

TECHNICAL ASSISTANCE COMPLETION REPORT

Division: PAHQ

TA No. and Name TA 3795-COO: Preparing the Outer Islands Development Program		Amount Approved: \$250,000	
		Revised Amount: \$250,000	
Executing Agency: Ministry of Finance & Economic Mgmt	Source of Funding: JSF	TA Amount Undisbursed \$88,032	TA Amount Utilized \$161,968
Date		Completion Date	
Approval 12 Dec 2001	Signing 07 Aug 2002	Fielding of Consultants September 2002	
			Original 28 Feb 2003
			Actual 31 Aug 2003
			Closing Date
			Original 28 Feb 2003
			Actual 20 Sep 2004

Description

The economic and fiscal reforms of 1996/1998 resulted in significant downsizing of the public service on outer islands and quickened the pace of migration of young, working age population from these islands to Rarotonga or New Zealand in search of employment and a "better" lifestyle. The Government in 1999 decided on a decentralization policy of service delivery to compensate for this migration. The Government's main aim in promoting outer island development is to stop, or at least substantially reduce, migration to Rarotonga and overseas, which has been going on for decades. The belief then was that the transfer of some administrative functions and service delivery coupled with assistance to develop private sector businesses on outer islands would help to place Cook Islands on a sustainable economic, social, and demographic growth path. The Government is particularly interested in developing a social trust fund for island development to finance the ongoing activities of improving/maintaining social infrastructure and development of small private businesses so as to provide employment and income generating opportunities.

Objectives and Scope

The objectives of the TA were (i) to assist the Government in formulating an outer islands development program designed to increase employment and income-earning opportunities and social well-being on the outer islands, and (ii) to assess whether a trust fund would be an appropriate means of delivering additional financial resources to support outer island socio-economic development.

Evaluation of Inputs

The project started after an initial delay of about 6 months, due to a change of government in February 2002 accompanied by a new Minister of Finance and a different Minister of Island Administration. Phase 1 was completed in November 2002, while Phase 2 of the TA commenced in late February 2003 and was carried out until July 2003. During the course of the TA, consultative meetings were held in 9 outer islands with over 400 people from island councils, Office of the Minister of Island Administration (OMIA), the private sector, and a range of community groups and civil society organizations.

The TA initially provided for 6 person-months of international consulting services. This was, however, reduced to 4 person-months (or 66% of contract amount) based on early findings of the project team and steering committee members that a trust fund aimed at outer island development would have minimal chance of success, recommending closure of the TA and redirection of ADB assistance to other areas of priority, consistent with the strategic needs of Cook Islands. Thus, only 3.33 person-months were rendered by the rural development expert/team leader, 0.63 person-month by the trust fund expert, and none by the legislation drafting expert.

The consultants were timely in submitting their inception report, midterm report, draft final report, and final report. They were also in regular touch with the project officer for updates and developments. The consulting firm satisfactorily carried out its work throughout the duration of the TA. The Government was pleased with the reports and findings, drawing helpful insights on comments about the Bank of the Cook Islands and the medium-term economic and financial strategy and budget framework. ADB was likewise supportive of the consultants' findings and particularly noted their observations on outer island communities, which should be taken into account in looking at the issue of decentralization.

The government counterpart team inputs were highly satisfactory and participatory. During the course of Phases 1 and 2, staff of OMIA joined the consultants in visiting outer islands and meeting with stakeholders. And since the consultants were located in the OMIA building, the team members were able to work closely and coordinate matters with OMIA staff.

ADB's performance was satisfactory as well. Extensive consultations were held between the ADB project officer, the consultants, and government officials, to ensure a common understanding of the scope and objectives of the TA, and establish what activities were underway or planned. Infomal TA reviews were carried out periodically, in conjunction with other missions of the project officer.

Evaluation of Outputs

Under the TA, the following activities were undertaken:

- (i) *workshops with National Government officials.* These were an important means of ascertaining the role of line ministries and other government agencies in the provision of services to the outer islands.
- (ii) *consultations on outer islands that involved focus group meetings with island councils, government employees, various community groups, private sector representatives, and nongovernment organizations.* These were carried out on 9 of the outer islands, with only Nassau and Palmerston not being covered because of difficulty of access. These consultations found that (a) the stakeholders had little familiarity with what a trust fund is and how it operates, but had a general interest in the trust fund once it was explained; (b) the capacity to raise funds for the proposed trust fund was said to be limited, as fundraising activities in the islands tended to be focused on family or clan/group purposes rather than island-wide purposes, and were time-consuming; and (c) outer islanders had little faith in the national Government and its leaders, particularly in matters of finance, and a relatively weak sense of whole-of-island identity.

- (iii) *television coverage, both in the outer islands and nationally.* There were newspaper and television interviews of the consultants. Local television coverage was taken advantage of to advertise outer island visits. Extensive use of video footage by OMIA was also taken.
- (iv) *dissemination of information brochures.* An information brochure on the nature and purposes of the TA was prepared in both English and Maori and distributed at outer island meetings. A single-page diagram of the trust fund concept was also prepared to facilitate explanation and discussion.

All such activities ensured the participation of government agencies, community groups, and other stakeholders in the exercise, thus guaranteeing Cook Islands' ownership of the project.

Overall Assessment and Rating

The TA is rated as partly successful, as it did not proceed to a program loan as originally envisaged. But it was successful in the sense that it addressed key issues which the Government (and ADB) should consider so that assistance to the Cook Islands is more effective.

Consultations with the population in Rarotonga, the main island, and that of the outer islands resulted in a very clear message that development of the outer islands should be considered on a case-by-case basis, and that several islands simply do not have the human resources and skills that are needed to maintain social infrastructure and delivery of basic services. Many development issues in the Pacific may be similar due to small economies, culture, etc., but solutions to particular problems may not always be the same. Due attention should be given, when designing any TA for a specific country, to local conditions to determine whether something that works elsewhere may be replicable in the country concerned.

Major Lessons Learned

The TA concluded that, on general policy grounds, the trust fund method of financing outer island development is inappropriate to the Cook Islands' circumstances.

The possibility of setting up a trust fund in the Cook Islands was inspired by the success of a well-established national trust fund in Tuvalu. While it may be reasonable to envisage the trust fund model as replicable in PDMCs, it may serve well to remember that Pacific island countries, while sharing the same geographic area and circumstances (small, remote islands with limited commercial possibilities), have their own unique endowments, opportunities, and development constraints. In addition, there are significant risks and costs associated with the creation of trust funds in the public sector. These are sometimes overlooked in the design of a country-specific TA.

Also, given the labor mobility that exists between Cook Islands, New Zealand and, in turn, Australia, and the revealed preference for the lifestyles in these other main population centers, it would be unrealistic to expect much of an impact on migration from the promotion of outer island development.

Recommendations and Follow-Up Actions

There is confusion in government agencies and island councils over the Government's policy directions, specifically, over organizational roles and responsibilities. A clear policy and legal framework for outer island development needs to be enacted. This conclusion is not at all surprising, considering that there have been frequent changes in the Administration, which have tended to undermine attempts at consistent and comprehensive public policy formulation and implementation.

The future role of OMIA also needs to be defined clearly, and its operational efficiency improved. Several line ministries and government agencies, which also play important roles in the outer islands, require coordination to avoid duplication of effort.

There has been considerable investment in the outer islands – in water supply, electricity generation, roads, harbors, wharves and airports, in schools, clinics, and hospitals, and housing for teachers and doctors. The key constraint in this area is not the availability of funds, but rather the limited capacity to design and implement projects. The failure to maintain infrastructure is also a major issue. Better infrastructure planning and improved asset management are essential, and imply an upgrading of skills in island administration. Also, capacity building requirements in the outer islands extend beyond OMIA to encompass vocational training for private sector jobs.

In regard to business development in the outer islands, the need for specialized development banking services has practically disappeared. The banks, including the government-owned development bank, have been supporting good projects on outer islands on a purely commercial basis.

Lastly, a major means of funding private sector and community projects in the outer islands is NZAID's Outer Islands Development Grant Fund (OIDGF) that has about \$1 million in funds available annually. It has proven difficult to disburse the full amount every year. The operative constraint is the capacity to formulate projects in the manner required: application requirements and procedures seem complex and time-consuming to some outer islanders. Appropriate technical assistance needs to be provided to ease this constraint. It is understood that NZAID initiated a review of the operational procedures of the OIDGF in 2003/04.

ADB may consider appropriate technical assistance to (i) assist the Government in improving its capacity to formulate a medium-term economic and financial strategic framework as a means to avoid inconsistent public investment policies, and (ii) enhance inter-ministerial planning and coordination.

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