

## **I. COUNTRY STRATEGY**

1. The Government of the Cook Islands has not formally prepared a national development plan in recent years. The Budget Policy Statement for fiscal year 2003/04 (FY2004) showed the Government's commitment to fiscal discipline with a 10% reduction of the expenditure budget. The Statement reaffirmed the six key national outcomes: (i) continued support for the tourism and marine resources sector to sustain economic growth; (ii) continued emphasis of good governance through transparency and accountability principles to achieve quality services and effective management; (iii) improved health and education standards with special focus on outer island communities to maintain social cohesion; (iv) infrastructure support to meet the demands of economic and social activities; (v) continued devolution of greater authority and responsibility to the island councils where appropriate; and (vi) improved environmental management capacity with the planned enactment of the National Environment bill covering both Rarotonga and the outer islands.

2. The Asian Development Bank (ADB) strategy for the Cook Islands supports the Government's development objectives in cooperation with other development partners. The current Country Strategy and Program Update (CSPU) 2002–2004 focuses on building sustainable capacity for sound economic and public sector management, promoting economic growth, and supporting further private sector development. It has been directed toward the three broad areas of (i) policy reform, (ii) improvement of urban infrastructure, and (iii) outer island development. Given that development of the outer islands has been and will continue to be the focus of other development partners, ADB's involvement in outer island development will be limited to areas where assistance from other development partners is unavailable. The ADB strategy for the period 2004–2006 will be to assist in (i) consolidating the reform achievements through improving economic development planning capacity and reinforcing the rationalization of state-owned enterprises to improve financial returns to the government owner, and (ii) supporting further private sector growth, especially in the tourism sector, through improved public infrastructure facilities to ensure that demands for services are met with appropriate safeguards for environmental requirements. The summary statement of strategy is in Appendix 1.

## **II. CURRENT DEVELOPMENT TRENDS AND ISSUES**

### **A. Recent Political and Social Developments**

3. Since the 1999 election, there have been four coalition governments, with the latest government formed in February 2003. Discussions with nonstate organizations, such as the Chamber of Commerce and a number of nongovernment organizations, revealed a community perception that several of the reform measures have unraveled due to continuing political instability: for example, the lax fiscal discipline in the 2002/03 budget, continuing tax and customs exemptions that were introduced as "transitional" measures, the granting of new exemptions with inadequate consideration of the longer-term impact on government revenue, political intervention in operational public service management, and poor performance by public service managers.

4. The 2002 reports of the Auditor General to Parliament provided evidence of the low regard for legal obligations by politicians and senior public servants, and ineffective sanctions for such behavior through delays in the review process. The establishment of a new political party (Cook Island National Party) and the Group for Political Change is indicative of the level of community disenchantment with the existing political parties and the desire for change. In April