

PROJECT COMPLETION REPORT

ON THE

THIRD COOK ISLANDS DEVELOPMENT BANK PROJECT
(Loan 1380-COO [SF])

IN THE

COOK ISLANDS

October 2003

CURRENCY EQUIVALENTS

Currency Unit – New Zealand dollar (NZ\$)

		At Appraisal	At Project Completion
		29 June 1995	19 February 2002
NZ\$1.00	=	\$0.67	\$0.42
\$1.00	=	NZ\$1.49	NZ\$2.39

ABBREVIATIONS

ADB	–	Asian Development Bank
BCI	–	Bank of the Cook Islands
CIDB	–	Cook Islands Development Bank
CIDB I	–	First Cook Islands Development Bank Project
CIDB II	–	Second Cook Islands Development Bank Project
CIDB III	–	Third Cook Islands Development Bank Project
CIIC	–	Cook Islands Investment Corporation
CISB	–	Cook Islands Savings Bank
DFI	–	development finance institution
ERP	–	Economic Restructuring Program
LA	–	loan agreement
MIS	–	management information system
PA	–	project agreement
RRP	–	report and recommendation of the President
Sch	–	schedule
SBEC	–	Small Business Enterprise Center
SDR	–	special drawing rights
SLA	–	subsidiary loan agreement
TA	–	technical assistance

NOTE

The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends.

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BASIC DATA

A. Loan Identification

1.	Country	The Cook Islands
2.	Loan Number	1380-COO(SF)
3.	Project Title	Third Cook Islands Development Bank Project
4.	Borrower	The Cook Islands
5.	Name of Development Finance Institution	Cook Islands Development Bank
6.	Amount of Loan	SDR1,977,000 (\$3 million equivalent)
7.	Project Completion Report Number	PCR: COO 29090

B. Loan Data

1.	Appraisal	
	– Date Started	17 June 1995
	– Date Completed	29 June 1995
2.	Loan Negotiations	
	– Date Started	23 August 1995
	– Date Completed	25 August 1995
3.	Date of Board Approval	26 September 1995
4.	Date of Loan Agreement	24 October 1995
5.	Date of Loan Effectiveness	
	– In Loan Agreement	22 January 1996
	– Actual	22 January 1996
	– Number of Extensions	None
6.	Terminal Date for Commitments	
	– In Loan Agreement	22 January 1999
	– Actual	22 January 2000
	– Number of Extensions	One
7.	Closing Date	
	– In Loan Agreement	22 January 2000
	– Actual	19 February 2002
	– Number of Extensions	Three
8.	Terms to the Borrower	
	– Interest Rate	1% per annum
	– Maturity (number of years)	40
	– Grace Period (number of years)	10
	– Free Limit	US\$30,000
	– Repayment Terms	Fixed-type amortization
9.	Terms of Relending	The Government bears foreign exchange risks and relends to the Cook Islands Development Bank in NZ dollars at variable rates equal to Asian Development Bank lending rates on multicurrency loans from ordinary capital resources. The subloans are extended for a period of 15 years, including a 3-year grace period.
10.	Interest Rate for Subloans	Variable at market rates

11. Disbursements—Credit Component
a. Dates

Initial Disbursement	Final Disbursement	Time Interval
29 March 1996	28 March 2001	60 months
Effective Date	Original Closing Date	Time Interval
22 January 1996	22 January 2000	48 months

b. Amount: US\$1,727,509 (SDR1,245,765), equivalent to NZ\$2,897,779

12. Disbursements—Noncredit Component

a. Dates

Initial Disbursement	Final Disbursement	Time Interval
21 February 2001	19 February 2002	11.9 months
Effective Date	Original Closing Date	Time Interval
22 January 1996	22 January 2000	48 months

b. Amount: US\$376,176 (SDR292,701)

C. Implementation Data

1. Credit Component

a. Number of Subloans: 281

b. Sector Distribution of Subloans

<u>Sector</u>	<u>Actual Loan Use</u>		
	<u>No. of Subloans</u>	<u>Amount (NZ\$)</u>	<u>%</u>
Agriculture	44	324,974	11.2
Fishing	50	331,239	11.4
Pearl	67	551,624	19.0
Tourism	21	828,325	28.6
Transport	4	89,947	3.1
Business and Services	95	771,670	26.7
Total	281	2,897,779	100.0

c. Size of Subloans (actual)

<u>Range</u>	<u>No. of Subloans</u>	<u>Amount (NZ\$)</u>	<u>%</u>
Up to NZ\$5,000	140	449,180	15.5
NZ\$5,001 to NZ\$10,000	87	491,684	17.0
NZ\$10,001 to NZ\$20,000	32	507,036	17.5
NZ\$20,001 to NZ\$50,000	17	452,685	15.6
NZ\$50,001 to NZ\$100,000	1	63,750	2.2
Over NZ\$100,000	4	933,444	32.2
Total	281	2,897,779	100.0

d. Other Breakdowns of Subloans

i. By Geographical Distribution

	No. of Subloans	Amount (NZ\$)	%
Rarotonga	111	1,416,810	48.9
Aitutaki	28	692,118	23.9
Other Outer Islands	142	788,851	27.2
Total	281	2,897,779	100.0

ii. By Maturity

Up to 1 Year	15	33,656	1.2
More than 1 to 3 Years	124	649,566	22.4
More than 3 to 5 Years	78	814,067	28.1
More than 5 Years	64	1,400,490	48.3
Total	281	2,897,779	100.0

iii. By Purpose

New	173	1,624,230	56.1
Expansion	100	1,231,645	42.5
Balancing, Modernization, and Replacement	8	41,904	1.4
Total	281	2,897,779	100.0

iv. Projects Managed by Women

11	72,892	2.5
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e. Subloans Above and Below Free Limit

Above Free Limit	8	1,084,578	37.4
Below Free Limit	273	1,813,201	62.6
Total	281	2,897,779	100.0

2. Noncredit Component

Amount (US\$)

Cat. No.	Category Description	Original Allocation	Last Revised Allocation	Net Amount Available	Amount Disbursed
02	Consultant Services	265,930	259,713	259,713	259,713
03	Equipment and Materials	34,388	25,353	25,353	25,353
04	Civil Works	142,659	86,959	86,959	86,959
05	Staff Training	6,550	4,151	4,151	4,151
	Total	449,527	376,176	376,176	376,176

Project Cost (US\$)

Cost	Appraisal Estimate	Actual
Foreign Exchange Cost	444,417	449,363
Local Currency Cost	134,603	61,911
Total	579,020	511,274

Financing Plan (US\$)

Cost	Appraisal Estimate	Actual
Borrower-Financed	129,493	135,098
ADB-Financed	449,527	376,176
Total	579,020	511,274

NZ\$ = New Zealand dollar, US\$ = US dollar, ADB = Asian Development Bank, Cat. = category, No. = number
Source: ADB loan financial information system database.

D. Data on Asian Development Bank Missions

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact Finding	18 Apr–5 May 1995	2	26	Financial Analyst Staff Consultant
Appraisal	19–29 Jun 1995	2	18	Financial Analyst Staff Consultant
Inception	26–29 Feb 1996	1	4	Sr. Financial Analyst
1 st Loan and TA Review	15–19 Nov 1996	1	5	Sr. Financial Analyst
2 nd Loan and TA Review	22–26 Aug 1997	1	5	Project Officer
Midterm Review—Loan and TA	3–12 Aug 1998	1	8	Sr. Project Implemen. Officer
TA Review	29–31 Mar 1999	1	3	Sr. Project Implemen. Officer
3 rd Loan and TA Review—Restructuring of Public Sector Banking Activities	24 May–2 Jun 1999	1	7	Sr. Project Implemen. Officer
4 th Loan Review	6–9 Jul 1999	1	4	Sr. Project Implemen. Officer
5 th Loan Review	19–26 Nov 1999	1	6	Sr. Project Implemen. Officer
5 th Loan Review	15–22 Mar 2000	1	5	Sr. Project Implemen. Officer
Loan Review—Tripartite Meeting for the Merger Exercise	28–31 Aug 2000	1	4	Sr. Project Implemen. Officer
Loan Review—Presentation of the Merger Proposal to Cabinet	2–5 Oct 2000	1	4	Sr. Project Implemen. Officer
6 th Loan Review	20–30 Nov 2000	1	9	Sr. Project Implemen. Officer
Loan Review—Merger Process and/or Exercise	5–9 Mar 2001	1	5	Sr. Project Implemen. Officer
Loan Review—Merger Process and/or Exercise	9–10 May 2001	1	2	Sr. Project Implemen. Officer
Preproject Completion Review	20–31 May 2002	1	10	Sr. Project Implemen. Officer
Project Completion Report Review ^a	31 Jul–14 Aug 2003	1	12	Sr. Project Implemen. Officer

^a The project completion report was prepared by Ms. Anaseini T. Vatucawaqa, Senior Project Implementation Officer, South Pacific Regional Mission.

Implemen. = Implementation, No. = number, Sr. = Senior, TA = technical assistance.

Source: ADB mission authorization request database

E. Supporting Technical Assistance and Loans

Name of Technical Assistance	Estimated Cost (US\$'000)	Actual Cost (US\$'000)
TA 193-COO: National Development Corporation	91.0	83.4
TA 1210-COO: Improving the Mechanism for Delivering Development Finance to Private Sector	97.0	54.0
TA 2404-COO: Strengthening of Business Advisory Services	250.0	186.0
Total	438.0	323.4

Name of Loan Project	Estimated Cost (US\$'000)	Actual Cost (US\$'000)
Loan 567-COO(SF): Cook Islands Development Bank	1,500.0	1,500.0
Loan 1155-COO(SF): Second Cook Islands Development Bank	1,500.0	1,333.3
Loan 1380-COO(SF): Third Cook Islands Development Bank	3,000.0	2,103.6
Total	6,000.0	4,936.9

Source: ADB technical assistance information system and loan information system databases.

F. Project Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 1 Jan 1999 to 31 Dec 1999	Satisfactory	Satisfactory
From 1 Jan 2000 to 31 Dec 2000	Satisfactory	Satisfactory
From 1 Jan 2001 to 31 Dec 2001	Satisfactory	Satisfactory

Source: ADB project performance reporting database.

I. PROJECT DESCRIPTION

A. History

1. In September 1995, the Asian Development Bank (ADB) approved Loan 1380-COO (SF): Third Cook Islands Development Bank Project (CIDB III) for \$3 million equivalent (SDR1.977 million), from ADB's Special Funds resources, to assist in meeting the medium- and long-term demand for development finance in the Cook Islands. Accompanying the loan was an advisory technical assistance (TA), TA 2404¹, to support the consolidation of business advisory services within the Cook Islands Development Bank (CIDB) and the expansion of existing services to provide national coverage. The Economic Restructuring Program (ERP) of 1996 altered the rationale and intent of TA 2404 by creating a new business advisory bureau, the Small Business Enterprise Center (SBEC), resulting in a reduction in the scope of work originally envisaged at appraisal (paras. 12 and 13).

2. The CIDB III aimed to continue ADB's support for private sector-led economic growth, consistent with the two previous development financing institution (DFI) loans (First Cook Islands Development Bank Project [CIDB I] and Second Cook Islands Development Bank Project [CIDB II]) focused on supporting small- and medium-sized private sector enterprises. CIDB demonstrated increasing effectiveness in supporting such projects under the two previous credit lines. CIDB played a major role in financing the establishment of the new pearl industry in the country, with some consequential risks to the loan portfolio. The performance and use of the CIDB I and CIDB II were discussed in paras. 14–18 and 65–69 of the Report and Recommendation of the President (RRP).² The changes in the macroeconomic environment, following the ERP, significantly affected CIDB's performance. Such factors as the public service layoff and asset sale programs, the outward migration of skilled people, and strong competition from commercial banks impacted the Project's performance.

3. The ERP was introduced in response to a financial crisis experienced by the country in 1995, which resulted from unsustainable fiscal expansion and increasing capital expenditures that were largely funded by external borrowing. Key legislation established principles of fiscal responsibility and improved accountability and transparency. Tax reforms induced major improvements in compliance and collections, and the public service wage bill was drastically reduced through a layoff program. These activities contributed to achieving fiscal balance. The period 1995–2000 proved painful and difficult for the country, as reflected in negative growth rates, devaluation of the New Zealand dollar, high inflation, mass emigration of skilled people, and lack of investment demands.

4. ADB was instrumental in initiating policy dialogue on banking sector reforms in 1999, through a feasibility study under TA 2404. The study's outcome encouraged the Government to consider merging the Cook Islands Savings Bank (CISB) with CIDB. At the Government's request, the merger was financed under the CIDB III. The merger resulted in the creation of the new Bank of the Cook Islands (BCI), on 1 July 2001, and helped address one of ADB's loan covenants under the CIDB II and CIDB III regarding opportunities for CIDB's privatization. The

¹ ADB. 1995. *Technical Assistance to Cook Islands for Strengthening of Business Advisory Services*. Manila.

² ADB. 1995. *Report and Recommendation of the President to the Board of Directors on a Proposed Loan and a Technical Assistance Grant to the Cook Islands for the Third Cook Islands Development Bank Project*. Manila.

merger was considered the best alternative, given the difficulty in attracting a suitable buyer,³ for reconciling privatization with CIDB's developmental role and variable profit track record.

5. Following ADB Board approval of CIDB III, in September 1995, the loan and project agreements were signed in October 1995, and the loan was declared effective in January 1996, as mandated in the Loan Agreement. Accordingly, the loan commitment date was set for January 1999, and the loan closing was set for January 2000. The loan commitment date was extended to January 2000 and the loan disbursement closing to February 2002. The extension was due to the slower-than-expected loan use rate and the implementation of the merger process.

B. Scope of Operations

6. Since 1 July 2002, BCI has been trading under the former CIDB Act and as an agent for CISB. The legislation required to formalize the existence and operations of BCI has been delayed for over a year, due to protracted dialogue between the Government and the new BCI board, over the issue of providing government guarantees on all development lending.⁴ The 1978 CIDB Act and subsequent amendments empowered CIDB to undertake a full range of lending, advisory, and equity investment activities normally associated with DFIs. In addition, other activities were permitted, including (i) accepting deposits; (ii) issuing, endorsing, and negotiating financial instruments; (iii) dealing in financial instruments; and (iv) hiring and purchasing. BCI now offers a new range of products, including savings, checking, and term deposits.

7. The merger exercise expanded the policy dialogue on wider financial sector reform issues, which remained unfinished under the ERP. The ERP called for an improvement to CISB's cash handling arrangements and the operation of CISB on commercial basis. While many irregularities existed in outer islands cash handling, these have now been rectified, and the savings bank currently operates on a commercial basis, as part of BCI.

C. Asian Development Bank's Relationship with Other Lenders

8. ADB has closely coordinated with other development partners (the New Zealand Agency for International Development [NZAID], Australian Executive Service Overseas Program, United Nations Development Programme [UNDP], and Association of Pacific Islands DFIs) in actively supporting private sector-led growth, through the CIDB and reforms of the Cook Islands banking and financial sector. The main forms of assistance were given in paras. 11–13 of the RRP (footnote 1).

9. ADB has had a long relationship with the CIDB (since its inception in 1978). The first and second credit lines significantly contributed to the development and expansion of the economy and private sector. Notably, these lines contributed to the establishment and financing of the

³ Under the Government's asset sale program, CIDB was put on sale in 1997/98. The sale process reached the due diligence stage with five companies and/or individuals expressing interest. The review process revealed that the majority of proposals were received from people with dubious reputations, who had other motives than legitimate banking.

⁴ It is understood that the Cook Islands Investment Corporation, the parent company for all the Crown's state-owned enterprises, has directed the BCI board to table the bill at the next meeting of Parliament, following a recommendation of the Financial Action Task Force on Money Laundering and the International Monetary Fund review of Cook Islands financial sector and offshore banking activities. Moreover, the Ministry of Finance's position (to only provide guarantees on CISB deposits and not CIDB deposits) has caused some disagreement between BCI and Ministry of Finance officials. The review of the bill by the select committee will carefully examine this issue.

pearl sector in the outer islands and key export industries. ADB lending was also aimed at promoting and strengthening CIDB as a vehicle for efficient intermediation. Another important objective was to provide the foreign exchange resources needed for the country's private sector development. The CIDB III was made from Asian Development Fund resources to the Government with an amortization period of 40 years, a 10-year grace period, and a 1% per annum service charge. The loan was re-lent by the Government to CIDB at an interest rate of 6.5% per annum for 15 years, including a 3-year grace period. The foreign exchange risk on the loan is borne by the Government. In contrast to most Pacific Island developing member countries, which have access to several alternative external official sources of loans for their DFIs, ADB remained the sole external lender to CIDB. For domestic funding, CIDB actively developed short-term local deposits from the public as an important funding base. This new source enabled CIDB to expand its loan portfolio while repaying high-cost term debt. Recently, BCI has been coordinating with the European Union for possible credit line support valued at NZ\$3.0 million. A fact-finding mission was fielded in June 2003.

D. Relevance of Design and Formulation

10. The CIDB III was designed and implemented in line with ADB's sector strategy for the Cook Islands. The strategy focuses assistance on developing the private sector, reducing excessive public sector involvement in business activities, creating an economic environment conducive to business activity, and strengthening the financial sector to support private sector development and improve the financial system's operation. The CIDB III provided a window of opportunity to a large number of private sector activities in the outer islands and played a catalytic role in the country's development. Although the merger between CIDB and CISB was not envisaged at appraisal, it provided the needed impetus for rectifying the cash handling problems associated with CISB in the outer islands, delivering efficient banking services, and streamlining banking services.

11. The \$3.0 million equivalent loan amount was considered excessive and ambitious for a small DFI such as CIDB. The two previous ADB loans were approved for US\$1.5 million each, and while the first loan was fully used, the second was only 87% used. The loan amount was premised on the assumption, at appraisal, of improved business confidence in the Cook Islands, but the ERP's introduction and its consequential effect on CIDB's operations made this assumption short-lived.

12. During appraisal, the Government requested for a reinstatement of a TA designed to strengthen business advisory services within CIDB. In addition, the Government confirmed its decision to close the separate government-operated Small Business Advisory Unit and consolidate all business advisory services within CIDB. A comprehensive on-the-job training program was built into the TA, in support of this component. In 1997, the ERP disrupted the original plan by creating SBEC, to undertake the business advisory services, which meant that staff resources, training opportunities, and consultant assistance had to be shifted from CIDB to SBEC. This created a vacuum within CIDB and affected the full realization of the associated TA benefits. Consequently, inadequate project financing and appraisal skills continued. The Government's indecisiveness and ADB's inadequate assessment of cause and effect results, during ERP policy dialogue, impacted the Project. SBEC is being managed independently, with support from the Government and New Zealand Agency for International Development.

E. Related Technical Assistance

13. TA 2404-COO is described in detail in Appendix 8 of the RRP (footnote 1). The TA was intended to (i) assist CIDB in strengthening its business advisory capabilities when helping clients, particularly women, identify and develop private sector business opportunities; (ii) develop the capability of CIDB staff on Rarotonga and the outer islands, through on-the-job training, in all aspects of business identification and development, together with entrepreneurial training; and (iii) further develop the range of relevant training materials available, including manuals, business workshop modules, and booklets, for use by the public and CIDB staff. The TA was for 8 person-months over a 15-month period, with an additional 3-month extension. After SBEC was established in 1997/98, this component was reduced to 8.5 person-months, and the remaining contract was canceled.

14. In November 1998, ADB approved a minor change in TA scope, to allow an accountant specializing in management information systems (MISs) 2.5 months to prepare CIDB's accounting manual, as a reference guide, and link it with the internal control procedures of CIDB's newly installed MIS. The manual was prepared by CIDB staff, using a hands-on approach and under the MIS specialist's guidance, and proved beneficial in allowing staff to logically think through processes, understand the mechanics involved, and apply concepts accordingly. The tool set and the techniques applied to its use were well assimilated into CIDB's workings. The accounting manual has since been in use and is stored on compact disk and server for ease of retrieval and reference.

15. In May 1999, ADB approved a second and final minor change in TA scope, to fund the services of a banking specialist for 2 weeks, to undertake a strategic review of CIDB and CISB, in response to a request from the Cook Islands Investment Corporation. The review's outcome was the basis for the Government's decision to merge the two public banks. Overall, notwithstanding the business advisory component's cancellation, TA 2404 contributed effectively to the achievement of TA objectives, including addressing a key loan covenant on CIDB's privatization prospects.

F. Merger of Cook Islands Development Bank and Cook Islands Savings Bank

16. The Cabinet approved the outcome of a strategic review of CIDB in July 1999, paving the way to merge CISB and CIDB into a commercially viable and efficient banking service. In March 2000, ADB signed a memorandum of understanding with the Government to assist with the rationalization of CIDB and CISB. The Government requested and ADB approved the use of the CIDB III to finance the preparation of an action plan for the merger. A New Zealand consulting group was tasked to prepare the plan in June 2000, in consultation with CIDB and CISB senior management, under the Financial Secretary's overall guidance. In October, the plan was presented to and approved by the Cabinet, paving the way for its implementation. A project manager was appointed by an interim board in January 2001 to oversee implementation of phase II. CIDB III funds were used to fund part of phase II. The new bank, BCI, officially commenced operation on 1 July 2001 and moved to its new offices on 8 August 2001. Overall, ADB was successful in initiating and pursuing policy dialogue with the Government and CIDB, realizing one of the most challenging and difficult reforms involving public-owned banks, and accomplishing a key covenant under the CIDB II and CIDB III. The Government's commitment to the merger process was commendable and addressed unfinished business under the ERP regarding facilitating access to capital through an efficient financial sector.

G. Performance of the Cook Islands Banking Sector

17. In 1995, a crisis of confidence in the local currency of the Cook Islands eroded business confidence and created uncertainty in the business economic environment. This was followed by a high public sector debt, of which a major portion was a NZ\$60 million government guaranteed loan from Italian export credit agencies for an international hotel, and retrenching of public servants under the ERP. These events hampered the banking sector's performance, resulting in the currency devaluation, loss of assets, and nonpayment of loans. The two commercial banks (Westpac and Australian and New Zealand Bank) and CIDB recorded high loan losses. CIDB also incurred costs for overseas debt collectors. Since then, the working environment of local banks has changed, with the commercial banks introducing long-term financing for tourism, business, agriculture, and fishing projects, in direct competition with CIDB. Moreover, under the ERP, CIDB was required to pay tax on its profits, thus ending an era of being tax exempted.

18. The privatization program under the ERP set the scene for more private sector activities. This paved the way for the commercial banks to package and price products commensurate with the risk and sector limits. Credit is extended in cash, and overdrafts, loans and advances for working capital, purchase and discounting of bills, export financing, and term loans. Thus, commercial banks are ideally placed for undertaking retail and long-term banking functions. Due to resource constraints, CIDB was in a disadvantageous position to compete. Accordingly, CIDB no longer had a monopoly on long-term finance, and the demarcation of CIDB operation with that of the commercial banks gradually became less distinct. The biggest challenge for CIDB was that it was not operating on common ground with the commercial banks, structurally or in organization and logistics.

19. BCI is neither a true commercial bank nor a typical DFI, because it provides a much wider range of savings, money transactions, and agency services than any other development bank, but it retains a development focus with its lending. BCI is the only local bank that has a presence in each outer island. CIDB's role was pivotal in the country's economic and social development, particularly in supporting the pearl industry's development and expansion and providing access to credit to rural communities. The commercial banks have not supported the pearl industry because of the associated high-risk factors. The Australian head office policies of these banks restrict them from supporting risky development projects. However, the high operating cost of servicing the outer islands is proving difficult for BCI and is hurting its efforts to remain viable and competitive. The Government has not injected the promised subsidy for the servicing of the outer islands. Unless the latter issue is resolved, BCI's existence could be threatened.

II. IMPLEMENTATION

A. Lending Policies

20. CIDB's lending policies (paras. 24–26 and 35–41 and Appendix 1 of the RRP [footnote 1]) were formulated to safeguard prudent lending, avoid over exposure to a single group of borrowers and concentration on an economic sector, define financial limits for CIDB's own operations, spread risks, keep recovery of loans on schedule, set prudent guidelines, and ensure that CIDB is profitably managed and in a sound financial position. From appraisal, CIDB maintained the same policies, subject to amendments from time to time. CIDB satisfactorily adhered to its policies and guidelines and always consulted with ADB on proposed changes. After the merger, additional policy guidelines were developed, but these were put on hold,

pending the approval of the BCI Act. The proposed changes place emphasis on the need for BCI to manage its business on a commercial basis, to achieve long-term sustainability while pursuing a developmental focus.

21. Interest rates are reviewed annually, and loan agreements allow for a review of interest rates at any time, although earlier agreements limited reviews to 1- or 3-year periods. Following changes in the lending rate structure, adjustments are made to individual loans in the course of regular account reviews. Recently, the board decided to waive interest charges on nonperforming loans. In setting deposit interest rates, CIDB generally followed a market-based approach, typically offering rates equal to or slightly lower than commercial bank rates (Appendix 2).

B. Characteristics of Subloans

22. Under the credit component, the amount of the loan used, net of cancellation, was NZ\$2.897 million (US\$1.728 million), or 82%. The disbursement period was 5 years, from 29 March 1996 to 28 March 2001, and accommodated three extensions. The loan financed 281 subprojects, of which 273 (worth NZ\$1.8 million) were below and eight (worth NZ\$1.1 million) were above the free limit.⁵ The subloan limit for the CIDB III was US\$30,000. The average subloan size for projects above the free limit was NZ\$135,572, which reflected the level of business maturity in the private sector and the level of expansion and growth of some existing businesses, compared to the amount of CIDB II used. New businesses accounted for 56% of the total value of the credit component (62% by number), which is consistent with the Project's rationale (to generate new business ventures with potential to expand in the future). Most of the new subprojects were in the business and services, tourism, transport, and pearl sectors. In geographic distribution, 49% of the total value of subprojects (40% by number) were in Rarotonga, the seat of Government and center of business and commerce, and 51% by value (60% by number) were in the outer islands, of which Aitutaki attracted 24% of the loan amount. Interestingly, under the CIDB II, 73% of subprojects by value were in Rarotonga and 27% by value in the outer islands. The increasing development ongoing in the outer islands has narrowed the gap of concentration and resulted in the identification and financing of some good large projects related to tourism on the islands, apart from pearl farming. A total of NZ\$1.4 million (23% by number) of credit proceeds were re-lent for a period of over 5 years, to finance long-term fixed assets, reflecting the type (large-scale) of projects being supported. Of the credit proceeds, 22% were re-lent for terms of 1–3 years and 28% for terms of 3–5 years, consistent with the short- to medium-term nature of most subprojects. The CIDB III helped 11 women (2.5% by value) to be direct borrowers and/or entrepreneurs. In addition, most loans to individuals required two people to be associated with a loan, and this normally required husbands and wives to sign loan documents, either as joint borrowers or with one as the guarantor. On the outer islands, women successfully manage retail shops, handicrafts, and service businesses.

23. As envisaged at appraisal, tourism subprojects attracted the highest value (29%) of total credit financing. Most new tourist accommodations projects, designed to upgrade and improve accommodations, are on Aitutaki and a few are on Rarotonga. Lending for business and service projects (27% by value) included loans for small industry, quarrying, wholesale, retail, construction, and services undertakings. Pearl farming support continued under the CIDB III, despite the high risk associated with the sector. The two cyclones in 1997 and a subsequent lagoon infection impacted the industry's performance. Agriculture and small-scale fishing remain

⁵ Free limit refers to the ceiling in the use of statement of expenditure.

depressed, partly due to the weak marketing channels; extreme climatic conditions, such as drought; and the low pool of labor supply following the retrenchment program (para 3). However, the Government is promoting longline fishing, and BCI supported two related projects totaling around NZ\$1.0 million since 2001, with disappointing results. One subborrower died while in Japan negotiating for a fishing boat, and a second subborrower lacked good management skills. BCI has since contracted the management of this longline fishing project to another person with some emerging improvements. BCI processed the loans on the understanding that the Government would guarantee them, but this did not occur, which resulted in large exposure to BCI. Consequently, the BCI board imposed a freeze on support for longline fishing. The experience demonstrated the vulnerability of supporting a sector that lacks capacity and infrastructure independence from government influence; strong credit appraisal abilities; thorough client screening procedures; and adequate security documentation. Regarding the range of subloan sizes, a good spread was evident between small- to medium-sized subprojects, consistent with appraisal estimates. Over 32% of total credit proceeds financed subprojects worth over NZ\$100,000, reflecting the business market's maturity and the potential that exists in the private sector.

24. Under the noncredit component, the merger costs totaled US\$376,176 (NZ\$631,000), compared to initial estimates of US\$449,527. The variance was largely due to the availability of least-cost alternatives and/or sources and a weak New Zealand dollar. Funding for the merger process was not envisaged at appraisal. Following the Government's decision to merge the two publicly owned financial institutions (para. 15) a request for funding was sent to ADB. Staff processed a major change in project scope, and management approved the request in May 2000, paving the way for the preparation of a merger plan. A second major change in project scope was processed and approved in April 2001, to implement the plan (Appendix 1). CIDB used the direct purchase arrangement and reasonable competition method for procurement. The disbursement period was for about 11.9 months, from 21 February 2001 to 19 February 2002. For the credit component, procurement was undertaken mainly on a local basis, using standard commercial procedures. For these free limit subprojects, quotations were obtained based on technical specifications. In a few cases, involving the purchase of secondhand equipment, CIDB required engineers' certificates confirming that the equipment was suitable, in good condition, and reasonably priced. The main sources of supply were New Zealand (91%), Japan (3%), and other countries (6%). The procurement procedures were generally in accordance with ADB's guidelines for DFI loans, with all procurement from ADB member countries.

C. Implementation and Internal Operation of Subprojects

25. All subprojects with loan amounts of NZ\$10,000 and higher (20% by number and 68% by value) were selected for analysis, representing each sector, location, and purpose. For a detailed review of subproject analysis by implementation status see Appendix 3, by financial performance see Appendix 4, and by economic performance see Appendix 5.

26. Each of the 58 subprojects were implemented satisfactorily, but seven accounts experienced difficulties. The causes of the difficulties are complex. Some were due to the ERP's impact, which increased the debt burden of subborrowers; natural disasters; weak project supervision and/or a lack of close rapport with subborrowers; loss of interest by owners halfway into projects, due to the demands and challenges of managing businesses; and, in one case, the absconding of a client. A good proportion of subproject accounts were either fully repaid or payments are current. Twenty-six subprojects were completed in line with CIDB's cost estimates. The cost overruns were caused by additional borrowing and refinancing. The actual

financing costs of assisted subprojects totaled NZ\$9.9 million, of which CIDB financed NZ\$1.5 million (16%), ADB financed NZ\$2.2 million (22%), and subborrowers financed NZ\$6.2 million (62%). The high contribution from subborrowers reflected their commitment toward their subprojects. Some reasons for completion delays included longer-than-expected lead times for delivery and shipping services; cyclones; and a shortage of materials on an island, resulting in construction delays. Subprojects requiring environmental impact studies, such as those involving new tourist accommodations, were satisfactorily prepared in line with Cook Islands environmental regulations. For marine and pearl projects, the Ministry of Marine Resources was responsible for lagoon and ecological management, and information was consistently relayed to CIDB staff for monitoring purposes.

27. A comparison of 2-year sales figures revealed that a good number of subprojects exceeded their sales projections, while some performed below estimates. Owing to data constraints, it was difficult to extract a comprehensive analysis of all subproject financial data. The main reasons for the below-estimate performance of subprojects were (i) marketing problems, (ii) inadequate managerial strength of subborrowers, (iii) unreasonable and inflated appraisal estimates, and (iv) the impact of economic difficulties on the economy and uncertainty about continued business interests. In assessing the sustainability of subprojects, the Project Completion Review Mission visited major project sites and met with individual entrepreneurs on Rarotonga and Aitutaki that are involved in the tourism, agriculture, fishing, and business and services industries. Overall, the Mission was impressed with the level of management and dedication of entrepreneurs in operating their businesses and marketing their products, despite the difficult business environment. This is particularly notable in the newspaper, motel, and restaurant businesses. A farm was visited and found to be managed successfully, with loans fully repaid. The (daily) newspaper is performing reasonably well against two other weekly competitors, with a daily circulation of 2,000 on an island with a population of 14,000. A family-owned bakery, in operation since 1950s, is performing extremely well and fully repaid its loan in April 2003. The family plans to expand its business by building a large bakery house that will replace the existing leaking bakery house. The bakery has successfully diversified into the delivery and equipment-for-hire businesses.

28. The 2001 *Cook Islands Annual Statistical Bulletin*⁶ reported that in current price terms the agriculture and fishing sectors experienced strong growth in the year 2000, making up 23% of the country's gross domestic product. This was basically due to the increase in pearl exports (from NZ\$5 million in 1999 to over NZ\$18 million in 2000), through support provided by the Project and CIDB.

29. The 58 subprojects reviewed in Appendix 5 generated incremental export sales of NZ\$1.9 million per annum; created incremental employment for 292 people (221 males and 71 females); and contributed about NZ\$1.5 million to capital formation. At the subprojects visited by the Mission, women were actively involved in the management of family-owned tourist and service businesses. While some data were not correctly reflected, the involvement of women is significant. These data indicate the significant economic benefits generated by the CIDB III, even though the Project envisaged generating 310 new jobs, an incremental investment of US\$7 million, and incremental sales of US\$9 million. The latter was based on the assumption that public servants made redundant under the ERP would start their own businesses, hence the establishment of SBEC to provide entrepreneurial training. Instead, most migrated and shifted investments overseas.

⁶ Cook Islands Annual Statistical Bulletin. 2001. Cook Islands Statistics Office, 31 May.

D. Operational Performance of Cook Islands Development Bank

1. Organization, Management, and Staffing

30. CIDB's organization, management, and staffing (paras. 27–34 and Appendixes 2 and 3 of the RRP [footnote 1]) were considered satisfactory at appraisal. However, during the implementation period, CIDB suffered from a high turnover of staff and the uncertainty caused by the CIDB and CISB rationalization in 2001. The turnover affected the overall efficiency of CIDB and BCI staff members, particularly those in managerial and senior positions. After the two banks were merged, BCI's lending and staffing decisions and the composition and role of directors remained influenced by the Government. Apart from voluntary redundancy, staff members of both banks were transferred to BCI, some of whom were inexperienced and semiskilled. The most difficult challenges now facing BCI are mobilizing capital, developing products, and building organizational issues and skills that will respond to a changing banking environment. Similarly, the BCI must deal with the expectations of its customers and the aggressive capabilities of its competitors. A strategic plan developed in 2001 is in use, but its implementation is on an ad hoc basis, partly because management is not market-oriented and lacks resources. With the benefit of hindsight, the strategic plan developed by BCI management has somewhat strayed from the original plan, resulting in some mismatches and conflicting priorities and visions. This is evident in the lack of long-term development resources for onlending and the absence of commercial skills to articulate and mobilize resources accordingly.

31. BCI's board of directors, whose seven members are appointed by the Minister of Finance for 3-year terms, provides overall direction and guidance. During the last 6 years, CIDB had many changes to its board. This impacted CIDB's stability and long-term sustainability, resulting in the delayed implementation of policies, procedures, and systems needed to reflect the current market position. Since the merger, all board members are representatives from the private sector,⁷ and the current chairperson is an entrepreneur managing a successful tourist resort. The chairperson has a strong private sector focus and good business skills. The Mission understands that BCI's management is discussing with European Union officials possible long-term funding to support its development activities. The credit line, if approved, is expected to become effective in early 2004. Similarly, BCI is now subject to prudential supervision, following the recent establishment of the Financial Supervisory Commission. While this is a positive move, prudential supervision requires additional resources and capacity building.

2. Personnel Administration

32. After the merger, BCI had 55 full-time salaried staff and 3 part-time wageworkers. The staff comprised a managing director and managers responsible for credit, finance, business development, operations, and human resources development and administration. The internal auditor reports to the managing director on BCI's day-to-day activities, but its findings are reported to an internal audit committee. Each outer island branch is headed by either a branch manager or supervisor. BCI's staff comprises 31 females (4 individuals occupying 5 management positions) and 24 males. BCI's salaries are quite competitive with the private sector. The challenge for BCI is to implement change management immediately, vis-à-vis a changing banking environment, to maintain its relevance.

⁷ In 2002, the Cabinet passed a resolution restricting public servants from holding directorship in statutory organizations. Two of the board members were from the former CIDB board.

3. Lending Operations

33. CIDB's risk exposure was addressed by prudential guidelines established by its board. Since the merger, BCI inherited from CISB some government loans that have exposed BCI to the maximum individual client limit, maximum counterpart limit, and maximum project limit risks. Appropriate reviews and adjustments to BCI's policies, guidelines, and prudential limits were undertaken, but these were not formalized, pending the approval of the BCI Act,⁸ which is expected before the end of the year.

34. The quality of CIDB's credit appraisal during the implementation of subprojects was mixed. A review of the performance of subprojects and discussions with clients revealed that some factors that led to business failures were not properly identified during project appraisal or supervision. In some cases, poor marketing and weak management skills affected the performance of subprojects. However, some farmers involved in vegetable or crop farming were successful. Business loans required specialized skills and sound judgment, which were lacking after the merger. The loss of experienced lending staff and the absence of good business advice and monitoring affected the quality of appraisals and lending. Occasionally, the processing time took longer than 3 weeks for projects below free limit and averaged 2 months for those above free limit. Since then, BCI has reduced the average application processing time for income-generating loans to 5 days for loans less than NZ\$10,000, 2 weeks for loans above NZ\$10,000, and 1–2 days for personal loans. In regard to project supervision and monitoring, the clients interviewed reported that CIDB staff did not visit them regularly. This explains the lack of data collection on the financial and economic performance of subprojects and could have contributed to the high arrears performance.

35. From 30 June 1995 to 30 June 2002, CIDB recorded a 21% per annum average growth rate in lending approvals, compared with a projected average annual growth rate of 13.2% (Appendix 6). The main factor in this growth was the increase in commercial and retail lending. Business loans (including those for tourism projects) accounted for 23% of total loan approvals over the 7-year period, followed by housing loans (21%) and pearl loans (16%). In view of tight competition from commercial banks, housing loans, though nondevelopmental by nature, are increasingly being processed by BCI. This is validated by the absence of good quality development projects and a sluggish investment market for medium- to large-sized entrepreneurial projects, which resulted from the economic downturn. The lack of long-term resources and high arrears have forced BCI to freeze further lending to the fishing and pearl sectors.

E. Cook Islands Development Bank Financial Performance

36. As can be seen in Appendix 7, CIDB's loan portfolio recorded an average growth rate of 10.5% per annum, from NZ\$11.5 million (1996) to NZ\$20.1 million (2002). Prior to the merger, the growth trend averaged 7.8%, slightly below appraisal estimates, due to the depressed economic environment, the mass exodus of Cook Islanders overseas, and a drought and cyclones. The housing and consumer loans portfolios were steadily increasing at average rates of 4.5% and 44% per annum, respectively, while the productive sector loans portfolio was variable. The former trend is a cause of concern, as it contradicts the development banking mandate, but this is arguably the only feasible alternative to a competitive banking environment. The demarcation between the operations of BCI and the two commercial banks is indistinct. The

⁸ The bill was withdrawn from Parliament on 9 September 2003, and a committee was set up to review it with a view to simplifying it.

commercial banks compete for the same client base or target market as BCI, and because of their strong resource mobilization capability, the commercial banks aggressively market their products and services. This raises questions about BCI's long-term financial viability. Accordingly, the Government and BCI's board must continue policy dialogue to revisit BCI's role and its resource requirements.

37. CIDB's profitability was affected by the quality of its loan portfolio. Nonperforming loans continued to rise, compelling CIDB to stop recognizing income on these loan accounts, while continuing to pay interest to its creditors. CIDB set aside large reserves for doubtful loans, leading to a further erosion of profitability. The poor arrears performance was particularly evident in loans to the pearl sector, which accounted for 54.2% of total arrears, as of 31 March 1996. The amount of arrears gradually declined over the ensuing 4 years but increased again in 2001. The hard-core arrears ratio fluctuated over CIDB's last 7 years. Overall, CIDB's financial performance was mixed, with the Cook Islands recording negative economic growth and reduced demand for exports, resulting from the economic hardships of the ERP.

F. Financial Statements and Ratios

38. CIDB's financial statements—actual and projected—are presented in appendixes 8–10. During the last 7 years, CIDB's balance sheet recorded progressive growth, as funding from the CIDB III and increasing levels of domestic deposits enabled CIDB to substantially meet the demand for credit. Financial ratios based on the financial results for 1996–2002 are summarized in the Table. Prior to the merger, total assets increased at an average rate of 8.1% annually. After the merger, total assets increased at an average rate of 14.7% annually, to NZ\$28.8 million. The total interest income trend was variable, but it dropped on average by 6.7% between 1999 and 2001, due to deteriorating portfolio quality and nonrecognition of interest income on the nonperforming portfolio, a drop in market interest rates, and clients' shifting accounts to other banks. Administrative expenditure, as a percentage of total assets, proportionately increased, reflecting high overheads and inefficiencies. Consequently, net profit fluctuated between 1996 and 2002. Return on equity grew positively between 1998 and 2000, before it declined thereafter. The CIDB maintained a conservative posture, with a debt to equity ratio ranging from 0.49 to 0.52, in line with appraisal estimates. Debt-service coverage was satisfactory and comfortably in excess of the covenanted 1.25 limit, also in line with appraisal estimates. In the absence of vigorous lending, the challenge for the BCI will be to reduce costs, set key periodic performance targets and/or indicators for each department, and reinvest funds for productive purposes to safeguard the BCI's long-term sustainability.

Table 1: Summary of CIDB's Selected Financial Indicators

Financial Ratio	Fiscal Year						
	31-3-96 ^a	31-3-97 ^a	31-3-98 ^a	30-6-99 ^a	30-6-00 ^a	30-6-01 ^a	30-6-02 ^a
	(Times)						
Current Ratio	1.2	1.13	1.13	1.27	1.31	1.08	0.89
Debt to Equity Ratio	0.49	0.49	0.5	0.63	0.64	0.52	0.52
Debt-Service Cover	5.85	4.09	4.69	4.12	3.53	7.00	7.28
	(Percentages)						
Deposits to Loans	34.2	39.2	43.1	49.2	49.8	54.4	77.5
Term Debt to Loans	23.2	24.3	25.1	25.3	22.8	23.6	18.9
Provisions to Loans	13.8	16.5	18.9	18.7	15.8	14.5	13.7
Net Profit to Avg. Equity	1.2	(1.7)	1.3	3.1	4.4	1.6	0.9
Net Profit to Avg. Total Assets	0.6	(0.8)	0.6	1.3	1.7	0.6	0.3
Adm. Exp. to Avg. Total Assets	6.8	8.9	6.8	8.1	6.2	6.3	8.1
Interest Spread	6.4	8.5	9.1	10.7	8.6	8.2	8.5
Earnings Spread	10.6	13.6	14.0	15.8	11.4	11.5	13.6
	(Amounts in NZ\$'000)						
Total Assets	14,236	16,392	17,720	19,758	20,068	20,871	28,847
Total Loan Portfolio	11,575	12,520	13,566	15,652	16,139	15,368	20,093
Total Arrears	1,291	1,156	737	755	660	1,005	1,064
Provision for Doubtful Debts	1,726	2,398	2,903	3,156	2,727	2,311	2,923
Operating Expenses	1,626	1,927	1,773	2,276	1,784	1,794	2,609
Net Income	95	(128)	99	236	342	127	75

Adm. = administrative, Avg. = average, Exp. = expenses

^a The format used is day-month-year.

Note: The fiscal year was changed from 31 March to 30 June in 1999 consistent with Government's fiscal year.

Source: CIDB annual and audited financial statements

G. Covenants

39. CIDB generally complied with most loan covenants, except it did not provide ADB with adequate performance data for each qualified project, including relevant socioeconomic and financial information for subloans of US\$10,000 and above (appendixes 5 and 11). CIDB attributed this to high staff turnover during implementation. The fluctuation in the 3% hard-core arrears limit earned partial compliance status. This was due to CIDB's heavy lending to the pearl sector which suffered from stiff competition from French Polynesia and some Asian countries, forcing market prices to drop. The covenant on CIDB's privatization, though not achieved, was addressed through the CIDB and CISB merger. The Government considered this to be the best alternative to privatization.

H. Asian Development Bank Performance

40. ADB's performance was satisfactory. ADB fielded seven missions to administer and review the credit component, including a midterm review, and five missions under the noncredit component, to engage in policy dialogue and review the merger process. The merger review involved dialoging with the financial secretary and presenting a plan to the Cook Islands Cabinet, conducting presentations to the Cook Islands Investment Corporation board, holding tripartite meetings with the consulting team, and briefing local officials on ADB procurement guidelines. During project implementation, the Project was managed successfully by an experienced managing director, who was supported by ADB and Australian Executive Service Overseas Program technical advisers, who were on long-term assignment with CIDB.

III. EVALUATION

A. Loan Appraisal

1. Distribution of Subloans

41. The CIDB III appraisal appropriately defined the Project's rationale and objectives. The loan was aimed at promoting economic growth by encouraging effective private sector investment, particularly meeting the medium- and long-term demand for development finance in the Cook Islands. The credit line contributed to the country's required foreign currency resources, and the institutional and policy dialogue assisted with the restructuring of the banking sector. TA 2404 was suitably designed to facilitate investment financing and upgrade the project finance skills of staff, but this component was scaled back in response to a government mandate to divert resources to SBEC under the ERP. Therefore, the intended project benefit was not fully realized.

42. At appraisal, the loan size was increased from US\$2.5 million equivalent to US\$3.0 million equivalent, and the maximum subloan size increased from US\$150,000 equivalent to US\$300,000 equivalent. Although the credit component was not fully used, due to depressed investment demands, the larger subloans were directed at tourism and commercial ventures, as envisaged at appraisal. Under the circumstances, the loan achieved these objectives, as they related to the distribution of subloans. The subproject selection criteria were fairly broad and did not define particular sectors, because it was difficult to target specific areas for future development in a small country where trends change quickly. It was important to have a DFI that could respond flexibly and capably to opportunities for new industries and activities, particularly in the outer islands. The geographical distribution was reasonably balanced between Rarotonga, the main center of commerce and tourism, and the outer islands. The subloans were reasonably used for new ventures—resulting in the creation of new entrepreneurs and the development of the country's small private sector—and in balancing, modernizing, and replacing existing businesses.

2. Covenants

43. Generally, the loan covenants were well conceived and appropriate in the circumstances prevailing at the time of appraisal. The policy dialogue pursued under the CIDB III was appropriate, as it sought to improve efficiency in public sector banking for the private sector's benefit. The CIDB and CISB merger was considered the best alternative, but further streamlining measures are needed. CIDB made considerable progress in all key areas identified in the postevaluation report on the CIDB II, but a need to improve skills and set a firm direction still exists.

3. Quality of Appraisal

44. The Project's formulation was consistent with the objectives of the Government's economic reform program, which aimed to promote private sector development. As the only institution providing medium- to long-term loans to finance development projects in productive sectors of the economy, CIDB was an appropriate institution through which to course the loan proceeds.

B. Implementation

45. The credit component, net of cancellation, was satisfactorily used. CIDB's selection of subprojects was consistent with its lending policies and prudential guidelines. Subprojects were completed largely within original costs, and cost overruns were within reasonable limits. However, completion was delayed for a few subprojects, mainly because of changes in project plans and shipping problems. Also, the economic performance and financial data were not available for all subprojects. This implies a need to strengthen project supervision, monitoring systems, and follow-up procedures, as mandated in the lending and policy guidelines.

46. Implementation of the noncredit component, though not envisaged at appraisal, was highly satisfactory and helped the Government address an unfinished matter under the ERP, which concerned streamlining the effectiveness of public sector finance.

IV. ASSESSMENT AND RECOMMENDATIONS

A. Relevance

47. The CIDB III is assessed as relevant at appraisal and completion. The Project's rationale was consistent with ADB's 1996 Strategy for the Pacific and the country strategy, which aimed to promote private sector-led economic growth. The Project's design took cognizance of accelerated economic growth conditions, but it underestimated the mass overseas exodus of Cook Islanders who were made redundant under the ERP. Hence, there was a low level of subborrower participation. The CIDB III helped 281 private enterprises (310 were envisaged at appraisal) and yielded incremental exports, jobs, wealth creation, and outer islands expansion and development. The CIDB III continued to support institutional development and maintained financial discipline by adhering to financial covenants and having accounts audited in a timely manner by accountants. The associated TA was implemented successfully but with some adjustments to the TA program.

B. Efficacy in Achievement of Purpose

48. The CIDB III is assessed as efficacious. Of the US\$2.104 million equivalent loan amount (net of cancellation), US\$1.727 million was used under the credit component and \$0.376 million under the noncredit component. The 281 subprojects financed promoted private sector development. Most were implemented satisfactorily and operated profitably, with most subloans being fully repaid or repaid on schedule. Most free limit subloans are well organized, competently managed, and profitable. The policy dialogue on the rationalization of the two public financial institutions under TA 2404 and the CIDB III catalyzed the successful implementation of the merger exercise and creation of BCI.

C. Efficiency in Achievement of Outputs and Purpose

49. The CIDB III is assessed as efficient. The outputs and purpose achieved were commensurate with the inputs of the Government, CIDB, and ADB. The only inefficiencies were one extension of the closing date for commitment and three disbursements to accommodate the merger implementation process. Consequently, the closing date of the CIDB III was delayed by 25 months, from January 2000 to February 2002.

D. Preliminary Assessment of Sustainability

50. The sustainability of the CIDB III is assessed less likely. The capacity constraints and lack of a pool of experienced and skilled lending staff has inevitably affected the quality of lending. Of the 281 subprojects financed, about 35–40% have fully repaid their subloans, while the rest are meeting their loan repayments on schedule; doing so now, after the subloans were rescheduled; or pursuing alternative arrangements that are being followed up. The high provisioning reserve provided from 2001 to present is a cause of concern, particularly for pearl sector loans. CIDB's capacity building continued after completion of TA 2404, particularly in staff training and information technology, but high staff turnover affected continuity and contributed to a loss of institutional knowledge.

51. Increasing administrative costs, particularly personnel costs, are impacting BCI's sustainability and viability. Therefore, if BCI is to continue delivering services to the outer islands, the social obligation costs⁹ will have to be met from the Government's budget. Presently, BCI is financing these costs from its internal sources, thereby restricting opportunities for other forms of productive lending. The Mission understands that BCI and Cook Islands Investment Corporation officials are preparing a cost estimate of the outer islands services for consideration by the secretary of finance. In addition, branch and agency staff lack the capacity to provide business advice and/or identify quality projects for financing, resulting in some lost business opportunities. All business advisory support is done from Rarotonga.

52. After the ERP, the commercial banks, in addition to doing short-term financing, have extended their lending to long-term financing, in direct competition with BCI. This has added a different and challenging dimension to BCI's operations and structure. Since inception, CIDB was controlled and directed by various governments and not managed to maximize its economic performance. CIDB's history of serving targeted lending of political governments rather than economic ends did not prepare the bank well for the future, particularly after the merger. The commercial banks are more disciplined and advocate a market-oriented management culture. CIDB, however, was accustomed to being all things to all people, directing little effort to customers and products. Furthermore, most clients prefer a one-stop bank, where they can have access to banking instruments, such as letters of credit, remittances, purchase and sale of foreign exchange, issuance of guarantees on behalf of clients, etc., which BCI does not offer. This lack of instruments causes BCI to lose business to the commercial banks. Accordingly, these competing and conflicting factors, vis-à-vis development lending, have limited the strategic direction, management culture, and BCI's resources.

E. Other Impacts

53. The assessment of other impacts is considered moderate. The next phase after the merger, however, will present a challenge. The protracted enactment of BCI legislation is affecting the effective administration of BCI, including review of various policies, procedures, and prudential guidelines and of staff contracts, which expired on 30 June 2003. The recent Financial Action Task Force on Money Laundering and International Monetary Fund report on the Cook Islands highlighted the critical need for the BCI Bill to be enacted immediately. Accordingly, the Crown Law Office will prioritize the review of this bill during the next meeting of Parliament. In view of the changing and demanding operating environment faced by BCI, its

⁹ Social obligation costs include the costs of servicing the outer islands, such as providing welfare payments, lending, etc.

board, in consultation with the Government, should revisit the rationale for BCI's existence and its resource requirements.

54. The ERP introduced new tariff and tax reform measures aimed at improving efficiency and the Government's revenue. Originally, CIDB was not subjected to income tax regulations, but in 1998 it was required to pay tax. In addition, tax exemption on deposits was lifted and redirected to depositors, impacting CIDB's profitability. This was consistent with the practice applied to the commercial banks.

F. Overall Assessment

55. The CIDB III is assessed successful, and its objectives were achieved. The CIDB III encouraged private sector development, although not to the extent anticipated at appraisal. It supported private sector-led economic growth, by financing 281 subprojects, and contributed to private sector expansion, by increasing exports, jobs, and wealth creation. The policy dialogue resulting in the CIDB and CISB merger helped create a competitive and efficient financial sector. The challenge for the Government and the BCI board is to ensure that BCI operations are sustainable in the longer term.

G. Lessons Learned

56. Appraisal of the CIDB III underestimated the consequences of the layoff program advocated under the ERP. Instead of retrenched public servants investing their funds locally to start up their own businesses, most chose to emigrate. Accordingly, some of their loan accounts with CIDB went into default.

57. The loan of US\$3.0 million equivalent was considered ambitious, bearing in mind the fact that the CIDB II's US\$1.5 million equivalent was only 87% used and the remaining balance canceled. Except for the merger exercise, a higher amount would have been canceled, due to the low rate of use resulting from the depressed investment demands and sluggish economic growth experienced between 1996 and 2001.

58. Policy dialogue under the ERP altered the rationale and implementation plan of TA 2404, which was processed in conjunction with the CIDB III. The project benefits expected to accrue to CIDB were lost to SBEC, resulting in an unsustainable training program and loss of credit advisory support.

59. As evident after the merger, being directed and controlled by the Government did not prepare CIDB and CISB well for the transition to BCI and operating in a competitive and aggressive banking environment. CIDB was not accustomed to a performance-based or market-oriented culture. BCI should import the services of an experienced international expert to implement change management and manage BCI into a profitable institution. In some respects, the postmerger management structure strayed from the original blueprint contained in the consultant's report.

H. Recommendations

60. The Government should reassess BCI's role immediately but before the end of the year, vis-à-vis its overall national strategic plan for the development of the private sector and outer islands. In view of the expanded products and services and effective service delivery provided

by the two commercial banks, BCI's existence is potentially threatened unless the Government provides a subsidy that will cover the social obligation costs to the outer islands.

61. A review of BCI's pool of human resources should be a priority, to ensure people with the right skills mix are recruited to implement BCI's mandate. For key positions, people with skills and experience commensurate with international standards must be recruited. Currently, the institution is overstaffed, with 55 employees, and the essential skills, such as risk management, management leadership, and marketing, are absent, thereby limiting BCI's effectiveness and outreach.

62. BCI should address its high overhead costs, and make a concerted effort to reduce these costs and improve overall efficiency and effectiveness.

63. In view of the difficulty in obtaining financial and economic data of subprojects, it should be made mandatory in BCI's *Procedures and Lending Manual* should require that all performance data be collected and computerized. Such a database will be valuable to BCI in quickly understanding customers' borrowing patterns, subproject performance, borrowers' credit histories, etc. Presently, no active files are maintained after subloans are fully repaid, and the closed files cannot be located easily. Some enforcement procedures should be built into loan agreements to commit subborrowers to maintaining financial and economic data of their subprojects.

64. At the same time, BCI's lending staff should be made accountable, through their performance contracts, for collecting performance data related to their clients' businesses. Project supervision visits and monitoring should be strengthened to ensure compliance and sustainable implementation of subprojects. Supervision and monitoring of staff will ensure that ownership and client relationships continue and are nurtured. Generally, repeat and new customers are generated through a close working relationship between clients and staff.

65. In view of the high staff turnover, BCI's management needs to ensure that at least two people, apart from the finance manager, understand the workings of the MIS. The Mission encountered long delays in ascertaining lending statistics and difficulties in reconciling some manually generated data, because the computerized data could not be easily retrieved.

CHRONOLOGY OF MAJOR EVENTS

Date	Event
18 Apr–5 May 1995	Fact-Finding Mission was fielded.
15 Jun 1995	Management review meeting was held.
Jun 1995	Interest rate review was conducted by CIDB.
19–29 Jun 1995	Appraisal Mission was fielded.
4 Aug 1995	Staff review committee meeting was held.
23–25 Aug 1995	Loan negotiations were held.
13 Sep 1995	Noncommittal inquiry for expression of interest for business development adviser, under TA 2404-COO, was released.
26 Sep 1995	Third CIDB loan was approved (Loan 1380-COO).
24 Oct 1995	Loan Agreement was signed.
22 Jan 1996	Loan 1380 was declared effective.
29 Jan 1996	Committed liquidity standby facility was approved by Westpac Bank.
17 Feb 1996	TA consultant was fielded with CIDB.
26 Feb–1 Mar 1996	Loan and TA Inception Mission was fielded.
28 Mar 1996	Imprest account opened
27 Jun 1996	The Government's request to extend TA consultant's contract was received.
16 Jul 1996	ADB approved the extension of TA consultant's contract by 3 months.
19 Jul 1996	TA progress report was received.
23 Jul 1996	CIDB's staff was restructured.
16 Aug 1996	CIDB's comments and business ventures development proposal were received.
24 Oct 1996	Minor change in TA scope was approved (reduced TA consultant's time from 3 months to six weeks).
11 Nov 1996	Interest rate review paper was submitted.
2 Dec 1996	The Government's asset sale program was received.
16 Feb–5 Mar 1997	Postevaluation Mission was fielded to review Loan 1155.
26 Mar 1997	TA consultant's final report was received.
26 Jul 1997	Consultative group meeting for the Cook Islands was held.
30 Jul 1997	Quarterly and audited annual reports were received.
18 Mar 1998	The Cook Islands Investment Corporation was established by an act of Parliament to supervise and manage the operations of CIDB.
3 Aug 1998	Midterm reviews of the loan and TA project were conducted.
6 Aug 1998	The Government requested that the commitment period and loan closing date be extended by 12 months, to 22 Jan 2000 and 22 Jan 2001, respectively.
28 Aug 1998	ADB approved the Government's request to extend the period of the loan.
6 Nov 1998	ADB approved a major change in TA scope, to assist with the preparation of the CIDB's accounting manual.
21 Mar 1999	A professional accountant was fielded, to prepare CIDB's accounting manual.
14 Apr 1999	Initial fact-finding for strategic repositioning of CIDB was conducted.
20 Apr 1999	CIDB's Y2K compliance and readiness program was received.
20 May 1999	Management approved the use of uncommitted TA funds to finance a study on the strategic review of CIDB and CISB. Uncommitted TA funds were cancelled from that point on.
21 May 1999	A minor change in scope approved for strategic review of CIDB and

Date	Event
29 Jul 1999	CISB. The outcome of the strategic review was submitted to and noted by the Cabinet.
22 Mar 2000	A memorandum of understanding was signed with the Government for the rationalization of the CIDB and the CISB.
10 Apr 2000	The Government requested the use of part of the loan's funds to finance the preparation of a proposed action plan for the merger process.
11 May 2000	A major change in project implementation arrangements, to allow the use of loan funds to finance the merger, was approved.
24 May 2000	Extension of the loan's closing date to 30 June 2001 was approved.
29 May 2000	The Government's proposal for the merger exercise's bidding was received.
12 Jun 2000	The Government reviewed and accepted the first ranked bidder's financial proposal.
25 Jun 2000	The consultant was mobilized to start the merger planning and work.
24 Aug 2000	The contract signed by the Government and the consultant was received.
10 Oct 2000	The Cabinet approved the merger of CISB with CIDB and the plan.
13 Oct 2000	New positions at the merged bank were advertised.
23 Oct 2000	The board of directors of the new bank was appointed.
25 Oct 2000	The consultant's draft final merger report was received.
26 Oct 2000	ADB commented on the draft final report.
21 Dec 2000	Five new managers for the new bank were appointed.
22 Jan 2001	The first meeting of the new merger management committee, overseeing the actual merger process, led by an external project manager, was held.
22 Mar 2001	The Government requested that loan funds be used to finance phase 2 of the merger exercise and the loan's closing date be extended to 31 December 2001.
30 Apr 2001	ADB management approved the use of loan funds to finance phase 2 of the merger process and the extension of the loan's closing date.
1 July 2001	The merger of the two banks was completed, and the new bank started trading as the Bank of the Cook Islands.
8 Aug 2001	The Bank of the Cook Islands opened after a successful merger.

ADB = Asian Development Bank, CIDB = Cook Islands Development Bank, CISB = Cook Islands Savings Bank, TA = technical assistance, Y2K = year 2000.

Source: ADB Files.

INTEREST RATE STRUCTURE

(% per annum)

Item	1996		1997		1998		1999		2000		2001		2002	
	Rarotonga	Outer Island	Rarotonga	Outer Island	Rarotonga	Outer Island	Rarotonga	Outer Island	Rarotonga	Outer Island	Rarotonga	Outer Island	Rarotonga	Outer Island
1. Lending Rates Charged by CIDB														
Agriculture Sector	14.5	—19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Business Sector	14.5	19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Fishing Sector	14.5	19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Pearl Sector	14.5	19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Services Sector	14.5	19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Tourism Sector	14.5	19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Transport Sector	14.5	19.5	—		12.25	15.0	10.75	14.5	10.75	14.5	10.75	14.5	9.5	13.5
Housing Sector	12.5	14	—		11.95	13.5	10.75	13.5	10.75	13.5	10.75	13.5	9.75	13.50
2. Deposit Rates by CIDB														
Saving Deposits	2.5	4.5			2.5	3.0	2.0		2.0		2.0		1.25	
Term Deposits	6.5	9.0			5.0	7.5	3.25	6.0	3.25	6.0	3.25	6.0	2.75	5.5
3. Deposit Rates Offered by Commercial Banks	<u>ANZ</u>	<u>WBC</u>	<u>ANZ</u>	<u>WBC</u>	<u>ANZ</u>	<u>WBC</u>	<u>ANZ</u>	<u>WBC</u>	<u>ANZ</u>	<u>WBC</u>	<u>ANZ</u>	<u>WBC</u>	<u>ANZ</u>	<u>WBC</u>
Saving Deposits	4.0	2.5–5.5	—		2.0	2.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Term Deposits														
3 months	8.0	8.5	—		5.5	6.25	3.0	3.5	3.0	3.5	2.5	3.5	2.25	2.75
6 months	8.5	8.5	—		N/A		N/A		N/A		N/A		N/A	
12 months			—		N/A		N/A		N/A		N/A		N/A	
24 months			—		N/A		N/A		N/A		N/A		N/A	
4. Lending Rates Offered by Commercial Banks														
Personal Advances	20.25	20.0	—		17.75	18.50	16.50	16.50	12.25	15.25	15.25	15.25	15.25	15.25
Housing Loans	13	13	—		11.90	12.0	10.8	10.8	10.75	10.75	10.75	10.75	9.75	9.75
Commercial and Business	14 ^a	14 ^a	—		10.75 ^b	10.75 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	8.95 ^b	8.95 ^b
Agriculture and Fishing	14 ^a	14 ^a	—		10.75 ^b	10.75 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	8.95 ^b	8.95 ^b
Commercial Overdrafts	14 ^a	14 ^a	—		10.75 ^b	10.75 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	9.25 ^b	8.95 ^b	8.95 ^b

ANZ = Australian and New Zealand Bank, CIDB=Cook Islands Development Bank, WBC=Westpac Banking Corporation

^a Indicative lending rates plus margins.

^b Base rates: Westpac Baking Corp. applies a risk margin from 0.5 to 3.5%. Australia and New Zealand Banking Group applies a risk margin from 1.0 to 3.5%.

Sources: ANZ, CIDB, WBC Reports

IMPLEMENTATION STATUS OF SUBPROJECTS

(subloans valued at NZ\$10,000 and above)

Subborrower	Location	Nature of Subproject	Type of Industry	Project Costs (NZ\$)			Source of Funding (NZ\$)				Project Comp Date (month and year)	Actual Project Comp Date (month and year)
				Est	Act	Overruns or Savings	ADB	CIDB	Subborrower	Total Financing		
Cook Islands Bus Passenger	Raro	Expanding	Transport	161,933	161,933	—	63,750	33,688	64,495	161,933	Jun-97	Dec-97
George Transport Ltd	Mang	New	Transport	64,300	64,300	—	47,955	6,345	10,000	64,300	Nov-95	Feb-96
Turoa Bakery Ltd	Raro	Expanding	Bakery	806,960	752,841	54,119	127,380	18,501	606,960	752,841	Apr-96	Jul-97
NNM Holdings Ltd	Raro	Expanding	Petrol	216,160	216,106	54	41,736	24,360	150,010	216,106	Jul-97	Sep-97
Tuaine & Alan Tuara	Mang	Expanding	Bakery	143,036	143,036	—	37,047	22,953	83,036	143,036	Jun-95	Mar-96
Cook Islands News Ltd	Raro	Expanding	Newspaper	540,812	555,917	(15,105)	207,328	132,927	215,662	555,917	Jan-98	Jan-99
Te Ariki Publishing Ltd	Raro	New	Printing	86,316	83,119	3,197	44,623	2,680	35,816	83,119	Jun-96	Aug-96
Cook Islands Packaging Ltd	Raro	New	Business	123,501	123,501	—	30,427	50,373	42,701	123,501	May-97	Jul-97
Peckam & Tu Maoate	Raro	Expanding	Agriculture	49,921	49,921	—	22,461	7,119	20,341	49,921	Jun-97	Nov-97
Joseph Manuel	Raro	Expanding	Agriculture	29,200	40,770	(11,570)	22,100	1,470	17,200	40,770	Dec-95	Jan-96
Paradise islands Ltd	Ait	Expanding	Tourism	144,875	142,518	2,357	21,026	7,317	114,175	142,518	Aug-96	Sep-96
Wigmore Farms Ltd	Raro	Expanding	Agriculture	261,599	261,599	—	30,172	31,077	200,350	261,599	Jun-96	Jun-96
Ruth Arere	Ait	Expanding	Agriculture	30,653	29,802	851	20,650	1,652	7,500	29,802	Nov-95	Dec-95
Rei Jack Snr	Raro	Expanding	Agriculture	51,482	48,183	3,299	20,081	7,750	20,352	48,183	Apr-97	Apr-97
Teariki & Nora Mataroa	Raro	New	Transport	39,008	38,008	1,000	18,750	7,188	12,070	38,008	Nov-97	Nov-97
Landholdings Ltd	Raro	Expanding	Joinery	265,243	265,145	98	25,843	4,813	234,489	265,145	Nov-97	Sep-98
Rino George	Ait	Expanding	Tourism	545,545	545,545	—	33,935	99,565	412,045	545,545	Aug-97	Feb-98
Taunga Toka	Mani	Rebuild	Pearl	89,987	89,987	—	15,234	28,916	45,837	89,987	Dec-98	Dec-98
Tai & Nane Herman	Ait	Expanding	Tourism	24,600	25,000	(400)	18,450	3,350	3,200	25,000	Dec-97	Mar-98
Teariki Maurangi	Atiu	New	Tourism	35,910	32,052	3,858	21,334	4,718	6,000	32,052	May-98	Sep-98
Thomas Hewett	Ait	Expanding	Fishing	40,199	45,076	(4,877)	18,413	15,793	10,870	45,076	Mar-97	Mar-97
William Ellis	Mani	Expanding	Pearl	131,498	122,473	9,025	22,212	8,951	91,310	122,473	Jan-98	Feb-98
Edward Browne	Raro	Expanding	Fishing	44,775	40,290	4,485	23,060	940	16,290	40,290	Dec-96	Feb-97
T & T Maki	Ait	Expanding	Agriculture	36,193	35,993	200	16,875	5,425	13,693	35,993	Jul-97	Sep-97
Rarotonga Banana Growers	Raro	New	Agriculture	72,372	72,392	(20)	17,515	4,605	50,272	72,392	Jun-96	Jan-97
Motukasi Pearls Ltd	Pen	New	Pearl	81,915	72,564	9,351	19,378	5,186	48,000	72,564	Feb-97	Aug-97
Fred Charlie	Ait	Expanding	Agriculture	31,385	33,375	(1,990)	18,045	2,522	12,808	33,375	Apr-97	May-97
Pare Carl Marsters	Ait	Expanding	Fishing	28,546	28,546	—	15,000	4,333	9,213	28,546	Oct-96	Oct-96
B & M Heather Ltd	Raro	Expanding	Business	142,475	142,475	—	14,538	98,137	29,800	142,475	Feb-95	Feb-95
Teinaki Toka	Mani	Rebuild	Pearl	134,210	134,210	—	14,171	12,839	107,200	134,210	Jan-98	Mar-98
Paaka Hagai	Mani	Rebuild	Pearl	97,020	97,020	—	13,746	25,594	57,680	97,020	Jan-98	Aug-98
Maryann & Poaru Poaru	Raro	New	Agriculture	34,250	34,250	—	13,500	5,500	15,250	34,250	Sep-97	Nov-97

IMPLEMENTATION STATUS OF SUBPROJECTS
(subloans valued at NZ\$10,000 and above)

Subborrower	Location	Nature of Subproject	Type of Industry	Project Costs (NZ\$)			Source of Funding (NZ\$)				Project Comp Date (month and year)	Actual Project Comp Date (month and year)
				Est	Act	Overruns or Savings	ADB	CIDB	Subborrower	Total Financing		
D & T Marsters	Raro	New	Fishing	47,423	47,423	—	20,948	7,052	19,423	47,423	Jul-97	Jul-97
Nan & Noovao Noovao	Raro	Expanding	Tourism	59,044	68,794	(9,750)	22,875	21,694	24,225	68,794	Dec-97	Jan-98
Vara's Beach House	Raro	Expanding	Tourism	102,095	102,095	—	24,146	26,404	51,545	102,095	Jul-97	Oct-97
Patrick Tua	Raro	New	Entertainment	45,800	43,105	2,695	11,250	12,750	19,105	43,105	Apr-97	Sep-97
Tangi Kokaua	Raro	New	Retail	92,455	92,455	—	20,446	24,644	47,365	92,455	Dec-98	Jan-99
William Williarr	Mani	Rebuild	Pearl	131,203	134,648	(3,445)	13,235	9,267	112,146	134,648	Jan-98	Apr-99
Blue Note Café	Raro	Expanding	Restaurant	81,102	81,102	—	22,407	38,695	20,000	81,102	Feb-96	Nov-97
Avarua Bakery	Raro	Expanding	Bakery	280,483	260,483	20,000	51,079	17,867	191,537	260,483	Mar-99	Jun-99
Nooroa Ioane	Ait	Expanding	Fishing	51,626	51,373	253	12,920	6,314	32,139	51,373	Sep-98	Sep-98
Vaiurua Poultry	Atiu	Expanding	Poultry	43,521	43,457	64	8,380	18,393	16,684	43,457	Dec-95	Jul-96
Taunga Temu	Mani	Rebuild	Pearl	245,077	245,077	—	16,007	38,282	190,788	245,077	Jul-98	Aug-98
T & M Electrical	Raro	New	Business	57,523	57,523	—	13,271	27,363	16,889	57,523	Sep-99	Nov-99
T & M Mokoroa	Raro	New	Agriculture	41,849	41,849	—	14,372	16,182	11,295	41,849	Mar-99	Apr-99
Solomona Toroma	Mani	Rebuild	Pearl	87,657	87,657	—	19,350	19,855	48,452	87,657	Mar 98	Apr 98
Samuel Karaponga	Mani	Rebuild	Pearl	411,535	375,352	36,183	29,164	55,554	290,634	375,352	Dec 98	Jan 99
Paierē Mokoroa	Atiu	New	Tourism	59,226	58,518	708	21,216	18,072	19,230	58,518	Feb 97	Dec 99
Lagoon Lodges	Raro	Expanding	Tourism	1,703,260	1,703,260	—	165,000	110,000	1,428,260	1,703,260	May 99	Dec 99
Emile Kairua	Mani	Rebuild	Pearl	87,438	87,438	—	21,469	32,779	33,190	87,438	May 98	Jun 98
Bobby Tarau	Mani	Rebuild	Pearl	66,860	66,860	—	18,581	1,419	46,860	66,860	Dec-98	Dec-98
Andrew & Moyra McBirney	Ait	Expanding	Business	75,051	58,804	16,247	10,630	18,254	29,920	58,804	Mar-99	May-99
Martin Ellis	Mani	Rebuild	Pearl	105,686	112,038	(6,352)	30,629	34,643	46,766	112,038	Aug-98	Sep-98
Tutai Manuela	Mani	Rebuild	Pearl	126,291	126,902	(611)	28,015	29,835	69,052	126,902	Nov-98	Mar-99
Luka Kaitara	Mani	Rebuild	Pearl	239,251	239,251	—	10,644	11,122	217,485	239,251	Aug-98	Sep-98
T & T Hosking	Raro	Expanding	Fishing	64,971	64,789	182	22,559	8,854	33,376	64,789	Jul-98	Aug-98
Are Tamanu	Ait	New	Tourism	957,400	957,400	—	433,736	210,464	313,200	957,400	Jul-01	Jan-01
Rarotonga Golf Club	Raro	Expanding	Business	158,538	166,922	(8,384)	23,373	37,715	105,834	166,922	Mar-98	Aug-99
				10,008,244	9,902,521	105,723	2,162,437	1,540,059	6,200,025	9,902,521		

Ait=Aitutaki, Mani=Manihiki, Pen=Penhryn, Raro=Rarotonga
Comp=completion, Est=estimate, Act=actual

FINANCIAL PERFORMANCE OF SUBPROJECTS

(subloans valued at NZ\$10,000 and above)

Subborrower	Total Sales				Net Income or Loss				Loan Repayment		Prospects
	1st Year		2nd Year		1st Year		2nd Year		Re-pay-ment	Arrears	
	Est	Act	Est	Act	Est	Act	Est	Act	Status	Status	
Cook Is Bus Passenger	272,413	n.a	286,034	532,316	5,966	n.a	11,890	25,553	F		Refinanced by Westpac; ongoing business
Gerge Transport Ltd	58,207	10,860	58,962	19,330	10,335	(10,716)	10,891	(1,587)	C		Satisfactory
Turoa Bakery Ltd	1,045,190	897,653	1,045,190	756,156	197,615	78,564	227,414	72,515	C		Satisfactory
NNM holdings Ltd	452,820	459,610	497,571	469,917	(12,532)	(2,729)	12,540	(6,133)	F		Ongoing business
Tuaine & Alan Tuara	66,900	49,273	69,990	52,473	4,278	8,021	4,128	(833)	C		Downsized operation (due to econ downturn & drop in population)
Cook Is News Ltd	627,910	669,767	622,000	769,919	60,448	(21,746)	23,000	29,834	C		Satisfactory
Te Ariki Publishing Ltd	166,488	n.a	212,132	186,904	13,141	n.a	37,309	32,467	F		Ongoing business; taken over by new company
C.I. Packaging Ltd	182,000	73,590	127,400	73,612	15,220	(15,953)	15,220	1,671	C		Satisfactory
Peckam & Tu Maoate	22,516	n.a	81,713	4,670	(3,040)	n.a	30,483	625	F		Clients have relocated to Aitutaki (involved in fishing)
Joseph Manuel	25,560	n.a	25,560	1,104	6,524	n.a	6,027	306	C		Serviced by salary
Paradise Is Ltd	359,770	n.a	395,747	n.a	54,449	n.a	64,610	n.a	F		Settled in 1998; ongoing tourism business in Aitutaki
Wigmore Farms Ltd	124,000	n.a	124,000	35,469	13,753	n.a	7,915	1,418	F		Ongoing agriculture business
Ruth Arere	n.a	n.a	18,800	16,231	n.a	n.a	15,142	316	F		Agriculture project taken over by client's new retail business
Rei Jack Snr	13,867	n.a	13,867	n.a	122	n.a	122	n.a	F		Refinanced by Westpac; ongoing agriculture project
Teariki & Nora Mataroa	68,502	n.a	73,369	33,053	12,714	n.a	15,491	16,818	C		Satisfactory and/or additional borrowings
Landholdings Ltd	151,665	n.a	159,249	578,457	46,725	n.a	52,391	45,734	F		Settled in 1998; ongoing business
Rino George	178,500	214,386	187,425	299,473	43,587	(10,112)	47,566	(1,823)	C		Satisfactory
Taunga Toka	33,600	65,000	14,000	n.a	6,373	n.a	958	n.a	C		Satisfactory
Tai & Nane Herman	48,000	n.a	48,000	n.a	5,715	n.a	4,501	n.a	C	4,864	Client made arrangement to pay arrears; satisfactory
Teariki Maurangi	x	n.a	x	n.a	x	n.a	x	n.a	F		None
Thomas Hewett	20,000	n.a	22,000	n.a	1,508	n.a	3,408	n.a	F		Nonexistent project and serviced by client's superannuation
Williams Ellis	21,000	n.a	62,000	72,858	(3,100)	n.a	(13,800)	n.a	F		Ongoing pearl farming operation; fully repaid in May 2002
Edward Brown	15,200	n.a	16,720	20,650	1,632	n.a	3,152	7,797	F		None
T&T Maki	11,640	n.a	12,222	3,096	2,379	n.a	2,435	839	F		None
Raro Banana Growers As	434,400	n.a	62,000	n.a	17,819	n.a	10,207	n.a	C	103	Under recovery
Motukasi Pearl Ltd	115,200	n.a	28,800	n.a	6,725	n.a	14,245	n.a	I	2,840	Under recovery and/or project nonexistent
Fred Charlie	21,780	n.a	22,869	n.a	5,514	n.a	6,466	n.a	F		None
Pare Carl Marsters	32,000	n.a	32,000	n.a	6,919	n.a	6,020	n.a	F		Diversified to tourism business
B&M Heather Ltd	1,831,534	1,302,459	1,831,534	1,906,438	183,677	42,670	186,665	129,850	F		Ongoing business operation under T & M Ltd
Teinaki Toka	65,840	0	151,640	52,409	5,814	(37,130)	40,464	(20,278)	C		Satisfactory; ongoing pearl sales
Paaka Hagai	29,160	34,145	86,280	23,500	9,136	n.a	45,879	(233)	F		Ongoing pearl operation under new partnership
Maryanne & Poaru Poaru	8,500	3,883	8,500	n.a	(1,163)	95	(1,163)	n.a	F		Satisfactory
D&T Marsters	20,000	n.a	22,000	38,251	5,971	n.a	7,971	11,887	F		Ongoing fishing business
Nan & Noovao Noovao	22,885	8,730	26,318	n.a	1,366	1,530	4,375	n.a	I	5,667	Under recovery (husband passed away)
Vara's Beach House	163,249	n.a	171,411	n.a	15,290	n.a	17,125	n.a	F		Ongoing tourism business
Patrick Tua	14,200	n.a	13,792	6,200	1,792	n.a	1,376	1,553	F		Moved into retail business
Tangi Kokaua	911,108	n.a	938,441	n.a	24,481	n.a	25,083	n.a	F		Ongoing retail business
T&M Mokoroa	15,184	n.a	20,299	n.a	1,598	n.a	4,854	n.a	C		Project stopped after drought affected project; serviced by salary
Blue Note Café	146,546	203,737	146,546	505,935	4,004	6,439	5,284	10,514	F		Ongoing business

FINANCIAL PERFORMANCE OF SUBPROJECTS

(subloans valued at NZ\$10,000 and Above)

Subborrower	Total Sales				Net Income or Loss				Loan Repayment		Prospects
	1st Year		2nd Year		1st Year		2nd Year		Re-pay-ment Status	Arrears Status	
	Est	Act	Est	Act	Est	Act	Est	Act			
Samuel Karaponga	188,000	44,500	247,400	113,329	39,887	5,638	72,143	3,420	I	101,991	Under recovery; pearls valued at \$100,000 with bank
Avarua Bakery Ltd	291,660	595,526	320,826	717,126	12,900	(1,698)	23,519	43,322	C		Satisfactory
Nooroa Ioane	20,700	3,727	22,770	1,050	(1,180)	1,176	(236)	124	F		None
Solomona Toroma	25,992	141,195	8,664	38,841	667	n.a	(4,494)	n.a	C		Additional borrowings; expanding pearl operation
Martin Ellis	21,200	n.a	144,000	33,150	(10,902)	n.a	35,760	0	I	27,212	Pearl farm under review
Vairua Poultry	n.a	16,091	n.a	8651	n.a	(5,444)	n.a	(2,761)	F		Poultry farm no longer operating
Taunga Temu	256,070	n.a.	n.a.	4,000	267,494	n.a.	n.a	0	I	65,776	Under recovery. Client absconded
T&M Electrical	44,100	118,104	46,305	270,071	14,111	(14,883)	23,336	(41,670)	C		Satisfactory
P. Mokoroa	20,299	10,634	18,969	n.a.	4,854	2,531	2,979	n.a.	C		Expanding tourist accommodation
Bobby Tarau	n.a	29,000	n.a	56,062	n.a	n.a	n.a	n.a	F		Ongoing pearl operation
Andrew and McBimey	19,305	526,715	21,236	n.a	4,098	88	n.a	n.a	C		Satisfactory
Lagoon Lodges	380,635	n.a	413,523	541,219	122,637	n.a	147,332	37,203	F		Refinanced by Westpac; ongoing tourist business
Emile Kairua	100,814	0	n.a	0	n.a	0	n.a	0	I	57,405	Pearl sale in progress
Tutai Manuela	146,520	5,000	9,600	n.a	7,844	n.a	(3,800)	n.a	I	70,000	Under recovery
Luka Kaitara	90,972	206,023	52,000	90,449	14,182	n.a	29,952	n.a	C		Satisfactory
William Williarr	100,800	30,764	100,800	n.a	76,600	18,764	73,100	n.a	F		Fully settled project
T andT Hosking	30,750	5,854	33,825	2,805	3,303	n.a	8,470	n.a	C		Satisfactory
Are Tamanu	320,760	587,706	397,410	n.a	112,182	(30,831)	188,832	n.a	C		Satisfactory; first year of operation
Rarotonga Golf Club	125,539	n.a	152,705	202,049	(5,331)	n.a	(10,695)	35,135	C		Satisfactory
TOTAL	9,981,450	6,313,932	9,726,814	8,537,223	1,436,099	14,274	1,543,842	433,583		335,858	

Act = actual, Est = estimated, n.a.= not available

^a C = current, F = fully repaid, I = in difficulties.

Source: Cook Islands Development Bank.

ECONOMIC PERFORMANCE OF SUBPROJECTS

(subloans valued at NZ\$10,000 and above)

Subborrower	Export Sales (NZ\$)				Incremental Value		Incremental Employment				Investment Cost		Nature of Business
	1st Year		2nd Year		Added 2nd Year (NZ\$)		Number (2nd Year)		Male	Female	Per Job (NZ\$) 2nd Year		
	Est	Act	Est	Act	Est	Act	Est	Act	Act	Act	Est	Act	
Cook Island Bus Passenger	200,224	n.a	210,235	266,158	164,401	447,094	9	9	8	1	17,993	17,993	Transportation
George Transport Ltd	n.a	n.a	n.a	n.a	26,000	14,031	3	3	2	1	21,433	21,433	Transportation
Turoa Bakery Ltd	n.a	n.a	n.a	n.a	850,627	757,184	16	12	6	6	50,435	62,737	Bakery
NNM Holdings Ltd	n.a	n.a	n.a	n.a	n.a	453,364	10	10	8	2	21,616	21,616	Petrol station
Tuaine & Alan Tuara	n.a	n.a	n.a	n.a	29,681	45,723	3	2	1	1	47,679	71,518	Bakery
Cook Is News Ltd	n.a	n.a	n.a	n.a	376,628	689,767	15	15	8	7	36,054	37,061	Daily news publication
Te Ariki Publishing Ltd	n.a	n.a	n.a	n.a	69,069	109,339	6	6	5	1	14,386	14,386	Printing service
Cook Is Packaging Ltd	n.a	n.a	n.a	n.a	100,418	54,898	3	20	18	2	41,167	6,175	Manufacture (bottles and/or plastic)
Peckam & Tu Maoate	57,199	n.a	44,050	n.a	23,434	4,670	3	3	3		16,640	16,640	Project nonexistent
Joseph Manuel	n.a	n.a	n.a	n.a	3,950	n.a	2	2	2		14,600	20,385	Pawpaw (market garden)
Paradise Is Limited	n.a	n.a	n.a	n.a	n.a	n.a	5				28,975	n.a	Tourism
Wigmore Farms Ltd	n.a	n.a	n.a	n.a	20,359	25,651	8	8	8		37,819	37,819	Agriculture
Ruth Tiraa Arere	n.a	n.a	n.a	n.a	n.a	15,318	2	2	1	1	15,327	14,901	Agriculture
Rei Jack Snr	n.a	n.a	n.a	n.a	5,433	n.a	5				10,296	n.a	Agriculture
Teariki & Nora Mataroa	n.a	12,083	n.a	26,442	13,316	23,051	4	4	3	1	6,485	9,502	Business
Landholdings Ltd	n.a	n.a	n.a	n.a	n.a	308,827	8	8	8		33,155	33,155	Business
Rino George	126,934	171,509	133,280	239,578	116,935	142,853	5	7	4	3	109,109	77,935	Tourism
Taunga Toka	21,280	65,000	5,763	n.a	(3,987)	n.a	10	7	4	3	10,569	12,855	Pearl farm
Tai & Nane Herman	n.a	n.a	n.a	n.a	1,323	n.a	2	1		1	12,300	25,000	Tourism
Teariki Maurangi	n.a	n.a	n.a	n.a	n.a	n.a							Tourism (not operational)
Thomas Hewett	n.a	n.a	n.a	n.a	n.a	n.a	4				10,050	n.a	Fishing (not operational)
William Ellis	11,025	n.a	32,550	72,858	9,291	n.a	4	4	3	1	32,875	30,618	Pearl farm
Edward Browne	n.a	n.a	n.a	n.a	7,428	16,017	2	1	1		22,388	40,290	Fishing
T&T Maki	n.a	n.a	n.a	n.a	n.a	2,743	2	2	1	1	18,097	17,997	Agriculture
Raro Banana Growers	n.a	n.a	n.a	n.a	n.a	n.a	0	0			0	n.a	Agriculture (not operational)
Motukasi Pearls Ltd	115,200	n.a	28,800	n.a	7,520	n.a	10	0			8,192	n.a	Pearl farm (not operational)
Fred Charlie	n.a	n.a	n.a	n.a	14,354	n.a	2				15,693	n.a	Agriculture
Pare Carl Marsters	n.a	n.a	n.a	n.a	21,506	n.a	2				14,273	na	Fishing project (not operational)
B&M Heather Ltd	n.a	n.a	n.a	n.a	n.a	n.a	43	43	41	2	3,313	3,313	Cartage, heavy machinery, and quarry
Teinaki Toka	49,380		113,730	27,872	65,058	39,745	5	4	3	1	28,679	33,553	Pearl farm
Paaka Hagai	n.a	34,145	n.a	23,500	80,993	n.a	2	4	3	1	53,182	26,591	Pearl farm
Maryann & Poaru Poaru	7,438	n.a	7,483	n.a	(884)	n.a	2	2	2		17,125	17,125	Pawpaw (market garden) export
D&T Marsters	n.a	n.a	n.a	n.a	n.a	38,251	2	2	2		23,712	23,712	Fishing

ECONOMIC PERFORMANCE OF SUBPROJECTS
(subloans valued at NZ\$10,000 and above)

Subborrower	Export Sales (NZ\$)				Incremental Value Added 2nd Year (NZ\$)		Incremental Employment				Investment Cost Per Job (NZ\$) 2nd Year		Nature of Business
	1st Year		2nd Year		Est	Act	Number (2nd Year)		Male Act	Female Act	Est	Act	
	Est	Act	Est	Act			Est	Act					
Nan & Noovao													
Noovao	22,885	n.a	26,318	n.a	11,496	n.a	4	2	1	1	14,761	34,397	Tourism and Fishing
Vara's Beach House	163,249	n.a	171,411	n.a	17,125	n.a	3				34,032	n.a	Tourism
Patrick Tua	n.a	n.a	n.a	n.a	n.a	3,270	3	2	2		15,267	22,900	Entertainment
Tangi Kokaua	n.a	n.a	n.a	n.a	942,052	n.a	6	3	1	2	15,409	30,818	Retail business
William Williarr	48,600	30,764	75,600	n.a	79,052	n.a	4	4	3	1	32,801	33,662	Pearl Farm
Blue Note Café	n.a	162,990	n.a	404,748	n.a	489,300	6	6	2	4	13,517	13,517	Business
Avarua Bakery	n.a	n.a	n.a	n.a	173,135	622,805	10	13	9	4	28,048	20,037	Bakery
Nooroa Ioane	n.a	n.a	n.a	n.a	3,189	926	2	1	1		25,813	51,373	Fishing
Vaiurua Poultry	n.a	n.a	n.a	n.a	n.a	5,234	2	2	2		21,761	21,761	Poultry Farm
Taunga Temu	192,053	n.a	n.a	4,000	n.a	n.a	5	1	1		52,164	245,077	Pearl Farm
T&M Electrical	n.a	n.a	n.a	n.a	22,843	258,341	3	4	4		19,174	14,381	Electrical contractor
T&M Mokoroa	20,299	n.a	18,969	n.a	2,832	n.a	3				13,950		Agriculture
Solomona Toroma	43,224	141,195	94,015	38,841	104,794	n.a	3	7	6	1	12,522	n.a	Pearl Farm
Samuel Karaponga	141,100	44,500	185,550	113,329	103,642	44,141	6	5	3	2	68,589	75,070	Pearl Farm
Paiera Mokoroa	7,800	10,634	7,800	n.a	2,877	9,089	6	3	1	2	9,871	19,506	Tourism
Lagoon Lodges	n.a	n.a	n.a	541,219	94,897	381,512	10	10	2	8	170,326	170,326	Tourist accommodations
Emile Kairua	151,221	-	n.a	-	n.a	0	5	2	1	1	20,837	43,719	Pearl Farm
Bobby Tarau	n.a	29,000	55,461	56,062	57,003	n.a	2	2	2		33,430	33,430	Pearl Farm
Andrew & Moyra McBirner	n.a	421,372	n.a	n.a	6,697	462,703	6	5	3	2	12,509	117,608	Tourism
Martin Ellis	11,695	n.a	68,229	33,150	7,483	n.a	3	3	3		35,229	37,346	Pearl Farm
Tutai Manuela	73,077	5,000	47,880	n.a	41,832	n.a	4	2	2		35,117	63,451	Pearl Farm
Luka Kaitara	38,603	206,023	22,065	90,449	17,741	n.a	11	11	11		21,750	21,750	Pearl Farm
T&T Hosking	n.a	n.a	n.a	n.a	n.a	n.a	3	2	2		21,657	32,395	Fishing
Are Tamanu	245,280	587,706	306,600	n.a	69,822	203,216	14	14	11	3	68,386	68,386	Tourist accommodations
Raro Golf Club	n.a	n.a	n.a	50,512	n.a	177,415	7	7	3	4	22,648	23,846	Recreation
	1,747,766	1,921,921	1,655,744	1,988,718	3,761,365	1,541,651	330	292	221	71	1,635,279	1,795,740	

Est.=estimate, Act.=actual, n.a=not available
Source: Cook Islands Development Bank

SUMMARY OF LOAN APPROVALS

(New Zealand {NZ}\$'000)

Item	31-Mar-96		31-Mar-97		31-Mar-98		30-Jun-99		30-Jun-00		30-Jun-01		30-Jun-02	
	No.	NZ\$	No.	NZ\$	No.	NZ\$	No.	NZ\$	No.	NZ\$	No.	NZ\$	No.	NZ\$
By Sector														
Agriculture	64	308	77	513	56	490	50	369	33	357	32	305	37	459
Fishing	23	401	53	459	36	227	40	276	41	304	28	159	30	1,060
Pearl	40	209	34	438	39	939	51	1,676	56	1,502	32	1,018	22	1,157
Business	67	1,176	57	926	71	1,417	80	1,263	73	1,752	62	1,851	64	1,558
Tourism	5	585	18	202	25	550	25	803	13	919	19	404	12	650
Housing	43	806	41	437	84	1,430	92	1,506	124	1,372	84	951	90	2,334
Others	275	645	74	249	164	618	265	895	179	757	225	909	786	3,092
Total	517	4,130	354	3,224	475	5,671	603	6,788	519	6,963	482	5,597	1,041	10,310
By Size of Loan														
Less than NZ\$2,000	247	305	116	306	121	156	200	427	131	310	105	159	472	663
NZ\$2,001 to NZ\$10,000	218	939	144	836	214	1,006	265	1,348	227	1,134	252	1,083	446	1,873
NZ\$10,001 to NZ\$50,000	38	723	75	1,416	103	2,166	110	2,362	131	2,750	105	2,217	103	4,411
Over NZ\$50,000	14	2,163	19	666	37	2,343	28	2,651	30	2,769	20	2,138	20	3,363
Total	517	4,130	354	3,224	475	5,671	603	6,788	519	6,963	482	5,597	1,041	10,310
By Location														
Rarotonga	346	2,678	211	1,938	287	3,565	379	4,043	322	3,727	295	3,323	736	7,160
Aitutaki	31	737	47	427	69	639	62	513	51	1,110	58	664	84	839
Other Islands	140	715	96	859	119	1,467	162	2,232	146	2,126	129	1,610	221	2,311
Total	517	4,130	354	3,224	475	5,671	603	6,788	519	6,963	482	5,597	1,041	10,310
By Maturity														
Up to 1 Year	231	403	124	837	118	1,417	258	4,046	208	1,536	151	906	540	1,454
More than 1 Year to 5 Years	246	2,333	193	1,624	238	2,835	288	513	254	3,055	284	3,243	461	6,316
Over 5 Years	40	1,394	37	763	119	1,419	57	2,229	57	2,372	47	1,448	40	2,540
Total	517	4,130	354	3,224	475	5,671	603	6,788	519	6,963	482	5,597	1,041	10,310
By Purpose														
Working Capital	294	1,397	100	759	184	1,116	268	1,346	212	2,355	230	2,782	631	3,807
Structural	71	1,688	58	1,719	91	2,099	105	2,004	104	2,097	70	1,014	159	3,203
Equipment	108	784	122	346	133	1,696	132	1,914	129	1,417	92	1,066	58	1,106
Transport	44	261	74	400	67	760	98	1,524	74	1,094	90	735	193	2,194
Total	517	4,130	354	3,224	475	5,671	603	6,788	519	6,963	482	5,597	1,041	10,310
Loan Disbursements		3,328		3,165		3,952		5,984		4,925		6,872		7,173

PROJECTED AND ACTUAL LOAN PORTFOLIO AND ARREARS
(NZ\$' 000)

Item	31 March	31 March	31 March	15 Months	30 June	30 June	30 June	30 June
	1996	1997	1998	30 June	2000	2001	2002	2002
Projected Loan Portfolio	11,668	12,646	14,528	16,608	17,809	n/a	n/a	
Actual Loan Portfolio								
Agriculture	381	526	597	663	644	668	708	
Fishing	479	851	717	448	455	484	1,171	
Pearl	987	1,081	1,290	2,054	2,248	2,407	2,640	
Business	3,634	3,922	3,972	4,939	4,346	4,150	3,548	
Tourism	1,325	1,447	1,905	1,793	2,083	1,840	1,885	
Housing	4,019	4,195	4,393	4,904	5,492	4,796	5,287	
Others	750	498	692	850	871	1,023	3,041	
Government	0	0	0	0	0	0	1,813	
Total	11,575	12,520	13,566	15,651	16,139	15,368	20,093	
Less Provisions	(1,726)	(2,398)	(2,903)	(3,156)	(2,727)	(2,311)	(2,923)	
Net Portfolio	9,849	10,122	10,663	12,495	13,412	13,057	17,170	
Provisions to Loan Portfolio (%)	14.9	19.2	21.4	20.2	16.9	15.0	14.5	
Projected (%)	15.1	15.2	14.7	14.4	14.9	n/a	n/a	
Arrears								
Agriculture	23	29	19	43	17	27	33	
Fishing	30	27	7	18	19	22	55	
Pearl	535	142	142	134	114	641	599	
Business	428	526	298	281	180	125	129	
Tourism	61	187	69	75	167	14	38	
Housing	127	165	127	134	137	151	147	
Others	87	80	75	70	26	25	63	
Total	1,291	1,156	737	755	660	1,005	1,064	
Arrears to Loan Portfolio Percentage (%)								
Agriculture	6.0	5.5	3.2	6.5	2.6	4.0	4.7	
Fishing	6.3	3.2	1.0	4.0	4.2	4.5	4.7	
Pearl	54.2	13.1	11.0	6.5	5.1	26.6	22.7	
Business	11.8	13.4	7.5	5.7	4.1	3.0	3.6	
Tourism	4.6	12.9	3.6	4.2	8.0	0.8	2.0	
Housing	3.2	3.9	2.9	2.7	2.5	3.1	2.7	
Others	11.6	16.1	10.8	8.2	3.0	2.4	2.1	
Total	11.2	9.2	5.4	4.8	4.1	6.5	5.3	
Arrears Ageing								
Up to 3 Months	618	159	202	142	147	135	65	
3 to 6 Months	153	132	53	139	53	492	181	
6 to 12 Months	215	182	97	172	183	267	251	
Over 12 Months	305	684	384	302	277	112	567	
Total	1,291	1,157	736	755	660	1,006	1,064	
Projected Arrears	1,048	1,282	1,483	1,565	1,656	n/a	n/a	
Hard-Core Arrears Ratio (%)	2.63	5.46	2.83	1.93	1.72	0.73	2.80	

PROJECTED AND ACTUAL INCOME STATEMENTS

(NZ\$'000)

Item	Projected					Actual						
	31 March 1996	31 March 1997	31 March 1998	31 March 1999	31 March 2000	31 March 1996	31 March 1997	31 March 1998	15 Months 30 June 1999	30 June 2000	30 June 2001	30 June 2002
Income												
Loan Interest and Fees	1,652	1,689	1,865	2,112	2,300	1,713	1,856	2,053	2,561	2,041	2,039	2,525
Deposit Interest	156	133	132	139	123	179	169	236	259	185	188	286
Rent Income	241	253	266	254	167	244	243	247	314	233	164	135
Other	12	13	14	16	17	105	74	23	94	32	71	299
Total Income	2,061	2,087	2,277	2,520	2,607	2,241	2,342	2,559	3,228	2,491	2,462	3,245
Expenses												
Interest on Borrowings	531	509	560	641	669	489	560	613	761	542	501	589
Salaries and Wages	541	595	624	656	688	599	608	584	703	605	615	950
Office and Communications	69	73	76	80	84	121	108	99	146	127	142	237
Repairs and Maintenance	54	56	59	62	65	55	48	49	99	41	49	46
CIDB House Expenses	43	45	47	49	52	30	200	67	139	76	110	101
Depreciation	163	164	165	165	166	158	165	177	231	94	69	237
Other Administrative Expenses	164	172	181	190	199	175	236	185	196	300	308	449
Total Expenses	1,564	1,614	1,712	1,843	1,924	1,626	1,927	1,773	2,276	1,784	1,794	2,609
Operating Profit or Loss	497	473	565	677	683	614	417	785	953	706	667	636
Provision for Doubtful Debt	206	265	302	320	303	519	545	648	611	267	483	538
Less Income tax	0	0	0	0	0	0	0	(39)	(106)	(97)	(57)	(24)
Net Profit or Loss	291	209	263	356	380	95	(128)	99	236	342	127	75
Ratios (%)												
Net Profit to Avg. Equity	4.1	2.8	3.3	4.3	4.4	1.2	(1.7)	1.3	3.1	4.4	1.6	0.9
Net Profit to Avg. Total Assets	1.9	1.4	1.6	2.0	2.0	0.6	(0.8)	0.6	1.3	1.7	0.6	0.3
Admin Exp to Avg. Total Assets	6.6	7.3	7.1	6.7	6.6	6.8	8.9	6.8	8.1	6.2	6.3	8.1
Interest Spread ^a	8.3	7.3	7.4	7.3	7.3	6.4	8.5	9.1	10.7	8.6	8.2	8.5
Earnings Spread ^b	12.3	11.6	11.3	10.9	10.6	10.6	13.6	14.0	15.8	11.4	11.5	13.6

NZ= New Zealand, Avg.=Average

Interest Spread: (Interest from loan portfolio/Average loan portfolio)-(Interest on borrowings and deposits/Average borrowings and deposits)

Earning Spread: (Total income/Average loan and investment portfolio)-(Interest and dividend payments/Average borrowings, deposits and equity)

Source: Cook Islands Development Bank

PROJECTED AND ACTUAL BALANCE SHEETS

(NZ\$' 000)

Item	Projected					Actual							
						15 Months							
	31 March 1996	31 March 1997	31 March 1998	31 March 1999	31 March 2000	31 March 1996	31 March 1997	31 March 1998	30 June 1999	30 June 2000	30 June 2001	30 June 2002	
Assets													
Current Assets													
Cash	128	170	190	186	70	204	831	680	635	503	1,383	1,335	
Deposits	1,800	2,000	2,000	2,000	1,750	1,450	2,800	3,706	4,508	4,175	3,988	7,601	
Sundry Debtors	6	6	7	8	8	35	62	85	83	147	41	277	
Current Portion of Loans	2,844	3,065	3,024	3,030	3,040	2,806	2,500	2,919	3,445	3,575	4,220	4,862	
Others	0	0	0	0	0	0	0	50	1,785	1,605	218	0	
Total Current Assets	4,777	5,241	5,221	5,224	4,869	4,495	6,192	7,440	10,457	10,004	9,850	14,076	
Total Loans	11,668	12,646	14,528	16,608	17,809	11,575	12,520	13,566	15,652	16,139	15,368	20,093	
Less Provisions	(1,763)	(1,928)	(2,129)	(2,400)	(2,653)	(1,726)	(2,398)	(2,903)	(3,156)	(2,727)	(2,311)	(2,923)	
Less Current Portion	(2,844)	(3,065)	(3,024)	(3,030)	(3,040)	(2,806)	(2,500)	(2,919)	(3,445)	(3,575)	(4,220)	(4,862)	
Net Loans	7,060	7,653	9,374	11,178	12,116	7,043	7,623	7,744	9,051	9,838	8,837	12,308	
Net Equity Investment	0	0	0	0	0	6	0	0	0	0	0	0	
Total Portfolio	7,060	7,653	9,374	11,178	12,116	7,049	7,623	7,744	9,051	9,838	8,837	12,308	
Capitalization of Merger Costs	0	0	0	0	0	0	0	0	0	0	272	247	
Fixed Assets	2,739	2,634	2,530	2,424	2,318	2,692	2,577	2,536	250	226	1,913	2,216	
Total Assets	14,576	15,528	17,125	18,826	19,304	14,236	16,392	17,720	19,758	20,068	20,871	28,847	
Liabilities and Equity													
Current Liabilities													
Creditors and Accruals	436	446	458	469	481	350	500	491	443	338	751	443	
Deposits	3,405	2,665	2,725	2,785	3,005	3,086	4,167	5,374	6,869	6,646	7,761	14,663	
Current Portion of Debt	333	287	287	287	474	317	320	525	910	642	642	638	
Others	0	0	0	0	0	0	282	211	0	0	0	0	
Total Current Liabilities	4,174	3,399	3,470	3,541	3,960	3,753	5,269	6,601	8,223	7,626	9,154	15,744	

	Projected					Actual							
	31 Mar 1996	31 Mar 1997	31 Mar 1998	31 Mar 1999	31 Mar 2000	31 Mar 1996	31 Mar 1997	31 Mar 1998	15 months 30 Jun 1999 30 Jun 2000 30 Jun 2001 30 Jun 2002				
Term Debt													
ADB	2,276	3,478	4,720	5,974	5,819	2,236	2,686	3,160	3,856	3,686	3,629	3,802	
Other Term Debt	425	325	225	125	25	450	350	250	100	0	0	0	
Term Deposits ^a	676	796	916	1,036	1,156	869	739	467	831	1,398	603	914	
Less Current Portion	0	0	0	0	0	(317)	(320)	(525)	(910)	(642)	(642)	(638)	
	3,044	4,312	5,575	6,848	6,527	3,238	3,455	3,352	3,878	4,442	3,591	4,078	
Equity													
Capital	6,525	6,775	6,775	6,775	6,775	6,606	7,156	7,156	7,156	7,156	7,156	7,156	
Revenue Reserves	538	747	1,010	1,367	1,747	345	217	315	501	844	971	1,869	
Capital Reserves	295	295	295	295	295	295	295	295	0	0	0	0	
	7,358	7,817	8,08	8,437	8,817	7,246	7,667	7,766	7,657	8,000	8,127	9,025	
Total Liability and Equity	14,576	15,528	17,125	18,826	19,304	14,236	16,392	17,720	19,758	20,068	20,871	28,847	
Ratios													
Current Ratio (times)	1.14	1.54	1.50	1.48	1.23	1.2	1.13	1.13	1.27	1.31	1.08	0.89	
Debt to Equity Ratio (times)	0.46	0.59	0.73	0.85	0.79	0.49	0.49	0.50	0.63	0.64	0.52	0.52	
Provisions to Total Loans (%)	15.1	15.2	14.7	14.4	14.9	13.8	16.5	18.9	18.7	15.8	14.5	13.7	
Term Debt to Total Loans (%) ^b	23.1	30.1	34.0	36.7	32.8	23.2	24.3	25.1	25.3	22.8	23.6	18.9	
Deposits to Total Loans (%) ^c	35.0	27.4	25.1	23.0	23.4	34.2	39.2	43.1	49.2	49.8	54.4	77.5	

ADB=Asian Development Bank

^a Excludes current portion of term deposits.

^b Ratio based on term debt excluding term deposits.

^c Ratio based on all deposits (including call and term deposits).

Sources: Cook Islands Development Bank and ADB Appraisal Report

PROJECTED AND ACTUAL CASH FLOW STATEMENTS

Item	Projected (NZ\$'000)					Actual (NZ\$'000)						
	31 March	31 March	31 March	31 March	31 March	31 March	31 March	31 March	15 months	30 June	30 June	30 June
	1996	1997	1998	1999	2000	1996	1997	1998	30 Jun 99	2000	2001	2002
Source												
Total Income	2,061	2,087	2,277	2,520	2,607	2,240	2,343	2,558	3,228	2,490	2,461	3,245
Less Expenses	(1,770)	(1,878)	(2,014)	(2,163)	(2,227)	(2,145)	(2,471)	(2,420)	(2,886)	(2,051)	(2,277)	(3,147)
Add Non cash Expenses	370	429	466	486	469	677	709	825	841	361	553	774
Add Interest Expenses	531	509	560	641	669	489	560	613	761	542	501	589
Operational Cash Flow	1,191	1,147	1,290	1,483	1,518	1,261	1,141	1,575	1,944	1,343	1,237	1,462
Loan Collection (principal)	2,578	2,758	2,759	2,800	3,098	2,820	2,347	2,752	3,586	3,792	6,744	5,947
Sale of Investments	6	0	0	0	0	0	0	250	0	0	0	0
Proceeds on Sale of Fixed Assets	0	0	0	0	0	0	0	13	0	65	0	379
Available for Debt Service	3,776	3,905	4,049	4,283	4,616	4,081	3,488	4,590	5,530	5,200	7,981	7,788
Increase in Cash Equity	250	250	0	0	0	450	550	0	(295)	0	0	0
Increase in Term Deposits	20	120	120	120	120	0	0	0	456	372	0	313
Borrowing Drawdown	140	1,389	1,429	1,440	219	0	644	669	924	811	424	654
Total Sources	4,186	5,664	5,598	5,843	4,955	4,531	4,682	5,259	6,616	6,382	8,405	8,755
Application												
Interest Charges	531	509	560	641	669	489	560	613	761	542	501	589
Loan Repayments	379	287	287	287	474	208	293	366	583	930	639	481
Required for Debt Service	910	796	847	928	1,142	697	854	978	1,344	1,472	1,140	1,070
Loan Disbursements	2,830	3,836	4,741	4,930	4,350	3,328	3,165	3,952	5,984	4,925	6,872	7,173
Equity Investments	0	0	0	0	0	0	(6)	0	0	0	0	0
Cash Investment (CISB)	0	0	0	0	0	0	250	0	0	0	0	2,749
Capital Expenses less Disposals	93	60	60	60	60	139	49	137	(2,056)	70	1,698	601
Repayment of Term Deposit	0	0	0	0	0	455	130	241	0	0	722	0
Tax and/or Dividends Paid	0	0	0	0	0	0	0	0	89	169	14	0
Merger Costs	0	0	0	0	0	0	0	0	0	0	287	172
Increase in Working Capital	354	972	(50)	(74)	(597)	(89)	240	(49)	1,254	(253)	(2,328)	(3,010)
Total Applications	4,186	5,664	5,598	5,843	4,955	4,531	4,682	5,259	6,616	6,382	8,405	8,755
Debt-Service Coverage ^a	4.15	4.9	4.78	4.62	4.04	5.85	4.09	4.69	4.12	3.53	7.00	7.28

^a Debt-service coverage refers to funds available for debt service divided by those required for debt service.

CISB = Cook Islands Savings Bank

Source: Cook Islands Development Bank.

STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
<p>The Borrower shall cause the Cook Islands Development Bank (CIDB) to carry out the Project with due diligence and efficiency and in conformity with sound banking, administrative, financial, engineering, and environmental and business practices.</p>	<p>LA Sec 4.01 (a); PA Sec 3.01 (a)</p>	<p>Complied with.</p>
<p>In carrying out the Project, the Borrower shall perform all the obligations set forth in Schedule (Sch.) 4 to this Loan Agreement (LA).</p>	<p>LA Sec 4.01 (b); PA Sec 3.01 (b)</p>	<p>Complied with.</p>
<p>The Borrower shall make available to the Asian Development Bank (ADB) all such reports and information regarding (i) the loan and expenditure of proceeds; (ii) the Project; (iii) qualified projects; (iv) the administration, operations, and financial condition of CIDB; (v) financial and economic conditions in the country and international balance of payments position of the Borrower; and (vi) any other matters relating to the purposes of the loan.</p>	<p>LA Sec 4.02</p>	<p>Complied with. This has been provided through annual reports and audited accounts; ADB policy dialogue with government officials; and ADB studies, such as the Pacific Islands Economic Report.</p>
<p>The Borrower shall enable ADB's representatives to inspect any qualified enterprise, projects, and goods financed out of the loan.</p>	<p>LA Sec 4.03</p>	<p>Complied with.</p>
<p>The Borrower shall promptly take all action, including provision of funds, facilities, services and other resources to enable CIDB to perform its obligations under this Project Agreement (PA).</p>	<p>LA Sec 4.04</p>	<p>Complied with. The Government's support during the merger process was commendable.</p>
<p>The Borrower shall exercise its rights under the Subsidiary LA (SLA) in such a manner as to protect the interests of the Borrower and ADB and accomplish the purposes of the loan.</p>	<p>LA Sec 4.05 (a)</p>	<p>Complied with.</p>
<p>No rights or obligations under the SLA shall be assigned, amended, abrogated, or waived without the prior concurrence of ADB.</p>	<p>LA Sec 4.5 (b)</p>	<p>Complied with.</p>
<p>It is the mutual intention of the Borrower and ADB that no other mutual external debt owed a creditor other than ADB shall have any priority over the loan by way of a lien on the assets of the Borrower.</p>	<p>LA Sec 4.06 (a)</p>	<p>Complied with. The Government is fully aware of this obligation.</p>
<p>The provisions of LA Sec 4.06 (a) shall not apply to any lien created on property at the time of purchase and any lien arising in the ordinary course of banking transactions and securing a debt maturing not more than 1 year after its date.</p>	<p>LA Sec 4.06 (b)</p>	<p>Complied with and ongoing. CIDB/Bank of the Cook Islands (BCI) is fully aware of its own debt covenant, vis-à-vis the loan's covenants.</p>

Covenant	Reference in Loan Agreement	Status of Compliance
<p>The term "assets of the Borrower" used in LA Sec 4.06 (a) shall include assets of any political subdivision or any agency of the Borrower, assets held on behalf of the Borrower by local and foreign banks, and assets held by any institution performing the functions of the central bank for the Borrower.</p>	<p>LA Sec 4.06 (c)</p>	<p>Complied with</p>
<p>Except as ADB may otherwise agree, the Borrower shall relend the proceeds of the loan to CIDB on the following terms and conditions: (i) interest payable semiannually on all amounts withdrawn and outstanding from time to time under the SLA at the stated ordinary capital resources rate; (ii) equal semiannual repayments of principal over a period of 15 years, including a grace period of 3 years; and (iii) assumption by the Borrower of the foreign exchange risk with respect to repayment of the loan.</p>	<p>LA Sch. 4, para. 1</p>	<p>Complied with. The SLA was signed in January 1996.</p>
<p>The Borrower shall annually review CIDB's lending rate structure with CIDB, in order to ensure that CIDB's interest rates are set at market levels and that CIDB is in full compliance with its covenants, as set out in paras. 2, 3, and 4 of Schedule 4.</p>	<p>LA Sch. 4, para. 2</p>	<p>Complied with. CIDB's interest rates have been reviewed annually, and they commensurate with market rates.</p>
<p>To enable CIDB to establish a standby facility in NZ\$ with a commercial bank in the Cook Islands, the Borrower shall take such measures and facilitate the implementation of any arrangement as may be necessary to fully authorize CIDB to give security over CIDB House for purposes of obtaining such facility.</p>	<p>LA Sch. para. 3</p>	<p>Complied with. A NZ\$1.0 million backup facility was negotiated with Westpac in 1996. The facility closed on the expiration of ADB's third credit line.</p>
<p>The Borrower shall promptly inform ADB of any proposal to amend the Act in order for ADB to have a reasonable opportunity to comment on the proposed change(s)</p>	<p>LA Sch. 4, para. 4</p>	<p>Complied with. Consistent with the Cook Islands Investment Corporation (CIIC) Act, the CIDB, in June 1998, revised its act to align it with CIIC legislation. ADB was informed of this change and Office of the General Counsel consulted. There were no binding conditions against ADB</p>
<p>The Borrower shall not permit CIDB to make a substantial amendment, revision, or other change to its policy statement without first affording ADB a reasonable opportunity to comment on the proposed change.</p>	<p>LA Sch. 4, para. 5 PA Sec 3.01 (c)</p>	<p>Complied with.</p>
<p>The Borrower shall make all appointments and reappointments to the CIDB board of directors, other than that of the managing director, for periods of 3 years.</p>	<p>LA Sch. 4, para. 6 (a)</p>	<p>Complied with. The CIIC Act requires that the CIIC board appoint the CIDB board. No change was made to the term of</p>

Covenant	Reference in Loan Agreement	Status of Compliance
		board members. Following the merger, the managing director is on a performance contract for 2 years. Recently, the Finance Minister issued a directive disallowing public servants from being represented in government statutory boards.
The Borrower will select not less than two of the four members, who represent the private sector on the CIDB board of directors, from among nominees suggested by the Cook Islands Chamber of Commerce.	LA Sch. 4, para. 6 (b)	Complied with. In association with the CIIC Act, there are no government representatives on the board, from April 2002.
The Borrower will ensure that the appointed CIDB managing director has the satisfactory qualifications, experience, and training.	LA Sch. 4, para. 7	Complied with No change in managing director since 1992. Since the merger, the current managing director is on a performance contract for 2 years.
The Borrower will ensure that CIDB continues to be staffed by suitably qualified professionals with adequate experience and technical expertise .	LA Sch. 4, para. 8	Complied with. CIDB experienced high staff turnover in the past. After the merger, BCI continued to experience some loss of qualified staff, with some key managerial positions affected. Important that BCI recruit technically qualified, competent, mature, and experienced managers preferably on performance contracts, in line with the head of ministry scheme.
The Borrower and CIDB shall continue to give due consideration to the privatization of CIDB and shall discuss development in this connection with ADB from time to time.	LA Sch. 4, para. 9, PA, Sec 3.04	Complied with. ADB, through vigorous policy dialogue, assisted the Government with the merger of CIDB and Cook Islands Savings Bank resulting in the creation of BCI on 1 July 2001
CIDB shall at all times make adequate provision to protect itself against any loss resulting from changes in the rate of exchange between the New Zealand dollar and the currency in which the CIDB's outstanding money obligations will have to be met.	PA Sec 3.02	Complied with.
CIDB shall maintain records and accounts adequate	PA Sec 3.04	Complied with.

Covenant	Reference in Loan Agreement	Status of Compliance
to record the progress of the Project and each qualified project and reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of CIDB.		.
ADB and CIDB shall cooperate fully to ensure that the purpose of the loan will be accomplished.	PA Sec 3.05 (a)	Complied with. .
CIDB shall promptly inform ADB of any condition that interferes with the progress of the Project, the performance of its obligations under this PA or the SLA, or the accomplishment of the purposes of the loan.	PA, Sec 3.05, (b)	Complied with.
ADB and CIDB shall, from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, CIDB and the Loan.	PA Sec 3.05 (c)	Complied with.
CIDB shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the loan and the expenditure of the proceeds; (ii) the Project; (iii) the qualified enterprises and subloans; (iv) the administration, operations and financial condition of CIDB; and (v) any other matters relating to the purposes of the loan.	PA Sec 3.06 (a)	Complied with.
Without limiting the generality of the foregoing, CIDB shall furnish to ADB quarterly reports on the execution of the Project and on the operation and management of CIDB. Such reports shall be submitted within 1 month after the end of each quarter and in such form and detail as ADB shall reasonably request.	PA Sec 3.06 (b)	Complied with.
Promptly after the closing date for withdrawals from the loan account, but in any event not later than 3 months after the said closing date or such later date as ADB may agree for this purpose, CIDB shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the utilization of the loan, the execution of the qualified projects, their costs, the performance by CIDB of its obligations under this PA and the accomplishment of the purposes of the loan.	PA Sec 3.06 (c)	Complied with. .
CIDB shall have its accounts and financial statements audited annually in accordance with appropriate auditing standards consistently applied by independent auditors and shall promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, submit to ADB certified copies of audited accounts	PA Sec 3.07(a)	Complied with. The fiscal year's end changed in 1999 from 31 March to 30 June, consistent with the end of the Government's fiscal year, for consolidation purposes.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>and the report of the auditors relating thereto.</p> <p>The report of the auditors referred to in (a) above shall include the auditors' comments on: (i) the scope of audit and adequacy of internal control procedures; (ii) quality classification of CIDB's loan and equity portfolio; (iii) auditors' opinions regarding adequacy of CIDB's balance sheet provisions; (iv) analysis of arrears; (v) auditors' evaluation of the adequacy of CIDB's accounting systems and procedures and of its financial management; and (vi) the auditors' opinion on whether the covenants with respect to CIDB's borrowings, including covenants set out in Section 3.1 of this PA have been complied with so the maturities of such borrowings are not likely to be accelerated.</p> <p>CIDB shall enable ADB's representatives to inspect any qualified enterprise, or goods financed out of the proceeds of the loan, and any relevant records and documents.</p> <p>CIDB shall at all times conduct its business in accordance with sound banking, administrative, financial, environmental, and business practices and under the supervision of competent and experienced management and personnel.</p> <p>Except as ADB may otherwise agree, CIDB shall not (i) sell, lease, transfer, or otherwise dispose of any of its assets, except in the ordinary course of its business; or (ii) establish or acquire any subsidiary.</p> <p>Except as ADB may otherwise agree, CIDB shall (i) maintain a ratio of the consolidated debt of CIDB and all its subsidiaries to the consolidated equity of CIDB and all its subsidiaries not higher than 3:1 and (ii) maintain a debt-service coverage ratio of not less than 1.25 times.</p> <p>The subloan criteria CIDB shall employ shall ensure subprojects are (i) viable economically and commercially; (ii) sound technically, managerially, and environmentally; (iii) compliant with the environmental regulations of the Government; (iv) in possession of a satisfactory cash flow and an implementation plan demonstrating financial viability; and (v) capable of maintaining an equity level equal to at least 25% of the total assets of the project. Moreover, the CIDB's interest rate structure adopted by the Board Of Directors shall follow market interest rates and permit the CIDB to charge lower interest rates on subloans that are fully reflective of CIDB's</p>	<p>PA Sec 3.07 (b)</p> <p>PA, Sec 3.08</p> <p>PA, Sec 3.09 (b)</p> <p>PA, Sec 3.09, {c}</p> <p>PA, Sec 3.10</p> <p>PA Sch. para. 1</p>	<p>Complied with. The external auditor, in its management letter of 10 September 2001, identified 15 audit issues requiring compliance. This is the first time that CIDB has fared badly in its internal management controls since the loan project started. BCI's management is working toward compliance measures.</p> <p>Complied with.</p> <p>Complied with. Following issues identified by the external auditors tighter management controls are being instituted.</p> <p>Complied with.</p> <p>Complied with The debt-equity ratio has remained constant at 1:1, and the debt-service ratio has remained well above the covenanted limit.</p> <p>Complied with. However, subprojects often do not meet expected performance due to a change in economic environment or some other variables.</p>

Covenant	Reference in Loan Agreement	Status of Compliance
assessment of the relative risks, costs, maturities, and nature of individual subloans. CIDB may provide for a 1% rebate for on-time or early repayments by qualified subloans.		
CIDB's interest rate structure adopted by the Board of Directors shall follow market interest rates and permit CIDB to charge lower interest rates on subloans, which are fully reflective of CIDB's assessment of the relative risks, costs, maturities and nature of individual subloans. CIDB may provide for 1% rebate for on-time or early repayments by qualified subloans	PA, Sch para. 2	Complied with. CIDB closely follows any changes in market rates.
CIDB shall undertake a review of its interest rate policies at least once every 12 months. The review shall cover CIDB's then present lending rate structure as it relates to CIDB's cost of funds, profitability, and overall interest rates, as well as inflation rates in the Cook Islands and internationally.	PA Sch. para. 3	Complied with.
CIDB shall promptly inform ADB prior to making any change in its interest rates structure and afford ADB a reasonable opportunity to comment.	PA Sch. para. 4	Complied with.
During the repayment period of the SLA, CIDB shall use all funds received from the repayment of principal of the subloans as revolving funds.	PA Sch. para. 5	Complied with. However at times a high level of arrears can diminish this fund flow.
CIDB shall ensure all subprojects are (i) designed, implemented, and operated in full conformity with the Borrower's laws and regulations pertaining to the environment; and (ii) CIDB shall comply with ADB's environmental impact assessment procedures as may be advised by ADB	PA Sch. para. 6 (a and b)	Complied with.
CIDB is to collect and make available to ADB adequate performance data for each qualified subproject, including relevant socioeconomic and financial information for subprojects of US\$10,000 equivalent or more.	PA Sch para 7	Not complied with. The financial and economic data are not readily available on file.
CIDB shall ensure that it continues to be staffed by suitably qualified professionals with adequate experience and technical expertise.	PA, Sch, para 8	Complied with. Some difficulties, however, have been noted following recent staff turnover.
CIDB shall continue to give high priority to its staff training programs for its officers, in particular training directly relevant to the responsibilities and duties of its client services offices.	PA Sch, para 9	Complied with and ongoing. This remains a challenging area.

Covenant	Reference in Loan Agreement	Status of Compliance
<p>The CIDB shall maintain a minimum annual cash collection ratio of not less than 75% and a hard-core arrears ratio as a percentage of value of its loan portfolio not more than 3%. Hard-core arrears means total arrears of all CIDB borrowers in which any payment is in arrears by 12 months or longer.</p>	<p>PA Sch, para 10 (a and b)</p>	<p>Complied with.</p>
<p>If in any semiannual or annual review CIDB's collection performance falls short of the stated minimum annual cash collection ratio or hard-core arrears ratio, then except as ADB may otherwise agree, CIDB may not make further withdrawals from the loan account.</p>	<p>PA, Sch, para 11</p>	<p>Complied with.</p>
<p>By 31 December 1995, CIDB shall adopt and incorporate in its policy statement guidelines acceptable to ADB on the rescheduling of CIDB loans.</p>	<p>PA, Sch, para 12</p>	<p>Complied with. This was a precondition for Loan 1380 approval</p>
<p>CIDB shall establish a standby facility in New Zealand dollars with a commercial bank to safeguard CIDB from risks arising from its dependence on short-term deposits.</p>	<p>PA, Sch, para 13</p>	<p>Complied with.</p>

Sources: ADB Loan and Project Agreements, ADB Project Files, CIDB Files