PI = poverty intervention,

Table A5.2: Technical Assistance Program, 2002-2004

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
2002 Technical Assistance Program					
Others					
1. Capacity Building in Environmental Monitoring, Regulation, and Community Participation	POHQ	AD	250.0		250.0
2. Improving the Performance of Frontline Services	POHQ	AD	250.0		250.0
Subtotal			500.0		500.0
Total			500.0		500.0
2003 Technical Assistance Program					
Others					
1. Capacity Building in Island Councils	POHQ	AD	300.0		300.0
2. Support for the Reform Program Phase 3	POHQ	AD	200.0		200.0
Subtotal			500.0		500.0
Total			500.0		500.0
2004 Technical Assistance Program					
Others					
1. Utilities Regulation and Management	SPRM	AD	100.0		100.0
2. Support for the Reform Program Phase 4		AD	400.0		400.0
Subtotal			500.0		500.0
Total			500.0		500.0

PROJECT SELECTION BRIEF

Table A6.1: Outer Islands Development

A. Data	
Project Number:	29645-01
Country:	Cook Islands
Sector:	Others
Subsector:	
Project Division:	POHQ
Contact Person in Project Division:	Michel D. Latendresse
Programs Division:	SPRM
Tentative Loan Amount According to CSP:	\$3.0 million
Proposed Lending Modality:	Program Loan
PPTA:	Outer Islands Development
Proposed PPTA Amount:	\$300,000.00
Attached ADTA:	Capacity Building in Island Councils
Proposed ADTA Amount:	\$300,000.00
Start Predesign Phase:	
Start Design Phase:	
Approval Year According to CSP:	2003
Proposed Executing Agency:	Ministry of Finance and Economic Management
Contact Person in Proposed Executing Agency:	Mr. Kevin C. Carr Financial Secretary
B. Description	
Brief Rationale of Project:	Disparities in level of development between the principal island of Rarotonga and many of the outer islands of the Cook Islands group are significant. The outer islands suffer from underdeveloped services and lack of resources to sustain adequate levels of infrastructure maintenance. The disparity of service and infrastructure is one of the reasons for a population drift from the outer islands to Rarotonga and overseas. The loan will support the Government's policy to empower the outer island councils.
Summary of Preparatory Work by DMC and/or ESW by ADB or Others:	The Government has adopted a policy to empower outer island councils. UNDP and NZODA are assisting the Government in policy development.
Comparative Advantage of ADB in Proposed Project:	Experience in establishing outer islands trust funds in other Pacific island nations, and the ability to provide the Cook Islands Government with linkages to other trust funds.
Rationale and Scope of attached ADTA:	Capacity building for islands councils will focus on the maintenance of assets.

Development Objective (thematic priority):	Economic Growth
Environmental Classification:	
Social Issues:	The loan will address the disparity of services between Rarotonga and the outer islands, in a sustainable manner through the establishment of a trust fund.

ADB = Asian Development Bank, ADTA = advisory technical assistance, CSP = country assistance and program, DMC = developing member country, ESW = Economic and Sector Work, PPTA = project/program preparatory technical assistance.

Table A7.1: Capacity Building in Environmental Monitoring, Regulation, and Community Participation

A. Profile	
Department, Division, RM, Officer Concerned:	OPO, SPRM, E. Gordon Fox
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to Follow (if PPTA):	
Country/Region (as applicable):	Cook Islands
Sector/Subsector	Others
Poverty Classification and Thematic Priorities: ^a	Environmental Protection
Program Year: ^b	2002
Expected Approval Date (mo/yr):	November 2002
Estimated Completion Date:	June 2003
B. Concept and Design	
1. Rationale (specific problem/issues to be addressed in TA)	The environment of the Cook Islands is fragile and is being severely tested by coastal erosion, the impact of development growth, and susceptibility to climate change. Yet conservation of the natural environment is essential for the sustained development of tourism, and is important for the protection of marine resources. Efforts are being made to provide an appropriate legislative framework for environment management. Public consultation and support are essential. However, experience in environmental management is limited, and capacity building is required.
2. Relation to Strategic Objectives (How the TA addresses the following.) <ul style="list-style-type: none"> ▪ poverty reduction/thematic priorities ▪ country strategy (where applicable) ▪ regional cooperation 	Environmental Protection. Two objectives of ADB's strategy in the Cook Islands are the development of urban infrastructure, and development of the outer islands. Given the existing threats to the environment, it is essential to improved environmental regulation and monitoring to ensure sustainability of such development. Improved environmental monitoring and regulation will, improve the quality of life in the outer islands and make them more attractive for development. The TA will thus ensure synergism with ADB's support of economic development.
3. Scope (specific major components, e.g. capacity building)	Under the TA, consultants will review the capacities and roles of the Environment Service and other agencies involved in environmental protection, and will review recommendations that have already been made during the preparation of other projects. The consultants will assist the

^a Economic growth, human development, gender and support for ADB operations.

^b Year of inclusion in CSP for transition period

	Government to formulate an appropriate and robust system of environmental management, and appropriate environmental monitoring practices. The consultants will also assist in public consultations to ensure that local concerns are fully taken into account, and will give training in appropriate environmental monitoring procedures.
4. Expected Outcome and Monitorable Indicators	The monitorable indicators at the conclusion of the TA will include <ul style="list-style-type: none"> • appropriate environmental regulations in place in support of new environmental legislation, covering Rarotonga and outer islands; • environmental Service and other personnel trained in appropriate environmental monitoring procedures; • community participation institutionalized in the environmental management process.
5. Previous TAs on the Same Theme, in the sector, country, or region (last five years) <ul style="list-style-type: none"> ▪ name, amount, status ▪ assessment of outcome 	There have been no previous TAs for environmental protection in the Cook Islands. However, an environmental protection component was included in TA 3085-COO: Urban Infrastructure Project, which highlighted the need for improved regulation and monitoring.
6. Executing agency/implementing agency/ counterpart agency (for RETAs as applicable)	The Executing Agency will be the Ministry of Finance and Economic Management (MFEM). The Environment Service will implement the TA. The TA will be steered by a small group of executives from MFEM, the office of the Prime Minister, the Environment Service, the Ministry of Health, and the Ministry of Marine Resources.
7. Cost and Financing Plan <ul style="list-style-type: none"> (i) ADB Financing (JSF, TASF) (ii) Sources other than JSF/TASF 	The total cost of the TA is \$290,000, equivalent of which \$240,000 is the foreign exchange cost and \$50,000 equivalent is the local currency cost. ADB will finance the foreign exchange cost and \$5,000 equivalent of the local currency cost. The government will finance the remaining \$45,000 equivalent of the local currency cost in kind.
8. Country, RETA IPF for relevant year	\$500,000

ADB = Asian Development Bank, ADTA – advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, RM = resident mission, TA = technical assistance, TASF = Technical Assistance Special Fund.

Table A7.2: Improving the Performance of Front Line Services

A. Profile	
Department, Division, RM, Officer Concerned:	OPO, SPRM, E. Gordon Fox
Type of TA (ADTA, PPTA, RETA):	ADTA
Name of Loan Project to Follow (if PPTA):	
Country / Region (as applicable):	Cook Islands
Sector /Subsector:	Others
Poverty Classification and Thematic Priorities: ^a	Good governance
Program Year: ^b	2002
Expected Approval Date (mo/yr):	November 2002
Estimated Completion Date:	June 2003
B. Concept and Design	
1. Rationale (specific problem/issues to be addressed in TA)	Government services were significantly downsized in the reform program initiated in 1996. Restructuring continues as the reforms are consolidated. Several Government departments and agencies provide a direct service to the public. Notable examples are the Ministries of Health and Education, and Police Service, but there are many others that deal directly with the public. There is a need to better identify the needs of the public and respond to those needs in a timely and cost-effective manner.
2. Relation to Strategic Objectives (How the TA addresses the following.) <ul style="list-style-type: none"> ▪ poverty reduction/thematic priorities ▪ country strategy (where applicable) ▪ regional cooperation 	Good Governance. The TA will assist Government services to better recognize the public needs and demands, and to respond to them in a fully accountable, timely, and efficient manner.
3. Scope (specific major components, e.g. capacity building)	Under the TA, management consultants will examine the needs and performance of frontline services, and will develop programs for improving services that relate directly to the public. Capacity building will be provided through workshops, seminars, and demonstrations appropriate Government services.
4. Expected Outcome and Monitorable Indicators	The TA will improve the performance of frontline services in interacting with the public. Monitorable indicators will include <ul style="list-style-type: none"> ▪ greater public satisfaction, expressed in user surveys;

^a Economic growth, human development, gender and support for ADB operations.^b Year of inclusion in CSP for transition period

	<ul style="list-style-type: none"> • improved response times, as indicated in recording systems; and • cost savings, as indicated in management information reports and annual accounts.
<p>5. Previous TA(s) on the Same Theme in the sector, country, or region (last five years)</p> <ul style="list-style-type: none"> ▪ name, amount, status ▪ assessment of outcome 	<p>TA 2424-COO: <i>Strengthening of Institutional Capacity for Financial and Economic Management</i>, for \$892,000. Completed March 1997.</p> <p>TA 2750-COO: <i>Strengthening of Institutional Capacity for Financial and Economic Management (Phase 2)</i>, for \$600,000. Completed April 2000.</p> <p>The two TAs were highly effective in assisting the government to deal with the country's serious financial crisis in the mid-1990s. The TAs helped in streamlining the budget preparation process and in improving the availability of key economic and social statistics. However, the demands on senior staff and consultants in implementing major reforms prevented the TAs from establishing a sustained focus on staff development and capacity building. With the current consolidation of the reform process, the proposed TA will build on the foundations laid by these earlier TAs, and provide sustainable management systems in government services.</p> <p>This TA will follow on and complement the proposed TA for Improvement in Corporate Management in Government Services that is programmed for approval in 2001.</p>
<p>6. Executing agency, implementing agency, counterpart agency (for RETAs as applicable)</p>	<p>The Executing Agency will be the Ministry of Finance and Economic Management (MFEM). The Public Service Commission will implement the TA. The TA will be steered by a small group of executives from MFEM, the Office of the Prime Minister, and the Public Service Commission. All government departments and services will participate in the TA.</p>
<p>7. Cost and Financing Plan</p> <ul style="list-style-type: none"> (i) ADB Financing (JSF, TASF) (ii) Sources other than JSF/TASF 	<p>The total cost of the TA is \$290,000, of which \$240,000 is the foreign exchange cost and \$50,000 equivalent is the local currency cost. ADB will finance the foreign exchange cost and \$5,000 equivalent of the local currency cost. The government will finance the remaining \$45,000 equivalent of the local currency cost in kind.</p>
<p>8. Country, RETA IPF for relevant year</p>	<p>\$500,000</p>

ADB = Asian Development Bank, ADBA – advisory technical assistance, CSP = country strategy program, JSF = Japan Special Fund, PPTA = project/program preparatory technical assistance, RETA = regional technical assistance, RM = resident mission, TA = technical assistance, TASF = Technical Assistance Special Fund.

ECONOMIC AND SECTOR WORK (ESW) PROGRAM

Type of ESW	Strategic or Operational Objective	Modality
1. Economic Work		
Consultative Group Meeting	To determine development objectives and opportunities, consequent to the preparation of a Cook Islands Economic Report (a Pacific Islands Economic Report series), and foster coordination between development partners	Staff consultants (June 2001)
Assessment of Debt Position	To determine the Cook Islands capacity for external borrowing, and eligibility for OCR borrowing	Staff consultants (2001 or early 2002)
2. Thematic Work		
Improvement of Corporate Management of Government Services	To apply business planning mechanisms and management information and reporting systems within Government services	ADTA (2001)
Improving the Performance of Frontline Services	To enable frontline Government services to better identify the needs of the public, and to respond to those needs in a timely and cost-effective manner	ADTA (2002)
Capacity Building in Island Councils	To enable island councils to manage their assets more effectively	ADTA (2003)
Utilities Regulation and Management	To establish an effective regulatory framework for private sector management of public utilities	ADTA (2004)
3. Sector Work		
Capacity Building in Environmental Monitoring, Regulation, and Community Participation	To assist the Government to expand its environmental management, monitoring, and participatory capabilities	ADTA (2002)