



Technical Assistance Report

Project Number: 40287
December 2007

Cook Islands: Preparing the Infrastructure Development Project (Cofinanced by the Japan Special Fund and Government of New Zealand)

CURRENCY EQUIVALENTS

(as of 15 November 2007)

Currency Unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	=	US\$0.7627
US\$1.00	=	NZ\$1.3111

ABBREVIATIONS

ADB	–	Asian Development Bank
EA	–	executing agency
IA	–	implementing agency
km ²	–	square kilometer
MFF	–	multitranches financing facility
NSDP	–	National Sustainable Development Plan
PPTA	–	project preparatory technical assistance
RRP	–	report and recommendation of the President

TECHNICAL ASSISTANCE CLASSIFICATION

Targeting Classification	–	General intervention
Sectors	–	Multisector (energy; transport and communications; water supply, sanitation, and waste management)
Subsectors	–	Energy sector development; multimodal transport and sector development; integrated
Themes	–	Sustainable economic growth, environmental sustainability, capacity development
Subthemes	–	Fostering physical infrastructure development, urban environmental improvement, institutional development

NOTE

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., FY2007 ends on 30 June 2007.

Vice President	C. L. Greenwood, Jr., Operations 2
Director General	P. Erquiaga, Pacific Department (PAR)
Regional Director	S. Jarvenpaa, South Pacific Subregional Office, PAR
Team leader	R. Phelps, Infrastructure Specialist, PAR
Team Members	E. Brotoisworo, Senior Safeguards Specialist, PAR T. Gloerfelt-Tarp, Senior Project Management Specialist, PAR A. Huang, Country Economist, PAR

I. INTRODUCTION

1. In 2007, the Government of the Cook Islands adopted the Preventive Infrastructure Master Plan,¹ an integral part of the National Sustainable Development Plan 2007–2010 (NSDP).² The master plan supports achievement of two of the eight strategic goals of the development plan: (i) an innovative and well-managed private sector-led economy; and (ii) strengthened and affordable basic infrastructure, transport, and utilities to support national development. The master plan identifies infrastructure that will need to be developed during the next 20 years; it will require investment of US\$175 million. The Government asked the Asian Development Bank (ADB) to provide project preparatory technical assistance (PPTA) to the Ministry of Finance and Economic Management to prepare an infrastructure development project.

2. ADB approved the PPTA concept paper in April 2007; the PPTA has been proposed for funding from the Japan Special Fund. The Government of New Zealand will cofinance institutional review and capacity development under an integrated approach. The ADB Fact-Finding Mission visited the Cook Islands in March 2007 and reached understandings with the Government on the impact, outcome, outputs, implementation arrangements, cost estimates and financing arrangements, and terms of reference of the PPTA.³ The Country Partnership Strategy Preprogramming Mission in April 2007 reached an agreement to include the PPTA in the Country Operations Business Plan 2007–2009. The country partnership strategy, currently being formulated for 2008–2012, will include the PPTA and the ensuing loan for the proposed Infrastructure Development Project for approval in 2009. A project design and monitoring framework is in Appendix 1.

II. ISSUES

3. The Cook Islands comprises 15 isolated islands and atolls with a total land area of 244 square kilometers (km²) dispersed over an exclusive economic zone of 1.8 million km² of the Pacific Ocean. The total population is approximately 20,300, with 70% living on the islands of Rarotonga and Aitutaki. The economy is narrowly based with high dependency on tourism, which accounted for 50% of gross domestic product in FY2007. Economic growth, since the economic reform program in 1996, has been led by the private sector, particularly by tourism-related commerce, and especially on the most accessible islands of Rarotonga and Aitutaki. Over time, the basic infrastructure has become stressed with consequent risks to the environment. The Preventive Infrastructure Master Plan concludes that lack of investment in maintenance, rehabilitation, and upgrading has resulted in aging systems that do not provide appropriate service for current demand to support sustained growth. The current condition of infrastructure places gains achieved in health and hygiene standards at risk, not only for the resident population, but also for visitors. Water supply is not potable and no storage capacity exists to cater for periods of drought. Deteriorated reticulation systems that have insufficient capacity are in urgent need of replacement. Sewerage relies on individual septic tank systems that are suspected of contributing to lagoon pollution, again placing the country's mainstay industry—tourism—at risk. In addition, efficient and reliable energy supplies are needed to ensure private sector investment, competitiveness, and efficiency.

4. Development in the outer islands is constrained by low and declining populations. The population of some islands has declined by more than 35% since the mid-1990s. Outer island residents have sought better employment opportunities and services in Rarotonga and New Zealand. Basic service provision in these islands is constrained by isolation and high transport costs. Infrastructure services such as water and sanitation are provided on the outer islands with the support of Government grant transfers and development partner assistance.

¹ MPC Group International. 2006. *Strengthening Disaster Management and Mitigation (Component 2: Preventive Infrastructure Master Plan)*. Rarotonga.

² Government of Cook Islands. 2007. *National Sustainable Development Plan (2007–2010)*. Rarotonga.

³ The TA first appeared in *ADB Business Opportunities* on 27 April 2007.

5. In the early to mid-1990s, ADB funded a PPTA for integrated urban infrastructure in Rarotonga.⁴ Because of the economic and financial crisis in 1996, ADB deferred implementation of infrastructure investments and refocused assistance on economic and fiscal reforms. In 1998, another PPTA on urban infrastructure was approved⁵ to assist the Government in commercializing and encouraging private sector participation in urban services like water supply, solid waste management, and sewerage system construction. This PPTA delivered feasibility studies for waste management, water supply, and sewerage projects. The two PPTAs 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 US\$2.2 million loan for waste management.⁶ This project has constructed engineered landfills in Rarotonga and Aitutaki with the project completion report⁷ rating the project “successful.”

6. The 2003 Legal and Institutional Strengthening of Environmental Management⁸ technical assistance complemented the Environment Act (2003) and comprehensive legislation for sustainable protection, conservation, and management of the environment by establishing effective institutions and bylaws for environmental management. An integrated approach to sustainable infrastructure requires effective enforcement of the environmental regulations.

7. The 2005 cyclones highlighted the environmental vulnerability of economic and social infrastructure. The Cook Islands suffers from extreme climate events, such as tropical cyclones, intense periods of rainfall or drought, high winds, sea surges, and high air temperatures, which have a significant impact upon the physical infrastructure. Global climate scenarios forecast increased frequency and intensity of extreme climatic events that have the potential to perpetuate the cycle of damage and consequent setbacks to development and economic growth. The Government acknowledges a need for a long-term national climate change adaptation strategy, including for infrastructure, to address climate change vulnerabilities through climate-proofing infrastructure to reduce the repeated impact of weather events on infrastructure and the Government’s scarce resources.

8. Environmentally sustainable economic growth, employment creation, and improvement of the delivery of basic services hinge on infrastructure upgrading, particularly power, water, and sanitation services on the two main islands. Basic service delivery on the outer-islands has relied on the Government’s grant transfers to outer island administrations and bilateral grant assistance, particularly from New Zealand. The volume of the Government’s grant transfers depends on fiscal revenues generated primarily from sustained growth of the tourism industry on Rarotonga and Aitutaki.

9. Since 1999, the Government’s fiscal surpluses have enabled accumulation of reserves and repayment of much past debt in 2006 from these reserves. Currently public debt is 8% of gross domestic product. Fiscal surpluses, however, were achieved through a tight fiscal stance with insufficient investment in physical infrastructure and its maintenance, with a consequent accumulated backlog of works. The improved financial position enables the Government to finance prioritized infrastructure improvements.

⁴ ADB. 1994. *Technical Assistance to the Cook Islands for Preparing the Integrated Urban Development Project*. Manila.

⁵ ADB. 1998. *Technical Assistance to the Cook Islands for Preparing the Urban Infrastructure Project*. Manila.

⁶ ADB. 2001. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan to the Cook Islands for the Waste Management Project*. Manila (Loan 1832-COO [SF] for SDR 1,695,000).

⁷ ADB. 2005. *Project Completion Report on the Waste Management Project in the Cook Islands*. Manila.

⁸ ADB. 2003. *Technical Assistance to the Cook Islands for Legal and Institutional Strengthening of Environmental Management*. Manila.

10. In addition to the physical upgrading and rehabilitation needs, the Preventive Infrastructure Master Plan acknowledges that the infrastructure sectors suffer from institutional capacity constraints that impact on operations, cost recovery, and consequently on the regularity and quality of basic infrastructure service delivery. Institutional arrangements are fragmented, overlapping, and lack coordination resulting in ineffective management and lack of clear ownership of policies, planning, and regulatory responsibility.

- (i) **Water and sanitation.** Under existing legislation, three government agencies share the major responsibilities for water, sanitation, and solid waste on Rarotonga and Aitutaki: Ministry of Works, Ministry of Health, and National Environment Service. In the outer islands, the Office of the Minister of Island Administration provides these services and relies on island administrations to implement projects and undertake maintenance.
- (ii) **Energy.** In the energy sector, the Energy Division of the Ministry of Works is responsible for developing national energy policy and energy planning. It regulates and monitors standards for safety, quality, quantity, and efficiency of electricity generation and transmission; as well as for setting tariffs. The Cook Islands Investment Corporation, a holding company for state-owned enterprises, oversees operations of Te Aponga Uria, which operates power supplies on Rarotonga, and Aitutaki Power Supplies on Aitutaki. Te Aponga Uria has developed an investment plan to improve capacity and efficiency over the next 15 years at a cost of approximately US\$50 million. On the outer islands, the island authorities are responsible for their own power needs assisted by grants channeled through the Office of the Minister of Island Administration.
- (iii) **Transport.** Airstrips in the outer islands are operated by the island administrations licensed by the Cook Islands Airports Authority. The Cook Islands Ports Authority has responsibility for the harbors in Rarotonga and Aitutaki with the Office of the Minister of Island Administration responsible for outer-island facilities. Vital to development and social well-being of the islands, air services are dependent on interisland shipping for aviation fuel in the outer islands. 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.

11. Effective implementation of the Preventive Infrastructure Master Plan and the ensuing Infrastructure Development Project, results-focused service delivery, and asset management require a comprehensive review and preparation of an infrastructure governance framework, involving institutional arrangements and capacity development, policies, and cost recovery and procedures. The Government aims to identify a broad infrastructure governance framework for vetting infrastructure proposals and optimizing asset management, cost recovery possibilities, asset performance, and private sector participation. This involves reviewing appropriate institutional structures and performance monitoring arrangements, as well as performance targets. The PPTA will review infrastructure governance to achieve effective infrastructure service delivery in the context of the two municipality-sized service areas of Rarotonga and Aitutaki, and in the outer islands.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

12. The PPTA impact will be a contribution to environmentally sound development of infrastructure for power, water supply, sanitation, solid waste, and transport that will support sustained growth and development, and a sustainable basis for greater resource generation for the Government's pro-poor objectives. The PPTA outcome will be an agreed plan for strengthening the

infrastructure governance framework countrywide and capacity development of Cook Islands' implementing agencies, and a detailed project proposal for priority funding by development partners and the Government. The TA outputs will be (i) a recommendation for an infrastructure governance framework that enables the Government to optimize the contribution of infrastructure to environmentally sustainable growth and improve basic service delivery, involving a review of institutional arrangements and capacities, policies including cost recovery, and procedures; (ii) public awareness building for changed institutional arrangements; and (iii) detailed feasibility study for priority infrastructure investments with technical, financial, economic, environmental, social, and poverty assessments in accordance with ADB's policies and guidelines; and covering the first phase of the 20-year Preventive Infrastructure Master Plan. The initial poverty and social analysis is in Appendix 2. The PPTA will prepare a financing plan including financing resources from ADB (for economically viable project components), the Government, and development partners participating in the infrastructure sector. Total project funding is expected to be about US\$40 million, with indicative financing from ADB of US\$20.1 million.

B. Methodology and Key Activities

13. The PPTA will incorporate climate proofing in project design through a risk-based approach to reduce climate-related risks in a cost-effective manner. It will be implemented in a highly consultative environment, including with the Government of New Zealand and the European Union as the main development partners in the sector, and will support the Government with stakeholder consultations to identify and mitigate any potential risks to project implementation. The PPTA will include assessments of the safeguard requirements of ADB for environmental, social, and resettlement aspects of the proposed Project, and undertake the necessary field surveys and consultations with people affected and project beneficiaries. The PPTA will prepare action-based road maps for implementing recommendations under the infrastructure governance framework, covering policies, performance monitoring mechanisms with initial and target indicators, results-based service delivery, and programs to upgrade institutions with appropriate management capabilities. The PPTA will prepare targeted technical assistance in connection with the project loan, including support for implementation of the Project, reforms and institutional rationalization, and development of a comprehensive service delivery policy. Based on the Preventive Infrastructure Master Plan, the PPTA will prepare a detailed feasibility study for the priority infrastructure improvements.

C. Cost and Financing

14. The total cost of the PPTA is US\$825,000 equivalent. The Government asked ADB to finance US\$500,000. The TA will be financed on a grant basis by the Japan Special Fund, funded by the Government of Japan. The Government of New Zealand will cofinance US\$200,000 equivalent, on a grant basis, to be administered by ADB. The Government will contribute US\$125,000 in kind through the provision of counterpart staff, office space, administrative support, and local transport and logistics. The detailed cost estimates and financing plan are in Appendix 3. The Government has been informed that approval of the PPTA does not commit ADB to finance any ensuing project.

D. Implementation Arrangements

15. The Ministry of Finance and Economic Management, the Executing Agency for the PPTA, has established the Aid and Capital Coordinating Committee, chaired by the secretary of foreign affairs and immigration, and comprising the financial secretary; chief of staff of the Office of the Prime Minister; public service commissioner; chief executive officer of the Ministry of Outer Islands Administration; and two members of Parliament—one from the Government and one representing the opposition. A subcommittee of the coordinating committee, to be chaired by the chief of staff, will be established in the Office of the Prime Minister to serve as the steering committee for the PPTA. The Government will appoint counterpart staff to the steering committee from agencies managing

infrastructure services. The PPTA will be implemented during 7 months, tentatively from April 2008 to November 2008, commencing with preparation of an inception report within 4 weeks of commencement. The midterm report will be prepared after 4 months of services and provide detailed documentation for all project components with sufficient information for an ADB report and recommendation of the President for proposed ADB assistance and for consideration for financing by other development partners. The draft final report will be submitted 1 month prior to the final report. Reports will be circulated widely to country authorities and development partners.

16. Consulting services with a total 23 international and 12 national person-months of inputs will be provided by an international consulting firm with expertise in (i) infrastructure governance, and institutional and policy reviews; (ii) preparation of feasibility studies and design of power, transport, water, and sewerage projects; and (iii) application of safeguards in environment, resettlement, and social impact areas. ADB will engage an international firm to implement the PPTA, using quality- and cost-based selection in accordance with ADB's *Guidelines on the Use of Consultants* (2007, as amended from time to time). The quality–cost weighting ratio will be 80:20. ADB's simplified technical proposal procedure will be used. National consultants will provide support in the application of safeguards and particularly for local consultations and surveys. The consultant team will include a team leader with expertise in infrastructure economics, institutional reform, and capacity building (7.0 person-months); institutional specialist (2.5 person-months); financial management specialist (1.0 person-month), environmental specialist (1.5 person-months), resettlement specialist (1.5 person-months), social impact specialist (1.5 person-months), and participation specialist (2.0 person-months); and engineers with expertise in the design and cost estimation of projects in the selected subsectors (6 person-months). National consultants with expertise in environmental, resettlement, and social issues will be engaged for a total of 12 person-months. The outline terms of reference for consultant's services are in Appendix 4.

17. The Government has agreed to provide the following: (i) furnished office accommodation; (ii) access to all relevant documents, data, reports, and information that may be required to enable achievement of the PPTA objectives; (iii) assistance to the consultants in arranging meetings, travel, and discussions; (iv) arrangements for stakeholder meetings; and (v) counterpart staff to assist the consultants.

18. The consultants' reporting requirements include an inception report; midterm report, including a resettlement plan, initial environmental examination, and summary initial environmental examination; draft final report; and final report. The inception, midterm, and draft final reports will be reviewed in tripartite meetings between the Government, ADB, participating development partners, and the consultant. ADB's public communications policies will be followed to disclose reports once they are finalized. Where resettlement plans and environmental assessments are prepared, they will be disclosed to those affected in a form and language that they can understand.

IV. THE PRESIDENT'S DECISION

19. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of US\$200,000 to be financed on a grant basis by the Government of New Zealand; and (ii) ADB providing the balance not exceeding the equivalent of US\$500,000 on a grant basis, to the Government of the Cook Islands for preparing the Infrastructure Development Project, and hereby reports this action to the Board.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Impact A contribution to environmentally sound infrastructure and improved delivery of infrastructure services to achieve sustainable economic growth</p>	<p>Infrastructure built incorporating climate adaptation</p> <p>Improved reliability and efficiency of infrastructure services</p> <p>Maintenance adequately funded</p>	<p>Government statistics</p> <p>Project reports</p> <p>Government budget</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Project design including institutional reforms and capacity building implemented effectively • Timely provision of project financing requirements including ADB loan <p>Risks</p> <ul style="list-style-type: none"> • External factors affect tourism • Damage to infrastructure by extreme climatic event
<p>Outcome Project design agreed to by the Government, ADB, and collaborating development partners</p>	<p>Draft final report submitted to Government, ADB, and other agencies by September 2008</p> <p>Memorandum of understanding agreed to by ADB and the Government for further processing of the loan and associated technical assistance by October 2008</p>	<p>Project performance monitoring system</p> <p>Project reports</p> <p>Review missions</p>	<p>Assumptions</p> <ul style="list-style-type: none"> • Priorities for public sector infrastructure do not change • Project components supported by development partners <p>Risks</p> <ul style="list-style-type: none"> • Government plans to implement significant infrastructure not envisaged by the Preventive Infrastructure Master Plan and the National Sustainable Development Plan • Government assumes new borrowing for other purposes limiting its capacity to finance priority infrastructure • Government provides insufficient resources for infrastructure maintenance

Design Summary	Performance Targets/Indicators	Data Sources/ Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Recommendations for infrastructure governance framework, institutional arrangements and capacity, and policies including for cost recovery</p> <p>2. Strategy for public awareness for changed institutional arrangements</p> <p>3. Feasibility studies for water sanitation and sewerage, energy and transport projects</p>	<p>Analyses for water sanitation and sewerage, energy, and transport strategies completed by June 2008</p> <p>Detailed proposals for infrastructure governance framework, institutional strengthening, and capacity building agreed by August 2008</p> <p>Public awareness program implemented from September 2008</p> <p>Priority infrastructure investments identified, costed, prioritized, and agreed by September 2008</p> <p>Economic and financial analyses completed by August 2008</p> <p>Safeguard studies completed by September 2008 and uploaded in the disclosure management system</p>	<p>Inception report</p> <p>Midterm report</p> <p>Draft final report</p> <p>Safeguard studies</p>	<p>Assumptions</p> <ul style="list-style-type: none"> Strong and timely support from Government agencies <p>Risks</p> <ul style="list-style-type: none"> Timely delivery of required data by Government
<p>Activities with Milestones</p> <p>1.1 Review existing sector studies (April 2008)</p> <p>1.2 Prepare draft engineering design and cost estimates (July 2008)</p> <p>1.3 Hold first tripartite discussions and first stakeholder workshop (May 2008)</p> <p>1.4 Undertake economic analysis for all project components (July 2008)</p> <p>1.5 Undertake consultations with Government and other stakeholders on infrastructure governance issues (July 2008)</p> <p>1.4 Hold second tripartite discussions and second stakeholder workshop (August 2008)</p> <p>1.5 Prepare environmental and social analyses and resettlement frameworks (September 2008)</p> <p>1.6 Hold final tripartite discussions (October 2008)</p>			<p>Inputs</p> <ul style="list-style-type: none"> ADB: US\$500,000 Government of New Zealand: US\$200,000 Government of the Cook Islands: US\$125,000 (in kind contribution)

ADB = Asian Development Bank.

INITIAL POVERTY AND SOCIAL ANALYSIS

Country/Project Title:	COO: Infrastructure Development Project		
Lending/Financing Modality:	Sector/Multi Tranche Facility	Department/Division:	PARD/SPSO

I. POVERTY ISSUES

A. Linkages to the National Poverty Reduction Strategy and Country Partnership Strategy

1. Based on the country poverty assessment, the country partnership strategy and the sector analysis describe how the project would directly or indirectly contribute to poverty reduction and how it is linked to the poverty reduction strategy of the partner country.

Infrastructure contributes both directly and indirectly to the reduction of disadvantage and poverty in the Cook Islands. Absolute poverty does not exist due to the Government's social welfare system. This is supplemented by access to land and the seas for subsistence farming and fishing, especially in the outer islands. However, maintenance of the welfare system is heavily dependent upon affordability, which requires sustainable generation of Government revenue. Sound infrastructure is needed to provide an environment in which the private sector can thrive. Development on the outer islands is constrained by isolation and distance from the main centers, as well as by small populations numbering only several hundreds. Development of infrastructure is unlikely to promote significant private sector activity in these locations in the short term as a direct means of reducing the disadvantage of these groups, but the project preparatory TA will identify basic infrastructure needs to reduce disadvantage. However, economic growth must be maintained in the main centers so that provision of social services and maintenance of infrastructure is affordable for all parts of the Cook Islands.

B. Targeting Classification

1. Select the targeting classification of the project:

General Intervention Individual or Household (TI-H); Geographic (TI-G); Non-Income MDGs (TI-M1, M2, etc.)

2. Explain the basis for the targeting classification:

The PPTA will identify priority infrastructure projects across all islands in the Cook Islands. Project for ADB assistance will be identified based on sustained contribution to economic growth but other projects for bilateral financing will be identified based on needs and social considerations. Poverty analysis will be carried out to develop pro-poor or pro-disadvantaged design, and to quantify how the Infrastructure Development Project will reduce disadvantage and incorporate other social dimensions within the scope of project implementation. The analysis will be conducted following the guidelines in ADB's *Handbook on Poverty and Social Analysis* (2001).

C. Poverty Analysis

1. If the project is classified as TI-H, or if it is policy-based, what type of poverty impact analysis is needed?

2. What resources are allocated in the PPTA/due diligence?

A total of 3.5 person months have been allocated for international social impact and participation specialists and domestic consultants with expertise in environment, resettlement and social issues will be engaged for a total of 12 person-months. In addition, a special budget line has been allocated with \$20,000 for stakeholder meetings.

3. If GI, is there any opportunity for pro-poor design (e.g., social inclusion subcomponents, cross subsidy, pro-poor governance, and pro-poor growth)?

II. SOCIAL DEVELOPMENT ISSUES

A. Initial Social Analysis

Based on existing information:

1. Who are the potential primary beneficiaries of the project? How do the poor and the socially excluded benefit from the project?

With water and sanitation as a high priority area on the main islands, the population at large as well as tourists will be the primary beneficiaries. Aging water pipes and frequent disruptions in supply coupled with leaking septic tanks have caused increasing health hazards for everybody. Safe water and sanitation is not only a requirement to underpin the tourist industry and thus provide the revenue which supports the financing of basic service delivery in the outer islands, but is also a basic need for all inhabitants.

2. What are the potential needs of beneficiaries in relation to the proposed project?

To maintain the proper standard of water and sanitation supply, tariffs must be introduced to avoid the systems falling into disrepair. There will be a need to introduce the so called "lifeline tariffs" for the poorest segment of the society.

3. What are the potential constraints in accessing the proposed benefits and services, and how will the project address them?

There will be no constraints in accessing the proposed benefits and services as the priority infrastructure projects will be designed to cover whole islands. For bilateral grant assistance to the outer islands, it is always the poorest segments of the populations there that are targeted.

B. Consultation and Participation

1. Indicate the potential initial stakeholders.

Government, civil society, nongovernment organizations, development partners, and the private sector.

2. What type of consultation and participation (C&P) is required during the PPTA or project processing (e.g., workshops, community mobilization, involvement of nongovernment organizations and community-based organizations, etc.)?

Preliminary stakeholder consultation was done during preparation of the Preventive Infrastructure Master Plan, throughout 2006. The project preparatory technical assistance (PPTA) will prepare a stakeholder analysis for specific interventions identified under the investment prioritization process, indicating roles of various stakeholders in the delivery and receipt of the services.

3. What level of participation is envisaged for project design?

Information sharing Consultation Collaborative decision making Empowerment⁷

4. Will a C&P plan be prepared? Yes No Please explain.

The international and domestic consultants will obviously prepare a detailed C&P plan once the priority areas for ADB assistance has been identified. For the priority areas not meeting the required EIRR and thus will be for consideration for bilateral grant financing, additional C&P will be carried out by those donors.

C. Gender and Development

1. What are the key gender issues in the sector/subsector that are likely to be relevant to this project/program?

There are no gender issues foreseen in this project. Cook Islands is the most developed of the PDMCs and gender disparities or disadvantages are not observed.

2. Does the proposed project/program have the potential to promote gender equality and/or women's empowerment by improving women's access to and use of opportunities, services, resources, assets, and participation in decision making? Yes No

3. Could the proposed project have an adverse impact on women and/or girls or to widen gender inequality?¹

Yes No

III. SOCIAL SAFEGUARD ISSUES AND OTHER SOCIAL RISKS

Issue	Nature of Social Issue	Significant/Limited/ No Impact/Not Known	Plan or Other Action Required
<u>Involuntary Resettlement</u>	The Project (i) will require construction and rehabilitation work; (ii) is expected to require acquisition of easements for buried services; and (iii) is not expected to engender loss of assets, resources, or income. Each proposed intervention will be screened during the PPTA to assess impacts. A resettlement framework and resettlement plan will be prepared for administering any minor acquisition that may be required.	Limited.	<input type="checkbox"/> Full Plan <input checked="" type="checkbox"/> Short Plan <input type="checkbox"/> Resettlement Framework <input type="checkbox"/> No Action <input type="checkbox"/> Uncertain
<u>Indigenous Peoples</u>	The Cook Islands population is composed mainly of Cook Island Maori who own the land collectively. Other residents are temporary	No impact	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input type="checkbox"/> Indigenous Peoples Framework <input checked="" type="checkbox"/> No Action

	foreign residence permit holders. No indigenous minority groups are present.		<input type="checkbox"/> Uncertain
Labor <input type="checkbox"/> Employment Opportunities <input type="checkbox"/> Labor Retrenchment <input type="checkbox"/> Core Labor Standards	No significant labor implications are expected. The limited capacity of the Cook Islands' construction industry and the use of international competitive bidding for procurement of construction packages under the ensuing Project is likely to result in international (most probably New Zealand-based) construction companies undertaking physical construction work. Some temporary importation of labor will be necessary to provide the necessary skills.	Limited	<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action <input type="checkbox"/> Uncertain
Affordability	The Project will introduce reforms in the delivery of water and sanitation services that are likely to include the introduction of tariffs. The design and implementation of a water and sanitation authority to replace the Public Works Department will be supported by an attached technical assistance that will address issues such as willingness to pay, lifeline tariffs, etc. Charges for the emptying of septic tanks are already in place.	Significant	<input checked="" type="checkbox"/> Action <input type="checkbox"/> No Action <input type="checkbox"/> Uncertain
Other Risks and/or Vulnerabilities <input type="checkbox"/> HIV/AIDS <input type="checkbox"/> Human Trafficking <input checked="" type="checkbox"/> Others (conflict, political instability, etc.), please specify	Ownership and commitment to project components will be ensured through extensive stakeholder consultations, during feasibility studies under this PPTA and during detailed project design conducted as part of the Project.		<input type="checkbox"/> Plan <input type="checkbox"/> Other Action <input checked="" type="checkbox"/> No Action <input type="checkbox"/> Uncertain
IV. PPTA/DUE DILIGENCE RESOURCE REQUIREMENT			
1. Do the TOR for the PPTA (or other due diligence) include poverty, social and gender analysis and the relevant specialist/s? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If no, please explain why.			
2. Are resources (consultants, survey budget, and workshop) allocated for conducting poverty, social and/or gender analysis, and C&P during the PPTA/due diligence? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If no, please explain why.			

COST ESTIMATES AND FINANCING PLAN
(US\$'000)

Item	Total Cost
A. Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	336.00
ii. National Consultants	50.00
b. International and Local Travel	45.00
c. Reports and Communications	2.00
2. Equipment	10.00
3. Training, Seminars, and Conferences	
a. Facilitators	
b. Training Program	
c. Stakeholder Meetings	20.00
4. Surveys	20.00
5. Miscellaneous Administration and Support Costs	5.00
6. Contingencies	12.00
Subtotal (A)	500.00
B. Government of New Zealand Financing	
1. Consultants	
a. Remuneration and Per Diem	
i. International Consultants	147.00
ii. National Consultants	10.00
b. International and Local Travel	18.00
c. Reports and Communications	3.00
2. Equipment	
3. Training, Seminars, and Conferences	
a. Facilitators	
b. Training Program	
c. Stakeholder Meetings	
4. Surveys	
5. Miscellaneous Administration and Support Costs	10.00
6. Contingencies	12.00
Subtotal (B)	200.00
C. Government Financing^b	
1. Office Accommodation and Transport	50.00
2. Remuneration and Per Diem of Counterpart Staff	50.00
3. Others	25.00
Subtotal (C)	125.00
Total	825.00

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Financed by the Government of the Cook Islands.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Overview of Requirements

1. The consultant team will be selected from a firm with expertise in (i) preparation of feasibility studies and design of power, transport, water and sewerage projects; (ii) application of safeguards in environment, resettlement, and social impact areas; and (iii) infrastructure governance, and institutional and policy review in accordance with ADB guidelines and international standards. The team will be supplemented with national consultants to provide support in project design and application of safeguards, particularly local consultations and surveys. Project design will mainstream climate change adaptation, energy efficiency, and climate-proofing considerations.

2. The consulting services will be delivered over 7 months, commencing in April 2008 and concluding in November 2008. The services to be provided by the consultants will include the following tasks.

3. **Review of the Existing Documentation—Inception Phase.** Responsibilities of the consultants include the following:

- (i) Review all existing documentation on infrastructure development, management, maintenance, and service delivery, with reference to the Preventive Infrastructure Master Plan; and help the Government prioritize infrastructure investment proposals on the basis of demand and internal economic rates of return for infrastructure development projects that support environmentally sustainable growth and development on the main islands of Rarotonga and Aitutaki and the outer islands.
- (ii) Undertake preliminary evaluation of the short- and medium-term investments proposed in the master plan for transport, water, sewerage, and power; and identify project components suitable for financing by the Asian Development Bank (ADB) and other development partners, including the Government of New Zealand, European Union, People's Republic of China, and Global Environment Facility.
- (iii) Conduct thorough consultations with these partners with the objective of identifying the best package of funding possibilities for identified projects, identifying pros and cons and value added of using any of ADB's financing instruments (e.g., project, sector, and sector program modalities; and multitranches financing facility (MFF).
- (iv) Review all existing analysis and recommendations for the infrastructure governance framework, including institutional arrangements and capacity, policies and procedures, and asset management regime. Include funding considerations for all public infrastructure investments, maintenance, and operation—proposed and ongoing.
- (v) Examine the political economy and the nature and support for prioritized public infrastructure investment; and assess the potential risks to project implementation, identifying mitigating arrangements.
- (vi) Review feasible and viable options and strategies for public–private partnerships and private sector funding, including the potential use of ADB's credit enhancement instruments.

- (vii) Prepare an inception report, providing fully detailed work plans accounting for the existing work, where relevant, time frames, consultation programs, and methodologies for each terms of reference.

4. **Institutional Assessment and Capacity Development.** Activities include the following:

- (i) Conduct a comprehensive review of the Government's current infrastructure institutional and policy framework, evaluating adequacy of the legal and policy instruments; and assessing resource adequacy, both financial and human, and capacity of the sector agencies to efficiently and effectively operate and maintain Government-owned infrastructure, including buildings on the main and outer islands.
- (ii) Recommend options for an infrastructure governance framework for (a) proposal assessment; (b) asset performance and management; (c) strategies for maintenance regimes for each asset group by sector, including for funding and cost recovery; (d) monitoring mechanisms identifying performance targets and initial situation indicators; (e) identification of resource requirements and technical assistance needs; and (d) preparation of terms of reference for the identified technical assistance requirements.
- (iii) Consult the stakeholders, particularly the Government and its agencies as well as the private sector and beneficiary stakeholders, building on earlier decisions to develop a detailed road map for establishing an efficient and effective infrastructure governance framework that enables the Government to optimize infrastructure contribution for environmentally sustainable growth and development in the country and for attainment of the Government's pro-poor objectives.
- (iv) Review project implementation arrangements and recommend appropriate arrangements to ensure adequate resourcing of project implementation, including for contracting, contract management, performance monitoring, disbursement, among other aspects of project management; prepare terms of reference for consultant services for implementation and support of project implementation.
- (v) Identify appropriate executing agencies (EAs) and implementing agencies (IAs), and assess their financial and management capacities to determine whether these capacities (e.g., budgeting systems, corporate planning, financial and management accounting, cost accounting, internal controls and audit systems, data processing, among other due governance processes) are sufficient to implement the ensuing Infrastructure Development Project and subsequently to operate project assets efficiently.
- (vi) Prepare a financial management assessment, using ADB's financial management assessment questionnaire and reviewing any earlier loan-funded projects implemented by the proposed EAs and IAs to determine their financial management capacities.
- (vii) Suggest appropriate financial covenants to monitor financial conditions of the ensuing Project.
- (viii) On the basis of these assessments, prepare a conclusion with respect to adequacy of financial management arrangements for the Project and/or identify financial management risks and suggested mitigation measures.
- (ix) Recommend measures to be taken for capacity development in the sector agencies, and prepare detailed terms of reference for implementing the recommended capacity development through technical assistance (TA) under the ensuing Project.

- (x) On the basis of these assessments, recommend institutional strengthening of financial management TA requirements and prepare terms of reference for TA accordingly along with a recommended time-bound implementation plan, including determining person-months of required consultants, costs, and time frame for implementation during the ensuing project period.

5. **Preliminary Engineering Design.** The consultants will prepare preliminary engineering designs for the proposed project components and infrastructure facilities, and specifications for the works and procurement proposed. The preliminary designs will be prepared in sufficient detail to facilitate stakeholder consultations and preparation of detailed feasibility studies, including the technical, financial, economic, environmental, social, and poverty aspects of the components. The preliminary designs will incorporate climate-proofing considerations, where appropriate, and will adopt design concepts that are commensurate with expected institutional capacity to manage and maintain. Energy sector projects should emphasize (a) efficiency gains through system upgrades and retrofits, and (b) demand management programs to reduce and/or change end-user demand as a priority.

6. **Economic Analysis.** Responsibilities of the consultants include the following:

- (i) Review the project rationale and demand for the proposed investments, and determine the basis for ADB involvement. Assess the relevance and priority of project interventions to the country's infrastructure sector strategy. Demonstrate that the infrastructure services or products have effective demand.
- (ii) Identify all project benefits and costs comparing with and without-project situations. Undertake an economic evaluation of the Project by following ADB's *Guidelines on Economic Analysis of Projects* (1997). Estimate economic internal rate of return and net present values on the basis of nonincremental and incremental economic benefits and economic costs, including economic capital, and operation and maintenance costs, in constant economic prices. The analysis should be carried out by using a consistent set of national economic parameters and standard conversion factors and/or shadow exchange rate factors, identifying the traded and nontraded components of both economic benefits and costs, and applying the standard conversion factor to nontraded items or applying a shadow exchange rate factor to the traded items.
- (iii) Undertake sensitivity analysis to assess the effects of adverse changes in key assumptions that underline the economic analysis, including project costs, traffic, and implementation delays. Express results as a sensitivity indicator and a switching value. If the Project is sensitive to the value of a key variable, recommend measures to minimize the risk.
- (iv) Undertake distribution and affordability analysis of essential services such as water supply and sanitation analysis taking existing tariff and tariff reforms into account.
- (v) For revenue-generating project components, prepare a financial analysis incorporating financial internal rate of return and weighted average cost of capital analysis.
- (vi) Provide inputs for project monitoring, together with item (i), a set of performance indicators that can be verified and monitored, including operating, financial, environmental, socioeconomic, and poverty reduction parameters. Specify baseline targets for socioeconomic and poverty indicators, and a sustainable mechanism for monitoring during and beyond the construction stage.

7. **Poverty and Social Assessment.** Activities include the following:
- (i) Conduct poverty and social analysis in accordance with ADB's *Handbook on Poverty and Social Analysis* (2001) and *Handbook for Integrating Poverty Impact Assessment in the Economic Analysis of Projects* (2001). Assess how the Project improves income and livelihoods. Estimate (a) the number of project beneficiaries by area, occupation, and income level; (b) the number of people adversely affected and the type of impact; and (c) the poverty impacts.
 - (ii) Prepare socioeconomic and poverty profiles for areas to be served by the proposed subprojects separating data by income group and gender. Where applicable, review the Government's policies, strategy, and programs for poverty reduction and economic development that could complement the Project, particularly those targeting the poor and disadvantaged; assessing gender issues; identifying vulnerable groups; and recommending appropriate measures to address impacts and promote development opportunities during construction, operation, and maintenance; assessing potential risks related to health in the subproject areas as well as practical means for the Project to mitigate such risks; and suggesting interventions on how to maximize project benefits.
 - (iii) Prepare a social and poverty assessment report to summarize findings of the poverty and social analysis and assessment, and proposed actions using ADB's summary poverty reduction and social strategy format.
8. **Resettlement Assessment.** The consultants will prepare a resettlement framework in accordance with ADB's *Handbook on Resettlement: A Guide to Good Practice* (1998), and a resettlement plan for each of the project components with resettlement impacts.
9. **Environmental Assessment.** Activities include the following:
- (i) Undertake environmental surveys and prepare an initial environmental examination and summary environmental impact assessment for the Project in accordance with the ADB *Environment Policy* (2002), *Environmental Assessment Guidelines* (2003), and other relevant ADB guidelines.
 - (ii) The initial environmental examination will include (a) description of the Project; (b) description of the environment including physical resources, ecological resources, economic development, and social and cultural resources; (c) assessment of project alternatives; (d) anticipated environmental impacts (direct, indirect, cumulative); (e) economic assessment; (f) environmental management plan including institutional arrangements and environmental monitoring plan; and (g) public consultation and information disclosure.
 - (iii) Determine costs for proposed environment mitigation measures and environmental monitoring activities, and incorporate appropriate mitigation measures into the project design.
 - (iv) Prepare terms of reference for environmental monitoring during project implementation.
 - (v) Conduct appropriate public consultations in accordance with the ADB *Environment Policy* and *Environmental Assessment Guidelines*.
10. **Stakeholder Consultations and Public Awareness.** Activities include the following:
- (i) Prepare draft terms of reference for undertaking stakeholder consultations and public awareness activities for the ensuing project components.

- (ii) Train the national social development and resettlement specialist during the course of the consultancy in the methodologies and approaches for participatory process planning.
- (iii) Liaise with the EAs, IAs, and steering committee to coordinate all components and activities of consulting services for assisting the Government with stakeholder consultations and dissemination of information.
- (iv) Together with all relevant stakeholders and contributing parties, including officials of the Ministry of Finance and Economic Management, affected ministries, state-owned enterprises, relevant nongovernment organizations, and the national social and resettlement specialist, design a participatory process to review and decide on development options; and prepare a detailed work program, action plan, and implementation schedule for public awareness activities.
- (v) Organize and facilitate a series of participatory processes, consultations, and workshops to bring all interested and relevant stakeholders to a clear understanding of the status of infrastructure and its impact on the development of the Cook Islands; and help the same stakeholders to consider and identify preferred options for the future development of public infrastructure, its governance, and the sector institutions.

11. **Project Cost, Contract Packages, and Financing Plan.** Activities include the following:

- (i) Prepare cost estimates for each proposed project component, including the marginal cost for climate adaptation and cost of detailed design and construction supervision services, providing a breakdown of the costs for foreign, local, tax, and duty components.
- (ii) Propose contract packages designed to minimize cost through economy of scale and component proximity, and propose a procurement modality.
- (iii) Review and recommend financing options for consideration by the Government and development partners in line with best practices for the use of debt and grant instruments. Identify options for private sector participation in financing the Project and possible use of ADB's credit enhancement instruments where appropriate, and develop a funding framework for the Project as a whole.
- (iv) Prepare a financing plan in consultation with the Government, ADB, and development partners, maximizing the use of grants and concessionary loans. The financing plan for ADB-financed project components will be prepared giving due consideration to all ADB's financing modalities, including project, sector, sector program, and MFF instruments.
- (v) Prepare the financing plan and associated inputs in accordance with ADB's guidelines for *Financial Management and Analysis of Projects (2005)*.

12. **Implementation Arrangements.** The consultants' activities include the following:

- (i) Identify project implementation arrangements, including the roles of the EAs and IAs, and the composition of the project steering committee, including consideration of project, sector, sector program, and/or MFF modalities with due regard to the proposed scope and capacity of the proposed EAs. Discuss roles and responsibilities for each modality in detail with the Government.
- (ii) Prepare a detailed project implementation schedule specifying key activities and time frames taking into account the time frame required by ADB's procurement guidelines and those of the development partners.

- (iii) Prepare draft terms of reference for detailed design, bidding documents, tender phase management, and construction supervision of components identified for ADB financing.

13. Report and Recommendation of the President and Reports for Other Development Partners. The consultants will complete the following:

- (i) Prepare all inputs for a draft report and recommendation of the President (RRP) in the prescribed form for project components to be financed by ADB. Formulate, in a participatory manner, a results-based project design and monitoring framework and a project-performance management system for monitoring and evaluating impact, outcomes, outputs, activities, and inputs. Collect the preliminary data for baseline indicators and targets, and prepare appropriate formats for collection of data during and after project implementation.
- (ii) Prepare feasibility reports for projects to be financed by other development partners. Liaise with the relevant development partner agency regarding the form of the report. In the absence of an identified development partner, the report will conform to that required for the draft RRP.

B. Composition of the Consultant Team

14. Team Members. The consultant team will include a team leader and infrastructure economist (7.0 person-months), institutional specialist (2.5 person-months), financial management specialist (1.0 person-month), environment specialist (1.5 person-months), resettlement specialist (1.5 person-months), social impact specialist (1.5 person-months), and participation specialist (2.0 person-months); and engineers with expertise in the design and cost estimation of water supply and sanitation projects (3.0 person-months), ports (1.5 person-months), and power (1.5 person-months). Approximately 12 person-months of national consultant services will be provided as support: a civil engineer (5.0 person-months), social and resettlement specialist (5.0 person-months), and environmental specialist (2.0 person-months).

15. Reporting Requirements. The consultants will prepare the following reports, in clear English and in publishable quality, with 10 copies for the Government of the Cook Islands, 2 for the Government of New Zealand, and 3 for ADB, with CD versions in equal number of copies:

- (i) **Inception report.** This brief report will be submitted within 4 weeks of the start of the PPTA. It will outline, in accordance with the terms of reference, the consultants' approach, methodology, and work plan for PPTA implementation, as agreed with the Government stakeholders, ADB, and development partners. It will clearly identify and recommend the proposed scope of the Infrastructure Development Project, including the proposed technical assistance. The report will provide a bar chart of all activities under the PPTA, and recommend implementation arrangements. The report will be circulated to the Government, ADB, and participating development partners for their comments.
- (ii) **Midterm report.** Within 3 months of the inception report, a midterm report must be submitted containing a text attachment in the format of a draft RRP for the proposed Project including all recommendations and concepts developed under the terms of reference and detailed background of the sectors proposed for investment, including issues, opportunities, and constraints, as relevant for decision-making on the investment and PPTA proposals. This report will include detailed analysis for the components proposed for ADB financing, and similar

reports for projects to be financed by other development partners. The analysis will, for the sectors prioritized for investment intervention, include (a) road map and investment program, (b) design and monitoring framework, (c) implementation framework, and (d) subproject selection criteria if MFF or sector project modalities are proposed.

- (iii) **Draft final report.** This report will (a) be submitted on completion of the PPTA, (b) summarize the PPTA activities and recommendations, and (c) provide detailed recommendations on each item under the terms of reference with action plans.
- (iv) **Final report.** This report will be submitted by the consultants 1 month after receipt of the comments on the draft final report from the Government, ADB, and the development partners.

16. **Counterpart Facilities.** The Government and the consultant will supply the following:

- (i) The Government will provide (a) furnished office accommodation; (b) access to all relevant documents, data, reports, and information that may be required to enable achievement of the PPTA objectives; (c) assistance to the consultants in arranging meetings, travel, and discussions; (d) arrangements for stakeholder meetings; and (e) counterpart staff to assist the consultants. All costs associated with counterpart staff, including travel costs, will be borne by the Government. The office will be equipped with a telephone, but telephone usage costs will be borne by the consultant.
- (ii) The consultant will provide a photocopier, one monochrome laser printer, and one color printer, the cost of which will be reimbursed. On completion, the equipment will be transferred to the Government for use under the ensuing Project. The consultants will make their own arrangements for any other office equipment, including computers, document binders, etc., as necessary; for land transportation on Rarotonga and Aitutaki; and for accommodation while performing services in the Cook Islands.