

**ASIAN DEVELOPMENT BANK**

**TAR:COO 34226**

**TECHNICAL ASSISTANCE**

**TO THE**

**COOK ISLANDS**

**FOR**

**PREPARING AN ECONOMIC REPORT**

**October 2000**

## **CURRENCY EQUIVALENTS**

(as of 31 August 2000)

Currency Unit	–	New Zealand Dollar (NZ\$)
NZ\$1.00	=	US\$0.43
US\$1.00	=	NZ\$2.32

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
CIER	–	Cook Islands Economic Report
GDP	–	gross domestic product
MFEM	–	Ministry of Finance and Economic Management
NZODA	–	New Zealand Overseas Development Agency
TA	–	technical assistance

## **NOTE**

The fiscal year (FY) of the Government ends on 30 June.

## I. INTRODUCTION

1. A new economic report for the Cook Islands is due: the last report was prepared in July 1995. During the Country Program Mission in April 2000, the Government confirmed its willingness to update the 1995 Cook Islands Economic Report (CIER) with technical assistance (TA)<sup>1</sup> from the Asian Development Bank (ADB). The new CIER will comprehensively assess the Cook Islands economy in the context of recent economic and political developments and include a forward-looking strategy that could form the basis of a strategic development plan for the country with a strong outer-island emphasis. The Mission reached an understanding with the Government on the objective scope implementation, financing arrangements, and terms of reference for the TA. The TA framework is attached as Appendix 1.

## II. BACKGROUND AND RATIONALE

2. After three years of recession, the Cook Islands economy rebounded in 1999, despite a population decline from 17,400 in 1998, to around 16,100. Real gross domestic product (GDP) grew by an estimated 2.7 percent. The overall GDP growth for 1999 was driven mainly by strong performance in the restaurant and accommodation industry, which was estimated to have increased by 6 percent in real terms. This is due to the notable recovery of tourist arrivals. Total arrivals increased by 14.3 percent from 55,552 in 1998 to 62,970 in 1999 due to an increase in visitors from Australia, New Zealand, and Canada. All sectors, except the public sector, which remained constant, recorded a real growth of more than 2 percent, with the mining and manufacturing sector 6 percent and construction 5 percent. A business survey in 1999 revealed a substantial rise in business confidence; this was reflected in growth of credit to the private sector and a rise in foreign investment. The inflation rate rose to 1.4 percent, from 0.8 percent in 1998. Real GDP is forecast to grow by around 3 percent in 2000. Sectors expecting to lead growth in ensuing years are agriculture and fisheries (particularly the black pearl industry), restaurants and accommodation, manufacturing, and construction. In terms of productive sector growth, the pearl industry is expected to average 30 percent, tourism to maintain a sustainable 5 percent growth, and agricultural products to command 3 percent average growth.

3. The Government has remained committed to the aims of the Economic Restructuring Program. In its 2000/01 budget policy statement, the Government indicated that it would (i) continue a process of reform and strengthen public institutions, and (ii) reform the budget process to improve accountability by strengthening the link between policy and action. ADB's operational strategy is to continue to support the ongoing reform process. This strategy has been implemented through lending in the areas of economic reform, education, and development banking as well as TA for the development investment board and urban infrastructure. Against this background, the Government has requested specific ADB TA with updating the economic report, to help establish the specific reform agenda for the medium term.

4. In general, poverty has not been regarded as a problem in the Cook Islands. GDP per capita is around US\$5,000 (NZ\$7,592) in 1999; and Cook Islanders may move freely to New Zealand and access its job markets and welfare system, remitting funds to family back home. The Cook Islands' human poverty index is the second lowest among the Pacific developing

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<sup>1</sup> The TA was first listed in *ADB Business Opportunities* on 1 June 2000.

member countries (6.1 as against 52.2 for Papua New Guinea).<sup>2</sup> This index reflects the relatively low percentage of people not expected to survive to the age of 40 (6.4 percent), low illiteracy rate (6.8 percent), low percentage of people without access to safe water (5 percent), zero percentage of people without access to health services, and relatively low percentage of children under 5 years of age who are underweight (10 percent). No country-specific poverty line has been calculated.

5. Inequality of income between the main island of Rarotonga and the outer islands is a concern. Approximately 40 percent of the population lives on the outer islands. The 1995 CIER showed that income levels in the southern and northern groups were half to two thirds the national average, and that around 90 percent of Government expenditure occurred on Rarotonga. Access to the basic services of health, education, water, and sanitation on the outer islands is poor by comparison with the main island, and tends to perpetuate relative poverty.

6. The Government has initiated devolution to the outer islands and is willing to work with ADB to achieve a better understanding of the outer islands poverty issues. Accordingly, the forthcoming economic report on the Cook Islands will give special emphasis to outer island issues and concerns. The outcome of this study is expected to lead to preparation of an outer-island development loan for consideration in 2003.

7. The main audience for the report will be Government officials and staff of funding and aid agencies. The report will provide a timely assessment of the economy and set out the Government's development strategy. The report will also be used by the business community, academics, students, and anyone interested in the development of the Cook Islands.

### **III. THE TECHNICAL ASSISTANCE**

#### **A. Objective**

8. The purpose of the TA is to assist the Government in preparing a development strategy by updating the 1995 CIER. The new CIER will assess the status and prospects for the economy. On the basis of an assessment of strengths and weaknesses and prospects, the report will include a set of recommendations for the country's development for the medium term. This information will contribute to the formulation and implementation of a development strategy for the Cook Islands. The CIER should also set the basis for ADB's future assistance to the Cook Islands.

#### **B. Scope of TA**

9. The TA will assess the macroeconomic position and growth performance of the Cook Islands economy. The Government's recent fiscal performance will be assessed in the light of recent reform measures, including a brief review of the impact of past and ongoing reform measures. The Government's privatization progress will be assessed.

10. The TA will review the major sectors, and the policies and regulatory environment that affect their efficient operation. The constraints of factor markets including land, labor, and capital will be analyzed. Strategies will be recommended to encourage private sector development that

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<sup>2</sup> United Nations Development Programme. 1999. *Pacific Human Development Report 1999: Creating Opportunities*, Suva, the Fiji Islands.

reflects local concerns: The strategies will include proactive measures to develop entrepreneurship and productive income generating activities.

11. Throughout the macroeconomic and sector reviews the TA will (i) assess regional disparities between Rarotonga and the outer islands, and problems of disadvantaged communities particularly on the outer islands; and (ii) identify a strategy to promote outer island development. During the preparation of the CIER, the TA team will visit the outer island, work closely with the Government, and seek a range of views from other key stakeholders on outer islands development.

12. The New Zealand Overseas Development Agency (NZODA) will support studies on the health and education sectors. The studies are expected to be completed by the end of 2000. The CIER will incorporate the results of the health and education studies, making it a more comprehensive document to guide policymakers. The CIER will be labeled as a joint ADB-NZODA report.

### **C. Cost Estimates and Financing Plan**

13. The TA is estimated to cost US\$243,000 equivalent, of which US\$140,000 is the foreign exchange cost and US\$103,000 equivalent the local currency cost. ADB will finance US\$180,000 equivalent to meet the entire foreign exchange cost and US\$40,000 equivalent of the local currency cost. ADB will finance the TA on a grant basis from the ADB funded TA Program. The Government will finance the remaining cost of US\$63,000 equivalent to cover the local currency cost of counterpart staff, office space for the consultants, administration, and communications. The cost estimates are shown in Appendix 2.

### **D. Implementation Arrangements**

14. ADB will recruit international consultants with a high level of economic expertise and, preferably, with Pacific island experience. The Government will provide counterpart staff within the Ministry of Finance and Economic Management (MFEM).

15. To gain a variety of opinions, the team will, where possible, organize workshops to discuss relevant issues relating to medium-term development. The workshops will include stakeholders from the private sector, nongovernment organizations, and the Government to solicit their views. In liaison with MFEM, the relevant feedback from this workshop will be incorporated in the final report.

16. MFEM will be the Executing Agency for the TA. Individual international consulting inputs of five person-months and domestic consulting inputs of two person-months will be required. A macroeconomist will lead the team. This person will undertake the overall macroeconomic assessment and be engaged for approximately three person-months. This will include approximately two weeks in Manila to finalize the report. A sector specialist will be recruited for approximately two person-months to assess the microeconomic aspects and productive sectors. The domestic consultant will update the island profiles, including an assessment of development constraints and potential in the outer islands and provide advice to team members for the study. The macroeconomist and sector specialist will be fielded in two phases, with a break in December 2000 and January 2001. The outline terms of reference for the consultants are in Appendix 3.

17. The TA will commence in October 2000 and be implemented over six months with completion expected by March 2000. The consultants will be selected and engaged in accordance with ADB's *Guidelines on the Use of Consultants*. All procurement under the TA will be in accordance with arrangements acceptable to ADB.

#### **IV. THE PRESIDENT'S DECISION**

18. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Cook Islands in an amount not exceeding the equivalent of US\$180,000 for the purpose of Preparing an Economic Report, and hereby reports such action to the Board.

### TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Measurable Indicators	Monitoring Mechanisms	Assumptions and Risks
<p><b>Goal</b></p> <p>To contribute to an enhanced performance of the economy</p>	Real gross domestic product (GDP) per capita growth rate	National accounts	No external shocks to disrupt economic performance Stable Government committed to implementation of economic policy and public sector reforms
<p><b>Objectives</b></p> <p>To contribute to the formulation and implementation of a development strategy for the Cook Islands</p>	Use of Cook islands economic report (CIER) in Cabinet discussions and government budgets and plans	Cabinet records, reviewed plans and budgets	Government with support of the Asian Development Bank (ADB) implements development policies following the CIER
To provide a basis for formulation of ADB's future assistance to the Cook Islands	The new country assistance plan (CAP) is developed with reference to the CIER	The CIER and CAP are compared and checked for consistency	
<p><b>Output</b></p> <p>This CIER is produced in a timely manner in a form suitable for editing for publication, covering economic development performance, problems, prospects, and possible strategies.</p>	CIER draft available for review and policy analysis purposes	Interim and draft final CIER ADB review mission	CIER accepted by Government, nongovernment organizations, private sector etc.
<p><b>Activities</b></p> <p>Macroeconomist and team leader.</p>	<p><b>Inputs</b></p> <p>3 person- months</p>	Consultant's work plan ADB review mission	Appropriate Technical Assistance (TA) personnel available for required period and complete tasks on time Required data can be accessed and are sufficiently comprehensive, timely, and reliable Good relationship among consultants and counterpart staff
Sector specialist	2 person-months		
Domestic consultant	2 person-months		
Counterpart staff			

## OUTLINE TERMS OF REFERENCE

1. The Cook Islands economic report (CIER) team will draw on existing material including earlier country economic reports prepared by the Asian Development Bank (ADB), the Cook Islands Government, and other aid agencies.

2. The team leader-macroeconomist will provide intellectual leadership and guidance to the team. The team leader will focus on the macroeconomics aspects of the economy including the Government's fiscal policy. The sector specialist will analyze the microeconomic and sector issues. The domestic economic adviser will assess the outer-islands' development constraints and potential, and provide advice to team members as required during the study.

### **A. Macroeconomist-Team Leader (International Consultant)**

3. The macroeconomist-team leader will undertake the following.

- (i) Review significant overall trends in the macroeconomic development of the country since independence, and comment more fully on developments since 1990. Special reference will be given to macroeconomic aggregates, including gross domestic product (GDP), savings and investments, price level, money supply, external debt, employment, and balance of payments.
- (ii) With the assistance of the domestic economic adviser, estimate GDP of each outer island by collecting field data and reviewing tax records and existing survey results, including outer-island household income and expenditures surveys in 2000.
- (iii) With the assistance of the sector specialist and domestic economic adviser, assess disparities between Rarotonga and the outer island in terms of incomes, employment, and other economic opportunities and comment on policies to promote equitable development in the outer islands.
- (iv) In conjunction with other team members, evaluate and provide constructive comment on the Government Budget Policy Statement 2000/2001.
- (v) With the assistance of the domestic economic adviser, evaluate and provide constructive comment on the outer-islands' corporate plans.
- (vi) Briefly review and comment on the status and performance of the financial sector.
- (vii) Briefly review and assess the impacts of the Government's Economic Restructuring Program (ERP) and the future reform agendas needed to implement the ERP.
- (viii) Assess the Government's fiscal performance and budgeting framework; include an assessment of revenue-raising performance and expenditure patterns with recommendations to improve the efficiency of fiscal policy in delivering Government policy outcomes.

- (ix) Describe ongoing devolution efforts by the Government, assess financial positions of the outer islands, and review the Government's expenditures and service delivery systems.
- (x) Examine the role of the public sector and comment on policies and strategies to improve its effectiveness and efficiency (special emphasis should be given to the size of the public sector relative to the rest of the economy).
- (xi) With the assistance of the domestic economic adviser and sector specialist, examine the land tenure system (including the outer-islands' land tenure system) and the current institutional capacity for land management and administration.
- (xii) Assess the Government's efforts in divesting public sector commercial enterprises and the capacity of the regulatory framework, and identify constraints for the process.
- (xiii) In close consultation with the Government, prepare policy recommendations that could form the basis of a strategic plan for the Government.
- (xiv) Coordinate findings and recommendations with the health and education sector specialists (to be funded by New Zealand Overseas Development Agency (NZODA), where appropriate).
- (xv) Lead team presentations of major policy findings and recommendations at Government workshops.
- (xvi) Based on these tasks, in consultation with the Government, prepare an economic report that is approximately 100 pages long and incorporates health and education studies (the report should be prepared in a format suitable for publication in the ADB's Pacific Studies Series).

4. The team leader-macroeconomist will be responsible for the completion of all analyses and report writing while in the Cook Islands and will return to Manila to finalize the economic report. The team leader will present the interim report and final draft report at workshops to review them with the Government and other stakeholders. The team leader will then spend two weeks in Manila at ADB finalizing the draft.

#### **B. Sector Specialist (International Consultant)**

5. The sector specialist will

- (i) review trade, investment, taxation, and competition policy; describe and comment on strategies to improve the competitiveness of the economy (including reviews of relevant laws, regulations, and implementation of all approval processes);
- (ii) in consultation with the team leader, review labor market and wage policy with special consideration of the gender implications of these policies (including an assessment of the skills gap in the labor market and the current skills development programs);

- (iii) review the trends in agriculture, fisheries, forestry, mining, and tourism in terms of policy, investment environment, subsistence production, and possibilities for export opportunities;
- (iv) with assistance of the domestic economic adviser, briefly report on recent developments in the structure and operation of the Cook Islands pearl industry and related service areas;
- (v) in consultation with the domestic economic adviser and the team leader, analyze the infrastructure and transport systems, and identify constraints to development in these areas; in particular, comment on the adequacy of infrastructure and the availability and access to transport for the outer islands;
- (vi) evaluate and provide constructive comment on the operation and effectiveness of the Government's infrastructure development and maintenance policies and programs (this could include setting a possible timetable for developing the infrastructure needed to support outer-islands development);
- (vii) identify the needs of the sector in terms of legislative requirements, land tenure, and incentive structure needed to create an enabling environment for growth;
- (viii) identify the constraints to production from the point of view of supply, availability, and access to raw materials and need for imports and marketing;
- (ix) assist the team leader to consolidate the reviews and comments on outer-islands development related issues; and
- (x) complete all analyses and submit a chapter of not more than 25 pages for the economic report on the sector.

**C. Economic Adviser (Domestic Consultant)**

6. Economic adviser will

- (i) in consultation with the team leader and sector specialist, update island profiles containing the development constraints and potential of each outer island (this will be conducted through field trips, new findings of team members, and reviews of the existing documents including 1998 socioeconomic profiles of the outer islands);
- (ii) provide advice to the team leader to estimate island GDP, and review the land tenure systems and corporate plans of the outer islands;
- (iii) assist the team leader to organize workshops to present the interim and final reports; and
- (iv) provide advice to the sector specialist to assess outer island infrastructure and review the pearl farm industry.

**Cost Estimates And Financing Plan <sup>a</sup>**  
(US\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
<b>A. Asian Development Bank Financing</b>			
1. International Consultant			
a. Remuneration and Per Diem	105	0	105
b. International and Local Travel	20	5	25
2. Domestic Consultant	0	25	25
3. Report Preparation	5	0	5
4. Workshops/Seminars	0	5	5
5. Contingency	10	5	15
<b>Subtotal (A)</b>	<b>140</b>	<b>40</b>	<b>180</b>
<b>B. Government Funding</b>			
1. Counterpart Staff	0	30	30
2. Office and Communications	0	15	15
3. Local Support	0	18	18
<b>Subtotal (B)</b>	<b>0</b>	<b>63</b>	<b>63</b>
<b>Total</b>	<b>140</b>	<b>103</b>	<b>243</b>

<sup>a</sup> NZODA contribution for health and education studies is not included.  
Source: Staff estimates.