

**ASIAN DEVELOPMENT BANK**

**TAR: COO 29645**

**TECHNICAL ASSISTANCE**  
**(Financed from the Japan Special Fund)**

**TO THE**

**COOK ISLANDS**

**FOR PREPARING THE**

**OUTER ISLANDS DEVELOPMENT PROGRAM**

**December 2001**

## **CURRENCY EQUIVALENTS**

(as of 30 November 2001)

Currency Unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	=	US\$0.4138
US\$1.00	=	NZ\$2.4169

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
MFEM	–	Ministry of Finance and Economic Management
OIDP	–	outer islands development program
OIDTF	–	outer islands development trust fund
OMIA	–	Office of the Minister of Outer Islands Affairs
TA	–	technical assistance
US	–	United States

## **NOTE**

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

## **I. INTRODUCTION**

1. During the Consultative Group meeting involving the major funding agencies in Rarotonga in July 2001, the Government of the Cook Islands asked for assistance to promote employment-generating activities and improve health and education facilities outside Rarotonga (in the outer islands).<sup>1</sup> The Asian Development Bank (ADB) was requested to take the lead role.

2. The Fact-Finding Mission for this technical assistance (TA) from ADB visited the Cook Islands between 13 and 20 September 2001.<sup>2</sup> The Mission and the Government agreed on the need for assistance to formulate an outer islands development program (OIDP) and to determine if an outer islands development trust fund (OIDTF) is the most effective way to deliver additional resources for the economic and social development of the outer island communities.

## **II. BACKGROUND AND RATIONALE**

3. The Cook Islands comprises 15 islands and atolls spread over an exclusive economic zone of nearly two million square kilometers in the southern Pacific Ocean. The islands are divided geographically into the northern and southern groups. The islands of the southern group, including Rarotonga, the capital island, are mostly volcanic. The islands of the northern group are mostly atolls.

4. The financial and logistical problems of adequately serving the scattered and isolated outer islands with a low population have resulted in significant disparities in the levels of development between Rarotonga and many of the outer islands. The outer islands suffer from undeveloped services and lack of resources to sustain adequate levels of infrastructure maintenance. The disparity of service and infrastructure is one of the principal reasons for a population drift from the outer islands to Rarotonga, and overseas.

5. As a result, Rarotonga maintains the bulk of the economically active population, with males outnumbering females, while the outer islands have a higher share of women, children, and the elderly. The standard of education is declining, with notable differences among the islands. The 1999 New Zealand School Certificate results were the worst on record since analysis began in 1994. The average "pass" rate<sup>3</sup> for 1994-1999 was 31 percent in Rarotonga and only 22 percent in the outer islands. Furthermore, the results of the 2000 Standard Tests of Achievement for English competency for primary schools was 6.21 for Rarotonga, 4.67 for the southern islands, and 3.38 for the northern islands.<sup>4</sup>

6. The process toward devolution of responsibility to the outer islands to reduce disparities and population drift is not new. The 1966 Local Government Act established island, district, and village councils and committees. In 1976, local governments received further autonomy. In 1987, the Outer Islands Local Government Act refined the functions of the island councils to allow them to administer various ordinances and by-laws applicable to their island, assist in coordinating social and economic development on the island, and assist the national Government in good governance of the island.

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<sup>1</sup> The TA first appeared in *ADB Business Opportunities* on 11 June 2001.

<sup>2</sup> This TA is a firm project in the 2001 assistance program.

<sup>3</sup> Proportion of the Cook Islands students' paper achieving a mark of 50 percent or higher.

<sup>4</sup> *Education Statistics Digest 2000*. Rarotonga, September 2000.

7. In 1994, the Ministry of Outer Islands Development was established as the vehicle through which phased decentralization could take place, and responsibility for financing and administering outer island services devolved from line ministries and departments to the island councils. In 1998, however, the island mayors concerned with progress initiated a mayoral forum process. This provided an opportunity to begin meaningful dialogue with the national Government on the devolution and development issues.

8. A major outcome was the setting up of the Office of the Minister of Island Affairs (OMIA) in July 2000 to coordinate and facilitate the outer island empowerment process through the provision of policy advice and information, infrastructure development, and specific project proposals. Revised structures were established for the devolution of power to the islands. Island secretaries appointed under the Public Service Act replaced chief executive officers. The island secretaries must perform under a performance agreement with the mayor and the island council. Under this arrangement, the mayors have major responsibilities.

9. Decentralization is part of the Government's national development strategy. The Government established three overarching goals: (i) maintaining macroeconomic stability to sustain private sector growth, (ii) empowering people of the outer islands by advancing the principles of good governance, and (iii) advancing social justice through equal access to basic services and reduction of national disparities. The Government also identified five strategic priorities: (i) economic sustainability, (ii) outer island empowerment, (iii) social cohesiveness, (iv) infrastructure advancement, and (v) good governance. These priorities could represent the basis for an ODP reform matrix aimed at "removal of obstacles and unfairness in society by a process of review and reform."<sup>5</sup>

10. Outer island development is essential to place such countries as the Cook Islands on a sustainable economic, social, and demographic growth path. In 1999, ADB provided Tuvalu with an Island Development Program loan<sup>6</sup> to support devolution to the local governments by creating an improved enabling environment for island development and by providing a significant level of development finance for island development. The Cook Islands authorities are particularly interested in the development of a social trust fund for island development to finance the cost of the proposed policy reforms. Other funding agencies expressed interest in the trust fund mechanism and in the possibility of contributing to its principal when established. The task now is to investigate whether a trust fund can be successfully adapted to island development in the Cook Islands as it was in Tuvalu.<sup>7</sup>

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

#### **A. Objective**

11. The TA will assist the Government to formulate an ODP. The proposed program will be designed to increase employment opportunities and improve living standards on the outer islands. The TA will also assess the feasibility of an ODTF for island development and equitable growth as a way to channel resources for improving social and economic infrastructures on the outer islands. The ODTF will be designed as a sustainable, low transaction-cost, flexible, and demand-driven mechanism to channel resources to the islands for

<sup>5</sup> *Budget Policy Statement of 2001/2002*. Rarotonga. March 2001.

<sup>6</sup> Loan 1693-TUV (SF): *Island Development Program*, for \$4 million, approved on 13 July 1999.

<sup>7</sup> R92-99: Loan 1693-TUV: *Island Development Program—Progress Report on the Island Development Program in Tuvalu*, 26 June 2001.

projects to be identified by the communities themselves according to a set of eligibility criteria. The Preliminary Project Framework is reported as Appendix 1.

## **B. Scope**

12. The TA will engage a team of international and domestic consultants who, together with the support of counterpart staff, will study all aspects of outer island development financing and formulate a solution suitable for external financing. The TA will be divided into two phases.

13. Phase 1 will comprise a review of the social and economic situation in the outer islands of the Cook Islands, identification of a program for social and economic development, and assessment of the various technically feasible options available to provide incremental resources. In particular, during phase 1, the consultants and counterpart staff will (i) review the social and economic situation in the outer islands of the Cook Islands, (ii) develop a social and economic development program, and (iii) in strict coordination with the other major assistance agencies, assess various technically feasible options for providing incremental resources to the local communities for island development. This will be undertaken in the overall context of the country's macroeconomic framework and the government's budgetary process/system.

14. During phase 2, the consultants and counterpart staff will (i) utilize the mass media (e.g., local television) to inform island communities of the proposed program and subsequently organize participatory workshops to discuss and prepare the OIDP; (ii) evaluate social, community, and gender constraints; (iii) advise the Government on the participatory system required; (iv) finalize the institutional structure and legal framework of the proposed ODTF; and (v) identify capacity-building needs.

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

15. The TA is estimated to cost \$315,000 equivalent, comprising \$197,000 as foreign exchange cost and \$118,000 equivalent as local currency cost. ADB will provide \$250,000 equivalent to cover the entire foreign exchange cost and \$53,000 equivalent of the local currency costs. The financing will be provided on a grant basis from the Japan Special Fund, funded by the Government of Japan. The Government contribution of \$65,000 equivalent covers the remuneration of counterpart staff, including per diems, office accommodation and utilities, and in-country training (Appendix 2). The Government has been informed that approval of the TA does not commit ADB to finance any ensuing program.

## **D. Implementation Arrangements**

16. The Executing Agency will be the Ministry of Finance and Economic Management (MFEM), and OMIA will implement the study. The study will be steered by a committee made up of a small group of executives from MFEM, OMIA, and the Office of the Prime Minister. Local governments will be consulted by the steering committee and OMIA. The chief executive officer of OMIA will act as the focal point for the consulting team and provide coordination between the Government, its agencies, nongovernment organizations, and the consultants. MFEM and OMIA counterpart staff will assist the consultants and become fully familiar with the program details.

17. The TA will be carried out by a team of international and domestic consultants from a firm to be selected using simplified technical procedures in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic

consultants. The consultants will have extensive experience in policy reform for rural development, social development and participation, trust funds, and legislative drafting. The international consultants will be engaged for a total of 6 person-months, and domestic consultants for 6 person-months to facilitate community inclusion and participation. Computers and office equipment will be procured in accordance with arrangements acceptable to ADB.

18. The TA is expected to begin in February 2002 and be completed by February 2003. The two phases will be separated by two months to enable the Government and ADB to review the consultants' findings and make preliminary recommendations on the investment program and policy and regulatory reform. Before phase 2 starts, a tripartite meeting will be held in Rarotonga with the Government, ADB, and the consultants to discuss the phase 1 findings and to agree on the extent of analysis required to formulate the ODP.

19. The consultants will be briefed by ADB in Manila or Rarotonga at the start of the TA. The outline terms of reference are in Appendix 3. The consultants will submit an inception report at the end of the first month after mobilization, brief monthly reports, an interim report at the completion of phase 1, a draft final report at the completion of phase 2, and a final report. The final report, taking into account comments of the Government and ADB, will be submitted within one month of receipt of the comments.

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

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

### PRELIMINARY PROJECT FRAMEWORK

<b>Design Summary</b>	<b>Performance Targets</b>	<b>Monitoring Mechanisms</b>	<b>Assumptions and Risks</b>
<b>Goal</b> Economic and social development of the outer island communities	Reduce population drift to Rarotonga and overseas.	National census  Economic data	Natural disasters  Immigration policies of Australia and New Zealand
<b>Purpose</b> To reduce outer islands' economic vulnerability and lack of resources.	Outer Island Development Program Loan tranche(s) released  Policy Matrix implemented  Outer Island Trust Fund established  Capacity building program implemented  Necessary legislation drafted	Consultant reports  Findings of the Inception and Review Missions  Trust Deed and supportive legislation  Project Completion Report	Government's commitment to the devolution process  Outer islands' councils' capacity and interest to take over responsibilities

**COST ESTIMATES AND FINANCING PLAN**  
(\\$)

<b>Item</b>	<b>Foreign Exchange</b>	<b>Local Currency</b>	<b>Total Cost</b>
<b>A. Asian Development Bank Financing<sup>a</sup></b>			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	140,000	0	140,000
ii. Domestic Consultants	0	27,000	27,000
b. International and Local Travel	15,000	8,000	23,000
c. Reports and Communications	4,000	1,000	5,000
2. Equipment	5,000	0	5,000
3. Training and Workshops	0	10,000	10,000
6. Representative for Contract Negotiations	5,000	0	5,000
7. Contingencies	28,000	7,000	35,000
<b>Subtotal (A)</b>	<b>197,000</b>	<b>53,000</b>	<b>250,000</b>
<b>B. Government Financing</b>			
1. Office Accommodation and Transport	0	16,000	16,000
2. Remuneration and Per Diem of Counterpart Staff	0	32,000	32,000
3. Others	0	8,000	8,000
4. Contingencies	0	9,000	9,000
<b>Subtotal (B)</b>	<b>0</b>	<b>65,000</b>	<b>65,000</b>
<b>Total</b>	<b>197,000</b>	<b>118,000</b>	<b>315,000</b>

<sup>a</sup> Grant basis, from the Japan Special Fund.

## OUTLINE TERMS OF REFERENCE

1. A team of international and domestic consultants<sup>1</sup> with recent experience in all aspects of the specified work will carry out the technical assistance (TA). The tasks to be undertaken will be divided into two phases.

### A. Phase 1

2. Phase 1 will comprise a review of the social and economic situation in the outer islands of the Cook Islands, identification of a program for social and economic development, and assessment of the various technically feasible options to provide incremental resources. Phase 1 will require 2 person-months of international consulting services. The tasks in phase 1 will include the following:

- (i) Gather and review all available relevant information on population, income and consumption, health, education, etc; poverty levels, community development opportunities and constraints, and gender and development issues; and social structure, institutional framework, and governance.
- (ii) Identify the main constraints to outer island development, and the rationale for a possible loan for an outer island development program (OIDP), and draft its logical framework.
- (iii) Review the recent external assistance for island development, identify their major constraints, and report the lessons learned on how a new development program could address these constraints.
- (iv) Discuss with the Government what policy changes will facilitate the OIDP and draft the program matrix to support it.
- (v) Prepare the list of projects to be financed by the proposed outer islands development trust fund (OIDTF) and estimate their investment and operational costs and evaluate the nature of projects that are likely to arise.
- (vi) Identify the possibility for reducing poverty through improved economic and social infrastructure in the islands and the mechanisms to establish a demand-driven approach for project selection.
- (vii) Discuss the most effective way of delivering additional sources of revenue for the economic and social development of the outer islands.
- (viii) Design clear, workable, and credible institutional mechanisms to ensure that the resources will be used for the economic and social development of the outer islands.

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<sup>1</sup> In particular, the domestic consultant(s) will assist and facilitate outer island communities' inclusion and participation, including the review of the social economic situation of the outer islands in phase 1, and the utilization of mass media to inform island communities of the proposed program and the organization of the participatory workshops to discuss and prepare the outer island development program in phase 2.

- (ix) Design the possible structure of an OIDTF for island development.
- (x) Assess the ability and willingness of the central Government and the local communities to contribute to the proposed OIDTF.
- (xi) Summarize the findings in phase 1, focusing on the possibility of creating an OIDTF for island development and the necessary institutional arrangements required.
- (xii) Report the conclusions and discuss them in a tripartite meeting with representatives of the Asian Development Bank (ADB) and the Ministry of Finance and Economic Management/Office of the Minister of Island Affairs (MFEM/OMIA).
- (xiii) Recommend and detail the scope of work of phase 2 of the TA to develop the recommendations of phase 1 and to complete the TA requirements.

## **B. Phase 2**

3. The results of phase 1 will be incorporated in an interim report and reviewed prior to a tripartite meeting of the Government, the consultants, and ADB. Upon agreement of the participants and other authorities, phase 2 will start. Phase 2 will require 4 person-months of international consulting services. The tasks of phase 2 will include the following:

- (i) Organize and conduct a mass media campaign (e.g., local television) to inform island communities of the proposed ODP.
- (ii) Design the ODP program framework in accordance with ADB's guidelines.
- (iii) Draft the program matrix for island development and estimate the cost.
- (iv) Evaluate the economic, social, community, and gender constraints to the selection and implementation of projects to be financed by the proposed OIDTF. Based on these constraints, assess the impact on (i) levels of beneficiary participation, (ii) economic returns, (iii) poverty reduction, and (iv) rural income distribution. Propose projects that can be included on the list.
- (v) Advise the Government on the participatory system to be adopted for project selection and implementation. The system will integrate rights of women and other vulnerable groups to participate in local cultural decision making and the possible role of nongovernment organizations (NGOs).
- (vi) Identify likely environmental impacts and necessary mitigation measures. Prepare an environmental impact assessment (EIA) and summary EIA, if required. Environmental management, mitigation, and monitoring plan should be included in the EIA and summary EIA, if they are required.
- (vii) Recommend the scope of studies in this area in accordance with the prescribed format as presented in the *Environment Assessment Requirement* of ADB (March 1998).

- (viii) Verify the necessary critical mass for the start-up capital of the OIDTF, and identify the role of the OIDTF and its impact on the country and the local economy.
- (ix) Finalize with the Government and the local authorities the institutional structure for supporting the OIDTF, such as the contribution/ distribution formula.
- (x) Recommend the requirements for a technical training program for staff of OMIA and the island councils.
- (xi) Develop an institutional strengthening plan for beneficiaries and implementing agencies that will ensure good governance principles, including beneficiary participation, accountability, and transparency.
- (xii) Identify the institutional structures to promote, operate, and maintain in a sustainable manner the recommended solution, including an assessment of the recurrent and operational funding needed to support ODP implementation in the outer islands.
- (xiii) Prepare a detailed social analysis in accordance with the *Guidelines for Incorporation of Social Dimensions in Bank Operations*.
- (xiv) Assess the poverty impact of the ODP and recommend ways to minimize the negative impact, if any.
- (xv) Describe and justify the project eligibility criteria, e.g., financial sustainability, and prepare the project guidelines.
- (xvi) Help with negotiating the terms of an agreement between the central Government and the island councils to establish a trust fund.
- (xvii) Draft the trust fund agreement and empowering legislation and any associate regulations for submission to the Attorney General's Office.
- (xviii) Advise on the placement of the OIDTF with a professional offshore investment manager and secure the tax-free status, if possible, for the income stream generated by the OIDTF.
- (xix) Prepare the terms of reference for a TA to assist OMIA and local governments to develop and fulfill their mandate.

### **C. Reporting Requirements**

5. The consultants will prepare the following reports and submit them simultaneously to the Government and ADB:

- (i) An inception report four weeks from the start of services, detailing initial findings and recommendations for the future direction of the TA.

- (ii) Brief monthly reports summarizing the progress of work, major findings, and notation of problem areas, such as lack of data and other impediments that could hamper the TA.
- (iii) An interim report on the completion of phase 1 setting forth the findings and making recommendations on the direction of work for phase 2. The interim report will have an attachment with objective, scope, and rationale of the OIDP following the format of a report and recommendation to the president. After a review of the report by concerned parties and discussion at a tripartite meeting, ADB, with the concurrence of the Government, will give approval for the activities covered in phase 2.
- (iv) A draft final report incorporating the findings of phases 1 and 2 including a comprehensive proposal and institutional formation plan based on the recommendations of the consultants and following the format of a report and recommendation to the president, with appendixes including the outer islands of the Cook Islands, program matrix, program framework, proposed training for OMIA and island councils, main features of the proposed solution, current island development projects funded, indicative projects funded under the proposed program, poverty impact assessment, ineligible items, proposed TA for implementing the program, and a draft development policy letter. An additional tripartite meeting may be convened, if deemed necessary, to facilitate a participatory workshop to discuss the draft report.
- (v) A final report, based on the draft final report, incorporating the comments and views received on the draft.