

Feedback on the Cook Islands Economic Strategy 2030

Forward

In this document, I share a few brief views with the drafting team for their consideration.

The views I have shared are not the official view of my past or present employers, and come from my own personal interest in the Cook Islands Economic Strategy 2030, as a Cook Islander. This document is not a polished piece and is intended to provide specific feedback on the draft, as presented. My aim is to improve and perhaps refine some of the ideas already in the document and I am open to continuing my engagement in both a personal and professional capacity.

Overall, I think that the strategy is an excellent document, and the team should be congratulated for their efforts to bring together such a collaborative effort whilst still in the middle of the largest economic crisis in Cook Islands' history.

I have confidence that we will survive this crisis and, with a vision towards a post-COVID world, we will come out stronger than ever.

Kia Toa and Kia Manuia

James Webb

Feedback on the Draft Economic Strategy

Page 14: the recognition of fiscal limits is important to highlight. Much of the stability of the past two-decades of almost uninterrupted economic growth has been due to the absence of fiscal instability or the degradation of fiscal buffers. The accumulation of such buffers, and the prudent use of debt instruments and sinking funds, are some of the key reasons that the Cook Islands has been able to mitigate the economic tsunami of COVID-19 for as long (and as well) as it has.

Objective 1: equity and access

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Issue: “current social programs are efficient and sustainable.”

A key criticism of the current social welfare scheme is that the current nominal payment received by *vulnerable households* is likely insufficient. Within the current fiscal envelope a key improvement would be to reduce the universality of such payments by improving the targeting. Even if there was more funding available, and hence the overall social welfare pool could be increased, the effectiveness of the system in supporting the most vulnerable could be improved even further through better targeting. The review could suggest what the targeting mechanism or criteria could be in order to ensure the overall welfare system provides an adequate social safety net alongside other public services which provide upward mobility (such as expanded and free education) and social services (such as free healthcare, community care, and funding to service providers/NGOs).

Possible solution: Review of social welfare payments with a view to improve the adequacy of payments via improved targeting.

Page 28:

Comparative prices for Manihiki (as a Pa Enea proxy) do not list consumption goods that might reflect local production and consumption patterns (such as the prices of tuna, shellfish, or root crops). It is unsurprising that imported foodstuffs are more expensive, and while a review of the logistics chain may reveal where bottlenecks or profiteering may be causing unwanted distortions, options for securing local production throughout the year should also be explored to ensure overall food security. Prices in remote locations will likely always be higher than more central locations.

Page 29

Comment: *Linking the minimum wage review to the tax-free threshold.* A 40 hour work week at the minimum wage should not necessarily be the benchmark for the tax-free threshold due to the compression of the tax brackets mentioned on page 29, as well as a possible erosion of the tax base as the tax-free threshold benefits *all* taxpayers, not just the lowest income earners. The review of the methodology for the minimum wage could focus more tightly on the *adequacy* of the payment first and foremost, recognizing that while New Zealand is the main reference market, labour productivity in New Zealand is far higher than in the Cook Islands and that the New Zealand minimum wage is one of the highest in the world (behind Australia).

Any subsequent tax reforms could then focus on the first taxable income band (instead of the tax-free threshold), reducing the step between 'tax-free' and 'first taxable dollar' as well as the possible (relative) *increases* to the top income bands to improve the progressive nature of the overall tax and income system, and preserve the tax base (*Link to increase progressive personal income tax system to ensure greater equality (Action 4.9)*)

Actions under Objective 1

Action 1.7 Shipping

Issue: *the degree of government intervention: a public shipping line.* I am not aware of examples where publicly owned interisland shipping in small states has led to cost-effective and long-term sustainability in service provision. Unfortunately, there are many examples of where public shipping lines have failed, with large fiscal implications. The risk exposure to the government is severe and may be better handled through regulatory control of private services, franchise, and subsidy arrangements.

Possible solution: The shipping roadmap could (and likely does) include all possible options, with the view to establishing long term logistical support to the Pa Enea value chains, people movement, and mobilization of emergency services. Consideration could also be given to combining the infrastructure elements (Actions 1.9 and 1.17) and ongoing service provision of both the air (Action 1.10) and maritime (Action 1.8) transport sectors to ensure a coherent policy and investment priorities. There are numerous regional bodies that could likely assist in the formation of a roadmap.

Action 1.10: Pa Enea Air Discount scheme

Issue: Recognising the expense of outer island travel for Te Maeva Nui, the sustainable funding of such a scheme may be costly. The benefits of such a scheme are also unlikely to be equally spread across and within outer island communities, as well as introduce asymmetric treatment for Rarotongan-based (and potentially Aitutaki-based) travellers/taxpayers who fund the scheme but may not benefit from its implementation. Wealthier individuals who can afford even the subsidized tickets will potentially benefit more than those with low cash-incomes.

Possible solution: The review should proceed, but perhaps consider potentially non-subsidised options for reducing travel costs (such as the introduction of competition) and possible airlinks to non-domestic destinations (like Samoa and French Polynesia). If subsidized, the criteria and usage would likely need to be very targeted to reduce abuse or poor equity outcomes.

Action 1.14 Pa Enea incentive pay

Issue: Doctors (GPs) and dentists being permanently based on each island may not make efficient use of their skillset, and such a scheme may benefit more than just medical professionals.

Possible solution: incentive schemes could be considered for *all* (or most) social service roles in the Pa Enea (including teachers, nurses, and police officers) to ensure consistent delivery of services alongside

other programs such as Kaveinga Ora. Regional education schemes in Australia and New Zealand may provide useful touch points for remote-location service delivery.

Action 1.15: The building of dedicated student accommodation in Avarua

Issue: *The ongoing funding of such accommodation.* Presently, there is no mention of alternate funding sources for the Education sector overall. International students make up a large sector of the New Zealand and Australian economies, and higher fees for international students can cross-subsidise better and/or lower cost services for local students. The Cook Islands may also benefit from its ability to provide accredited tertiary training programs (including nursing) and NZEA recognized high schools to other Pacific Island students that may not have access to New Zealand.

Possible solution: Explore the possibility of establishing international student cohorts that may be able to pay for improved services, such as accommodation. This may require changes to the relevant education and immigration legislation to allow for education services to be directed at attracting and retaining a permanent international student body.

Measuring progress for Objective 1

Issue: *“Reduce the national Gini coefficient to 0.3 by 2030.”; “Reduce the Pa Enea Gini coefficient to the national level by 2030.”*

The Gini Coefficient may not be an appropriate target. The indicative target (0.3; equity between Pa Enea and Rarotonga) suggests a highly equal distribution of income typically associated with very generous social transfer schemes (typically in Europe) – a reality that would likely be unaffordable in the Cook Islands context. The finding that ‘more equal societies are more stable and have better growth prospects’ downplays a host of other factors that contribute to these outcomes and does nothing to indicate an optimal level for a Gini coefficient as a measure. Importantly, an improving Gini coefficient does nothing to address the savings gap identified on page 26, nor indicate whether interventions have successfully alleviated hardship.

The coefficient is also only able to be calculated via direct measurement of cash incomes, diminishing the role of informal trading networks and traditional community structures in the Cook Islands. For example, Pa Enea communities are likely to be rated low on income measures but may be viewed more favourably when evaluated on caloric intake as compared to the urban poor in Rarotonga. Pa Enea communities may not suffer from poor access to income *per se* but rather poor access to essential services or the means to obtain them (although they may often struggle in both aspects!). Cash income measurements may approximate the latter but might fail to describe the capacity of those communities to create vibrant and secure livelihoods from their domestic resources.

It is also not a clear indicator on welfare improvements, as lower Gini Coefficients do not necessarily mean that those in poorer quintiles are better off (rather: they are doing ‘closer to the average’). For example, a new harbour that lowered the price of imported chicken would be welfare improving to outer islanders and move their household consumption basket to be ‘closer’ to their Rarotongan peers, but this would not be reflected in a Gini measure as incomes may not have changed.

Possible solution:

- (1) Using a poverty headcount, or lower-quintile median income measure (*“such as % population earning less than \$X a year” (already used) or median income of the lowest quintile*) to more directly measure cash-based hardship in lower quintiles.
- (2) For the Pa Enea, using regular surveys of agricultural and fisheries data, supplemented by cash/income measures may provide a more complete picture of everyday living conditions and access to food, shelter and other necessities.

Issue: *“Increase real growth in lowest 20 per cent of income earners by 1.5 per cent per year.”*

The main issue here is that the goal is inconsistent with those targets under objective 4 (*“2 per cent annual real GDP growth rate on average”; “2 per cent growth in real median income per year”*). Taken together, those targets would suggest that the lowest quintile would have income growth *lower* than the median household – income equality would be widening, rather than shrinking as per *“Reduce the national Gini coefficient to 0.3 by 2030.”*

Possible solution: Harmonise the income growth indicators to all reflect a 2% annual growth target in median incomes.

Other/general comments on Objective 1

Issue: General ease-of-business reforms (regulatory and administrative reforms).

While there are specific interventions and investments within sectors and islands, there are relatively few initiatives that address the general constraints to business (the banking reviews and competition regulator being notable exceptions). The online One-stop-shop (*Action 4.11*) is a good start, and makes use of ICT investments, but ultimately, there may be scope to centralise public (and business) facing government units to allow a physical one-stop-shop which would allow for streamlining (and/or specialization) of government customer service roles (e.g. shared services models). There may also be a significant body of regulatory reforms that may improve conditions for local businesses beyond those outlined in the strategy, and these could be further explored, especially where they reduce duplication in registration or regulation

Possible solution: A review that focuses on business-side and client (the public) side interactions with Government may present a different lens for private sector reforms and public service delivery.

Issue: Measurement of NCD reductions is a progress indicator, but there are no interventions directly addressing NCDs.

One area for consideration could be the future trajectory of tobacco, alcohol and sugar taxes (as well as possible increases in coverage in the latter). Samoa and Tonga are also considering the taxation (or prohibition) on low-nutritional foods, and the Cook Islands may benefit by observing the progress of the World Bank sponsored research and support in this area. Another area could be the introduction of healthy lifestyle education (nutrition and sport) for students, or the scaling up of a similar program.

Objective 2: Transforming our economy

Actions under Objective 2

Action 2.4: Banking competition

Issue: *Local banking competition may (or may not) be the key issue behind quality of service, affordability and interest rate spreads.* A review of the sector from only a competition angle may be too narrow in addressing some of the key barriers to an inclusive and sustainable local banking industry. The Knowles Review (2012) provided for the last ‘wave’ of reforms in the sector, and maybe this should be revisited and expanded upon

Possible solution: A general review of the banking sector could be considered, with the aim of providing better services to the Cook Islands community. This may include better integration with the New Zealand banking system, further integration of ICT developments, competition issues, and/or the role of concessional financing instruments. This review could then guide the work of the Banking Taskforce in *Action 4.13* and the Financial Services Commission.

Action 2.7: Public expenditure reviews

Issue: *Review performance and expenditure of all agencies every two years.* Public expenditure reviews can be an intensive exercise which can divert significant policy and administrative capacity from the agencies involved. It may be more prudent to ‘split’ agencies into natural groupings and review these groups of agencies on an alternating cycle to limit capacity requirements. If undertaken annually (e.g. 1/3 of agencies per year), the pipeline of activities may enable the formation of a specialist team to carry out the reviews, potentially increasing the depth of the public service to provide strategic and agency reform advice over time and limit resource diversion. Such a team would presumably then be better placed to refine the methodology used over time and learn from experience.

Possible solution: Consider a pipeline of public expenditure reviews to form a work program for a specialized/dedicated team.

Action 2.8: Agency core functions review

Issue: An external review of agency functions was completed some years ago, but never fully adopted. One of the key criticisms was that the model presented did not step out a change management process for achieving the desired state, and that the final state was not universally accepted. Models of public service delivery evolve over time and, as such, an accepted approach to agency agglomeration/separation may provide a template to achieving interim strategic aims and identifying iterative public service reforms of need/opportunity. This may be complemented by the ongoing reviews in *Action 2.7* allowing for harmonization between expenditure and functional reviews.

Possible solution: Consider the formation of a framework for public service reforms and evaluations that would allow for iterative adjustments to agency mandates, as the need or opportunity arises, as a first

step to longer term agency agglomeration/separation. Consider integrating these frameworks into the public expenditure reviews.

Measuring progress for Objective 2

Issue: *Tourism diversification (includes reference to Action 4.17)*

No action area within Objective 2 mentions this goal, so it is unclear how it will be achieved. Arguably, this outcome has been the highest priority in terms of Cook Island government spending, in the form of the Los Angeles underwrite. With most of the *growth* in tourist arrivals having come from New Zealand and Australia over the past 10 years, it is clear that the underwrite has failed in its primary objective in providing a boost to diversity over the long term. Serious consideration should be given as to whether a western-hemisphere diversification strategy is still a priority, other markets may bear better results, or specialization in New Zealand and Australia outbound market should instead be pursued. This discussion is especially acute given the likely post-COVID-19 competition from international tourism markets and the possible range of outcomes from the underwrite reviews at *Action 4.17*.

Possible solution: Consider whether a western-hemisphere diversification strategy is still a priority, other markets may bear better results, or specialization in New Zealand and Australia outbound market should instead be pursued. Consider what the decision point will be in relation to the underwrite reviews at *action 4.17* for cancelling/winding-down/diverting the current underwrites.

Issue: *Government productivity*

It is difficult to measure government productivity, and *the value of economic activity for each taxpayer dollar* may be imperfect at best, and misaligned at worst, especially if there is an increasing need for Government to provide services that may not directly benefit the economy but may be critical for improving quality of life (e.g. increased spending on social protection or health services).

Possible solution: Consider revising the measure on public service productivity (I have no immediate idea on a likely substitute!)

Objective 3: Developing our people and culture

Action 3.9: (asymmetric) paid parental leave

Issue: *The differential between maternal and paternal leave entrenches the role of mothers as primary caregivers.* The focus of objective 3 in increase female participation is commendable. However, the doubling of the parental leave entitlements do little to reduce the status quo of women being regarded as the primary caregivers in the first few months of life. Indeed, the paternal leave entitlement of only 2 weeks for new fathers explicitly embeds the social bias that men are required to return to the workforce as soon as possible and that women can now take on their 'natural duty' for an additional 6 weeks. This asymmetric treatment is counterproductive to advancing gender equality. While 6 weeks is the medical requirement for post-natal recovery, the additional 6 weeks has less to do with this biological imperative.

A fairer treatment would be to separate the biological and parental care requirements, with the latter being open for both genders on an equal basis. This would allow for family situations where the father wants to be the primary caregiver for the newborn child, allowing the mother to return to work if that is what the family decides, or the women chooses. This would send a strong and clear message that fathers and mothers are equally important in raising children and that each family can decide what is best for them, their child's needs, and their household income. Gendered terms should also be removed by the policy to allow for the prospect of non-hetero couples or other family arrangements.

Possible solution: Strongly recommend that the 6 weeks maternity leave be left as-is, and that the new category of 6 weeks *parental leave* be enacted (to replace paternity leave). This parental leave would then be able to be used concurrently by the non-birthing partner, sequentially by the non-birthing partner, or sequentially by the birthing mother in a way determined by the registered caregivers of the child.

Other/general comments on Objective 3

Issue: The identification of the education as a possible economic growth/export service

Education services are a major export for New Zealand and Australia, particularly at the tertiary level, but there may be opportunities at the secondary and vocational level for 'feeder' institutions into these markets for those nationals that may not have access due to visa requirements. This may particularly attractive to other pacific island nationals who may find it difficult to relocate to New Zealand for a host of reasons, and may prefer to send their children to another pacific country. Tourism vocational training and New Zealand accredited courses in the Cook Islands may also be attractive to international students in their own right.

For this to be a possibility, allowance must be made in the Immigration Act to allow for a student visa category wherein students may also work limited hours in order to meet personal expenses. This may also provide a high-turnover source of labour for services jobs and tradespeople, alleviating pressure on longer-term work-visa arrangements.

International students would also enable the cross-subsidisation of improved services for local students through higher fees.

Possible solution: Explore the possibility of establishing international student cohorts. This may require changes to the relevant education and immigration legislation to allow for education services to be directed at attracting and retaining a permanent international student body at both the secondary and tertiary levels.

Objective 4: Investing in Our Islands

Action 4.5 and 4.6: TMV handover and water tariff review

Issue: The experience of the outer island renewable energy systems is that the failure to implement a robust tariff system in advance of the handover of capital could result in lengthy delays in the implementation of the eventual tariff system. With larger operational and capital maintenance costs associated with the water network, it would be highly recommended that the basis of the tariff scheme be established prior to the handover of the water network to To Tatou Vai.

Possible solution: Strongly recommend that the tariff review be conducted in advance of the handover of the water network to To Tatou Vai.

Action 4.16: Tourism accreditation system

Issue: The need for restructuring the accreditation system was unclear. It is difficult to know whether the new system will address the alleged failures without a full review (which may have already been completed but published elsewhere).

Objective 5: Greening our economy

Measuring progress for Objective 5

Issue: *Area under wetlands*

No action area under Objective 5 mentions this as an area for policy intervention. Whilst land-use planning may reduce the pressure on existing wetlands, active policies and programs would be required to expand the total area under wetland.

Possible solution: Possible addition of an action to directly expand the coverage of wetland and mangrove areas. This could possibly be combined with other protection and ecosystem initiatives.

Other/general comments for Objective 5

Issue: *No mention of sustainable fisheries or coastal protection*

While Marae Moana was mentioned, it was unclear whether there is a broader strategy relating to marine environmental protection, and what prioritization such protections would take if they competed with other policy areas.