

CURRENCY EQUIVALENTS

(as of 31 October 2001)

Currency Unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	=	\$0.41785
\$1.00	=	NZ\$ 2.39320

ABBREVIATIONS

ADB	–	Asian Development Bank
MFEM	–	Ministry of Finance and Economic Management
MP	–	member of parliament
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars.

I. INTRODUCTION

1. During discussions between the Government of the Cook Islands and the Country Programming Mission of the Asian Development Bank (ADB) in April 2001, the Government requested technical assistance (TA) to improve corporate management of Government services. The TA is to continue ADB's support for an economic and fiscal reform program that was commenced in 1996.¹

2. Implementation of the reform program has progressed well, although the third consultative group meeting (in Rarotonga in June 2001) agreed that some consolidation and adjustment are necessary. In particular, downsizing of the public service has created shortages of qualified and experienced staff at a time when greater efficiency is needed and expected. Capacity building in the restructured public service is required. A Fact-Finding Mission visited the Cook Islands from 19 to 26 September 2001 and reached an understanding with the Government on the scope, cost, financing and implementation arrangements for the TA.²

II. BACKGROUND AND RATIONALE

3. In 1995 the Cook Islands Government realized that it faced an extremely serious economic and fiscal situation. It had very high debt and was finding difficulty meeting some of its scheduled debt repayments. In response to the Government's request, ADB provided three forms of assistance for a major economic and fiscal reform program, as follows:

- (i) ADB provided two successive TAs to help the Government strengthen its institutional capacity for financial and economic management.³ The objective of the two TAs was to establish an institutional framework for macroeconomic and financial analysis, particularly through strengthening the planning and policy formulation abilities in two key central Government departments—the Ministry of Finance and Economic Management (MFEM), and the Prime Minister's Office. Under the TAs, a new legislative framework and budgetary procedure were developed. The TAs also helped improve the availability of key economic and social statistics.
- (ii) In 1996, ADB provided a program loan, primarily to help the Government downsize its civil service (at the time, the country's internal economy was heavily dependent on public sector expenditure, and public expenditure had to be drastically cut).
- (iii) In 1998, ADB assisted the Government to restructure its overseas debt (creditors' representatives met with Government representatives at debt restructuring talks that were held at ADB headquarters).

4. The reform program has transformed the economy from one that excessively and unsustainably relied on the Government, to one that has significant private sector-led growth. The Government has largely withdrawn from economic activities in which it might undercut the

¹ The TA was first listed in *ADB Business Opportunities* (Internet version) on 28 July 2001.

² The TA has been included in ADB's Country Strategy and Program for 2001.

³ TA 2424-COO: *Strengthening of Institutional Capacity for Financial and Economic Management* for \$892,000, approved on 17 October 1995, and completed in March 1997; and TA 2750-COO: *Strengthening of Institutional Capacity for Financial and Economic Management (Phase 2)*, for \$600,000, approved on 27 June 1997 and completed in April 2000.

private sector. The TAs, program loan, and debt restructuring effectively assisted the Government to deal with the serious economic and fiscal crisis of the mid-1990s. The public service has been downsized to about half its 1995 level.

5. The Government remains committed to avoiding expansion of its workforce and to maintaining its size at supportable levels. During the third consultative group meeting, development partners offered TA and training support to help the Government fill the gaps in the levels of skilled and experienced personnel. Emphasis now needs to be placed on personnel development and capacity building. There is a need to improve business planning and reporting processes within Government departments, and the Parliament's own review procedures.

6. However, Government downsizing has led to the loss of skilled and experienced personnel, at a time when expertise is required for developing strategic and business planning processes to enable Government departments to become more effective and efficient. The designers of the reform program were aware that this would happen, but the priority at the time was to help the Government achieve macroeconomic stability and fiscal balance. That has been accomplished, and the Government is now strengthening its capacity to deliver key services, an objective that could not have been met at the time of the economic crisis. Downsizing of the Government has led to a shortage of key skills, particularly in sectoral policy formulation and departmental business planning.

7. As well as strengthening its capacity to deliver key services, the Government is focusing on ensuring that the regulatory environment is effective, and on investment in modern infrastructure. The Government is also currently devolving authority and responsibilities for development in outer islands to outer island local governments (island administrations). The Government intends to complete the devolution process in tandem with the institutional strengthening that will be required to ensure accountability and effective management of resources. In island administrations, institutional strengthening is being implemented with assistance from the United Nations Development Programme (UNDP).

8. Output-based performance budgeting and full accrual accounting were introduced in 1995, but their utilization could be further developed. The skills of two central agencies—MFEM and the Prime Minister's Office—have improved, and now there is a need to improve the understanding of the review process by members of parliament, to enable better identification of the Government's objectives, and to establish appropriate planning, budgeting, and reporting procedures at the sectoral level. In many Government departments, and especially in the outer islands, management systems cannot be fully implemented due to skill and resource constraints.

9. The Government has adopted a decentralized policy and planning framework. Each minister decides with the ministry's permanent secretary what policies will be adopted and what services will be delivered. These are then reflected in strategic plans, annual reports, and budgets. The Government's policies and plans are integrated through inter ministerial review of plans, annual reports, and budgets; parliamentary review of annual reports; and parliamentary review of the budget, which contains a three-year rolling projection of economic growth, revenues, and expenditure.

10. Government departments are required to prepare a strategic plan that sets out each department's objectives and planned outputs. At the end of each fiscal year, Government departments are required to present fully audited annual reports to Parliament, and to report to the Public Service Commission with regard to performance measurement of personnel. The first

round of preparation of annual reports has recently commenced. The Government proposes to implement improved procedures for reporting and review of departmental plans and activities, which will include review of annual reports by a parliamentary select committee.

11. The Government has recently established the Economic Policy and Planning Unit, which is guiding the preparation of strategies and business plans by line agencies. Under the direction of the finance secretary, a team has been formed within MFEM to: (i) enhance budgetary, internal financial, and financial reporting procedures for Government departments, (ii) enhance accountability and understanding and (iii) develop training in Government departments.⁴ With the establishment of this team, and with the Government's recent moves to improve parliamentary review procedures through a select committee process, the Government is focusing on the need to refine its overall objectives, and to ensure that appropriate planning, budgeting, and reporting procedures are adopted at the sectoral level. This reflects the Government's commitment to carry the reform process forward.

12. ADB's operational strategy in the Cook Islands focuses on assisting the Government in building sustainable capacities of sound economic and public sector management, promoting economic growth, and supporting private sector development. ADB's strategy is directed to the three broad areas of policy reform, improvement of urban infrastructure, and outer islands development. The goal of the TA is to create an effective, efficient, and affordable public sector providing core services that satisfy users and provide value-for-investment to taxpayers. The strategy supports the Government's commitment to continuing reform.

III. THE TECHNICAL ASSISTANCE

A. Objectives

13. The TA will assist the Government to build: (i) a body of expertise in Government departments, to ensure that the principles of output-based management, good business planning and reporting continue to be met; and (ii) expertise among members of parliament, to enable them to effectively review the annual reports of Government departments. The logical framework of the TA is given in Appendix 1.

B. Scope

14. **Business Plans, Information, and Reporting Systems.** The TA will provide a consulting resource for MFEM's team, to enable it to assist Government departments to adopt rational business practices. The practices include the preparation and review of business plans, and internal and external information and reporting systems. The team is to be expanded by personnel from Government departments that have already commenced the business planning and reporting process, to ensure that local constraints and issues can be clearly identified and addressed.

15. **Review of Budgetary, Reporting, and Strategic Planning Procedures.** The Government's current budgetary and strategic planning procedures will be reviewed, and recommendations will be made to the Cabinet with regard to the development of planning, reporting, and review procedures. The current understanding of output-based management and

⁴ The team includes the manager of Policy, Planning and Economics; a budget accountant; and two foreign senior management accountants. One of the accountants is being supported by the Australian Agency for International Development (AusAID).

budgeting, and the status of business planning and reporting procedures, in all Government departments, will be reviewed through a consultative process. Assessments will be made of the requirements for appropriate planning, reporting, and management information systems, and of the skills resources of each Government department and island administration to implement and sustain the business planning process. The status of preparing annual reports by island administrations will also be reviewed, to ensure that there is reasonable conformity with procedures in Government departments. The availability and suitability of information technology hardware will be assessed, and recommendations will be made to rectify any deficiencies.

16. **Participatory Workshops.** Participatory workshops will be planned, based on the reviews and assessments. Workshops will be designed initially to enable Government departments to prepare their longer term strategic plans, define their annual outputs, and allocate budgetary resources to each output. Workshops will be continued to cover key stages of the business planning process (including formulation and updating of business plans, implementation of internal and external reporting procedures, preparation of annual reports, and preparation of procedural manuals for business planning and reporting within Government departments). Participants will be encouraged to prepare draft plans and reports for their own departments, and the drafts will be used as resource materials during the workshops. Women will be adequately represented amongst workshop participants.

17. **Training.** The progress of Government departments in implementing the business planning and reporting process will be reviewed, and consultations will be held with key personnel to ascertain issues and difficulties that may arise. Experiential training will be provided as appropriate to supplement the participatory workshops. During the implementation of the participatory workshops and the “hands on” training, potential trainers will be identified in each Government department. The identified departmental trainers will be encouraged to conduct workshops in their own departments, to facilitate the continued transfer of skills within the department.

18. Consultations will be held with members of parliament to assess their understanding of parliamentary review procedures for business plans and annual reports. Training in these procedures will be arranged as necessary for members of parliament. Documentation and manuals describing the Government’s statutory and standing procedures will be prepared, and assistance will be given to Government departments and island administrations to prepare their own manuals of business planning and reporting procedure for internal use.

19. **Annual Budgets and Personnel Development Plans.** Managers within Government departments will be advised on how to develop annual budgets and personnel development plans from business plans, and how to improve: (i) the management of financial, personnel, and other resources through regular internal reporting information procedures; and (ii) budgetary and resource control through internal reporting procedures and information systems. Outline terms of reference for the TA consultant is given in Appendix 2.

C. Cost Estimates and Financing Plan

20. The total cost of the TA is estimated at \$328,000 equivalent, comprising \$226,000 in foreign exchange costs and \$102,000 equivalent in local currency costs. It is proposed that ADB provide \$250,000 equivalent on a grant basis, to finance the entire foreign exchange cost and \$24,000 equivalent of local currency costs. The TA will be financed by ADB on a grant basis from the Japan Special Fund, funded by the Government of Japan. The Government will

finance the remaining \$78,000 equivalent of the local currency costs for counterpart staff salaries, domestic travel by counterpart staff, office accommodation, and consumables. The cost estimates and financing plan are given in Appendix 3.

D. Implementation Arrangements

21. MFEM will be the Executing Agency for the TA. The financial secretary, in association with the chief of staff of the Prime Minister's Office, will guide its implementation. The Government's team will actively be involved in the conduct of workshops, review of strategic and business plans, and similar activities. The overall implementation period will be 12 months, commencing in February 2002 and concluding at the end of February 2003. A total of six months of services from an individual international consultant, with experience in business planning, reporting procedures, and training within Government departments will be required. The consultant will advise and assist the Government's team, and to Government departments, members of parliament, and others as required in close association with the Government's team. The consultant will be engaged in accordance with ADB's *Guidelines on the Use of Consultants*.

22. The Government has agreed to provide: (i) furnished office accommodation, (ii) access to communications facilities, (iii) office consumables, and (iv) supporting staff as available to the Government's team. The Government will help arrange for participatory workshops and meetings and consultations, and will provide access to all relevant documents, reports, and data.

23. Within six weeks of commencing services, the consultant will present a report to the Government and ADB, briefly summarizing activities, and the status of the needs assessment. The consultant will, in association with the Government's team, set out a program for the implementation of the TA, including training activities, participatory workshops, and the time frame for implementation of business planning, reporting, and review procedures. The consultant will thereafter provide brief monthly reports of activities, and planned future activities, to the Government and ADB. At the end of the assignment, the consultant will provide a concluding report to the Government and ADB, summarizing activities and results of the TA. The outputs and outcome of the TA will be reviewed at a tripartite meeting between the Government, the consultant, and ADB at the conclusion of the TA.

IV. THE PRESIDENT'S DECISION

24. The President, acting under authority delegated by the Board, has approved the provision of technical assistance to the Government of the Cook Islands, on a grant basis, in an amount not exceeding the equivalent of \$250,000 for the purpose of Improving Corporate Management in Government Services, and hereby reports such action to the Board.

TECHNICAL ASSISTANCE FRAMEWORK

Design Summary	Performance Indicators/ Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Goal</p> <p>To create an effective, efficient, and affordable public sector providing core services that satisfy users and represents value-for-investment to taxpayers.</p>	<p>Adoption of a defined business planning process among Government departments and members of parliament from 2003 to:</p> <ul style="list-style-type: none"> • prepare business plans to identify objectives and required outputs, and link outputs to resources; • adopt appropriate internal and external reporting procedures to ensure appropriate levels of personnel and budgetary management; and • ensure appropriate departmental and parliamentary review of annual reports. 	<p>Completed business plans, with annual reviews, and annual reports by Government services, presented and reviewed on time by Government.</p> <p>External financial reports, personnel reports, and other reports required by Government, presented and reviewed in a timely manner.</p> <p>Appropriate internal management reporting systems adopted and in continuous use.</p>	<p>Parliament and Government departments will ensure that appropriate standards and procedures are incorporated into their standard operating procedures to ensure the continuity of the business planning and reporting process.</p>

(Reference in text: page 3, para. 13)

Design Summary	Performance Indicators/Targets	Monitoring Mechanisms	Assumptions and Risks
<p>Purpose</p> <p>1. To build a body of expertise in Government departments, to ensure that the principles of output-based management, good business planning, and reporting are met on a continued basis.</p> <p>2. To build among members of parliament (MPs) expertise to effectively review the annual reports of Government departments.</p>	<p>All 14 Government departments able to define outputs and allocate budgetary resources to each output by August 2002.</p> <p>Personnel evaluation and management procedures, and budgetary management procedures and reporting, linked to the business planning process by February 2003.</p> <p>MPs fully familiar with procedures for assessing departmental annual reports by October 2002.</p>	<p>Progress reports from the Government's project implementation team, and from the TA consultant.</p> <p>Annual reviews by Ministry of Finance and Economic Management (MFEM), and by Public Service Commission.</p> <p>Completed parliamentary reviews of departmental annual reports.</p>	<p>Appropriate personnel are assigned to the business planning process to ensure propagation of knowledge, experience, and practice within each Government department and island administration.</p> <p>Continuity of review and reporting procedures will be maintained, and trained staff will be retained.</p> <p>MPs and Government departments will actively continue to participate in the implementation of the TA.</p>
<p>Activities</p> <p>Assessment of understanding of the output-based management process and existing Government reporting procedures, and needs assessment of each Government department.</p>	<p>By June 2002, completed assessments of all 14 Government departments and a selected 6 island administrations, of</p> <ul style="list-style-type: none"> • understanding and internal review of output-based management and budgeting, • business planning and reporting, • required procedure protocol 	<p>Needs assessment reports by the Government's team, for each Government department. Progress reports of TA consultant.</p>	<p>Full and continued participation by Government departments.</p> <p>Sufficient interest from MPs.</p>

Assessment of understanding of output-based management, and annual report review procedures amongst MPs	<ul style="list-style-type: none"> and approval process, • extent of existing expertise, and • workshop requirements and experiential (hands on) training requirements. <p>By June 2002, discussions with MPs completed, levels of experience of the review process assessed, and detailed training needs determined.</p>	Progress reports of TA consultant.	Consistent attendance of workshops and discussion groups.
Participatory workshops for Government departments.	At least four participatory workshops for Government departments, and two discussion groups for MPs, completed by December 2002.	Workshop materials and discussion papers as prepared. Workshop reports by MFEM team. Progress reports of TA consultant.	Government departments maintain interest in training.
“Hands-on” training within Government departments and island administrations.	<p>By January 2003 at least 30 follow-up visits to Government departments and island administrations to:</p> <ul style="list-style-type: none"> • provide “hands on” training, and • review progress. 	Progress reports of TA consultant.	Sufficient interest from MPs.
Discussion groups for MPs.	At least two discussion groups for MPs.	Progress reports of TA consultant.	
Inputs			
International Consultant Services	6 person-months		
Counterpart Staff	24 person-months		
Workshops and Manuals	At least 4 participatory workshops		
Other Support and Travel	Office accommodation for 12 months; local travel provided.		

OUTLINE TERMS OF REFERENCE FOR CONSULTANT

1. The consultant will work with the Government's team, based in the Ministry of Finance and Economic Management. The consultant's tasks and advisory services will include assisting the Government's team with the following:

- (i) Help (a) review statutory and standing budgetary, planning, and reporting procedures; and (b) prepare submissions to the Cabinet on recommended improvements based on the reviews.
- (ii) Help assess the following in Government departments, through consultation with relevant personnel:
 - (a) procedures for preparing long-term strategic plans,
 - (b) understanding of the output-based planning and management process,
 - (c) requirements for business planning and reporting procedures,
 - (d) expertise and resources available for instituting such procedures, and
 - (e) availability and suitability of information technology hardware.
- (iii) Help review the strategic planning, business planning, and annual reporting processes as adopted in island administrations.
- (iv) Make recommendations for the content of business plans and external reports prepared under the Government's statutory and standing procedures, and for the content and frequency of internal reports prepared to assist managers within Government departments.
- (v) Assess the training Government departments need to develop output-based management, business planning, and reporting procedures.
- (vi) Help identify trainers within each Government department, to pass on the skills imparted at participatory workshops, and help the Government ensure that women are adequately represented among workshop participants.
- (vii) Help prepare and lead participatory workshops to:
 - (a) formulate and review their strategic plans of Government departments;
 - (b) develop expertise among Government departments to define and periodically review their outputs, and to allocate budgetary, personnel, and other resources to their outputs;
 - (c) formulate and update their annual business plans;
 - (d) implement appropriate internal and external reporting procedures;
 - (e) prepare annual reports;
 - (f) prepare procedural manuals for business planning and reporting; and
 - (g) train the trainers identified in each Government department, to recognize issues of importance to their departments and to continue to run workshops within their departments.
- (viii) Demonstrate to managers within Government departments how the business planning and reporting process can assist the preparation of annual budgets; personnel development plans; and the management of financial, personnel, and other resources.

- (ix) Help review the progress of Government departments in implementing the business planning process, through consultations with key personnel.
- (x) Help provide experiential (hands on) training to supplement the participatory workshops.
- (xi) Help (a) prepare documentation and manuals describing the Government's statutory and standing procedures, (b) advise Government departments in the preparation of their own manuals of business planning and reporting procedures.
- (xii) Help consult with members of parliament to assess their training and information needs, to enable them to improve their participation in the review process. Help provide training or further consultations with members of parliament as necessary.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing ^a			
1. Consultants			
a. Remuneration and Per Diem International Consultants	174.0	0.0	174.0
b. International and Local Travel	20.0	6.0	26.0
c. Reports and Communications	2.0	5.0	7.0
2. Training, Seminars, and Conferences	0.0	5.0	5.0
3. Miscellaneous Administration and Support Costs	0.0	5.0	5.0
4. Contingencies	30.0	3.0	33.0
Subtotal (A)	226.0	24.0	250.0
B. Government Financing			
1. Office Accommodation and Transport	0.0	11.0	11.0
2. Remuneration and Per Diem of Counterpart Staff	0.0	62.0	62.0
3. Others	0.0	5.0	5.0
Subtotal (B)	0.0	78.0	78.0
Total	226.0	102.0	328.0

Source: Staff estimates.

^a Financed from the Japan Special Fund