

## IV. PORTFOLIO MANAGEMENT ISSUES

### A. Portfolio Performance

24. As of 31 December 2002, cumulative lending by ADB totaled 12 loans with a value of \$26.7 million from the Asian Development Fund (ADF) since the Cook Islands joined ADB in 1976. Project completion reports (PCRs) have been prepared for 9 of them and 3 projects have been post evaluated: 2 are rated generally successful and 1 unsuccessful.<sup>4</sup> Since 1976, a total of US\$8.0 million in TA grants has been provided for 25 projects. One PPTA<sup>5</sup> and one ADTA<sup>6</sup> are currently ongoing. Details of the portfolio performance and disbursements are shown in Appendix 2, Tables A2.7 and A2.8.

25. The Waste Management Project<sup>7</sup> is progressing, albeit with an 8-month delay relative to the original schedule. Due to the recent appreciation of the New Zealand dollar, there is expected to be a shortfall of around NZ\$1.1 million. The Government has agreed to fund this shortfall from its own resources. The ADTA on Improvement of Corporate Management of Government Services is progressing well. The Government has requested continued assistance to extend the pilot implementation to include training to all ministries, crown agencies, and island administrations. The ADTA on Capacity Building in Environmental Monitoring, Regulation and Community Participation was included in the 2002 pipeline, but has not been effective due to the delay in the enactment of the National Environment bill. The bill is expected to be considered by Parliament at its July 2003 session. Appendix 2, Table A2.9 shows the details of project implementation status.

### B. Performance Monitoring and Evaluation

26. ADB's project monitoring and evaluation (M&E) techniques have been introduced in the Cook Islands in step with their development within ADB, in particular the use of the pilot technical assistance project review (TPR) system. M&E carried out on ADB-financed projects indicates good progress in project implementation.

## V. COUNTRY PERFORMANCE AND ASSISTANCE LEVELS

### A. Lending Level Proposed

#### 1. Lending Level

27. Consistent with ADB's policy on performance-based allocations for ADF funding, the level of ADF funds allocated to the Cook Islands is linked to country performance with respect to macroeconomic management (through achievement of levels of expenditure and affordability of

<sup>4</sup> Rated generally successful were Loan 1466-COO(SF): *Economic Restructuring Program*, for US\$5.0 million, approved on 26 September 1996; and Loan 1588-COO(SF): *Cyclone Emergency Rehabilitation*, for US\$800,000, approved on 8 December 1997. Loan 1309-COO(SF): *Pearl Industry Development Project*, for US\$817,000, approved on 30 August 1994, was rated unsuccessful.

<sup>5</sup> ADB. 2001. *Technical Assistance to the Cook Islands for Preparing the Outer Islands Development Program*. Manila.

<sup>6</sup> ADB. 2001. *Technical Assistance to the Cook Islands for Improving Corporate Management in Government Services*. Manila.

<sup>7</sup> ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Cook Islands for Waste Management*. Manila.

future debts in accordance with the benchmarks established under the Manila Agreement),<sup>8</sup> structural reforms, and a countrywide policy of improving environmental management and monitoring. ADB's loans to the Cook Islands are small and infrequent, with lending of about US\$5.3 million foreseen during the next 3 years. The split between ADF and ordinary capital resources (OCR) lending will depend on the type of projects: projects that involve agencies operating on commercial lines (such as the power generation review project) will be OCR lending, while projects that have a large poverty reduction component or involve policy change (such as the water and sanitation management project) will be eligible for ADF financing. Agreed performance indicators (triggers) are presented in Appendix 2, Table A2.12. For 2004–2006, two loans totaling US\$5.3 million have been included in the program: US\$2.3 million and US\$3.0 million for OCR and ADF funding, respectively. Details of the lending program are shown in Appendix 2, Table A2.10.

28. Depending on ADF resource availability in 2004, the ADF lending program will need to be reviewed. The issue will be revisited and confirmed during the Country Program Confirmation Mission. The 2005 and 2006 ADF lending program will depend on the outcome of the discussions regarding ADF replenishment.

## **2. Graduation Policy**

29. Under ADB's 1998 graduation policy for its developing member countries, the Cook Islands is a group B1 country and is eligible for ADF borrowing with limited amounts of borrowing from OCR. However, the policy states that limited OCR eligibility will only apply after the external debt position improves. ADB carried out an assessment of the capacity of the Cook Islands to undertake new borrowings in line with the Manila Agreement. The report concluded that the restructuring of the debts owed to the governments of Italy, Nauru, and New Zealand, together with the setting aside of funds in a loan repayment reserve account, have helped to reduce the net debts of the country to a more manageable level. The Government has decided to include the debt service ratios recommended in the assessment report in the agreed performance triggers.

## **B. Nonlending Program**

30. The Minister for Finance requested that assistance be provided under the 2003 TA program to strengthen MFEM's capacity to undertake economic and development planning. The TA will help strengthen the economic policy division within MFEM through (i) capacity building in policy analysis; and (ii) prioritization and consultation to develop a national strategic plan that incorporates the items that were agreed at the World Summit on Sustainable Development in 2002, and that includes the MDGs (with appropriate targets and indicators) to ensure that annual resource allocation decisions consistently reflect these priorities. A PPTA is included in the 2004 nonlending program to review the energy needs of Rarotonga, leading to a loan in 2005 for the acquisition of additional least-cost power generation capacity. As the tourism industry is likely to remain the key to economic growth of the Cook Islands, it is essential that a review is carried out of the water and sanitation infrastructure of Rarotonga and Aitutaki, the main tourist destinations, to ensure that the infrastructure can support the projected demand growth of the two islands.

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<sup>8</sup> The Economic Restructuring Program (1996 – 1998) included ADB assistance to facilitate a restructuring of the unsuccessful commercial ventures by the Government in the early 1990's. The parties to the Manila Agreement include the governments of Italy, Nauru and New Zealand. The parties agreed to restructure the amount, interest rates, and duration of the loans to enable the Cook Islands to overcome the fiscal crisis at the time.

31. Technical support for the reform program (phase 3) may be warranted in 2005; it is proposed that the TA should focus on the management and performance-monitoring arrangements for state-owned enterprises and the Government's property asset portfolio. The Cook Island Investment Corporation was established during the reform period to assume the role of government owner, asset manager, and regulator. Assuming that the Commerce Commission bill will be enacted in 2003 with implementation planned for 2004, a review of this area of government activities in 2005 would appear to be timely. Details of the nonlending program are shown in Appendix 2, Table A2.12.

### **C. Summary of Changes to Lending and Nonlending Program**

32. The major change in the program is ADB's deferred involvement in the outer island development program. The consultants' draft final report under PPTA 3765-COO: Preparing the Outer Islands Development Program, concluded that there is adequate funding to support development of public infrastructure (wharf, airstrips, energy, water, schools, and hospitals) provided by other development partners as well as funding to support small-scale private businesses under NZAID's Outer Islands Development Grant Fund. The absorptive capacity of the outer islands administration and communities calls for a slower pace of implementation in the next few years. It is possible that assistance may be needed in 2006 to review progress of outer island devolution, capacity building, and business development activities to determine whether it is necessary for ADB to re-engage in this area.

33. For 2004 and 2005, the program should focus on supporting government initiatives to increase economic activities by the private sector through better public infrastructure to ensure the continued and increased number of tourist arrivals, while protecting the fragile environment of the Cook Islands on which tourism depends. Support for the reform program (phase 3) may be called for to review performance of state-owned enterprises in light of the competition legislation following its enactment and implementation planned for 2004. Appendixes 3 and 4 provide the concept papers for the assistance pipeline for 2004–2006.