



# Infrastructure Investment

## Overview

Economic theory shows that infrastructure investment by Government during an economic downturn can be an effective measure to mitigate the impacts of a recession on an economy. It is a response that is being employed by Governments around the world, including the New Zealand and Australian governments who are investing billions of dollars into infrastructure investment in response to the economic shock of COVID-19.

During 2021 the Cook Islands Government (CIG) released the updated National Infrastructure Investment Plan (NIIP). The NIIP refreshes Government infrastructure investment priorities and identifies projects that can be addressed over the following decade, and provides a menu of infrastructure projects.

A short- to medium-term economic benefit lens will be applied to these projects to identify those that offer both more immediate economic benefit through jobs for Cook Islanders, or that may draw in additional labour force to bolster the Cook Islands population, through to medium-term benefit by greater activity in the economy.

Funding for these projects will come from the CIG's own reserves and income, which may include debt funding, or from aid funding partners including the joint New Zealand and Cook Islands 'Infrastructure Trust Fund'.

## Context

Infrastructure investment creates long-term benefits by expanding the productive capacity within an economy by creating infrastructure that parts of an economy such as private sector businesses and individuals use to deliver services, and thereby employ people. At the same time, the construction of infrastructure requires short-term labour to do the building work. As such, infrastructure investment creates both immediate short-term jobs as well as contributing to an increased number of long-term jobs. Provided there is capacity to do the work and the project is deemed to have a net benefit, then the stimulus provided by government investment in infrastructure will be beneficial for the recovery.

The CIG has been investing in infrastructure for several decades, but with a small yet geographically diverse economy that is largely focused on tourism, there is a long list of infrastructure investments that are required to support the nation, as presented in the NIIP.



Selecting the right projects will create short-term jobs that will employ Cook Islanders and retain our population, and ideally bring members of the Cook Islands diaspora back to the country, or otherwise increase the productive labour force by bringing in expatriate workers. These projects and people also purchase materials from Cook Islands businesses, creating downstream benefits.

As productive capacity expands there are more opportunities for businesses to engage in the market, and therefore more jobs being created, also with the same downstream benefits to other domestic businesses and people.

Whilst the economic impact of COVID-19 has reduced Government revenues, impacting the fiscal capacity that can be invested into infrastructure, for the reasons stated above, continuing to make these investments is important.

The ERR has a parallel workstream addressing the loss of population, and beyond this, re-growing our population. The Labour force and population programme does not specifically address the labour force in the construction industry, however there will be inter-relationships in the outcomes of these programmes. Please refer to the ERR Programme Note on Labour force and population for more information on that topic.

## **Fiscal and Labour Limitations**

The CIG is presently operating with reduced revenues due to the economic impacts of COVID-19, and whilst revenues are expected to recover over the next several years, our debt servicing costs will rise significantly over the rest of this decade at current projections. This will require Government to continue to operate with fiscal restraint for the foreseeable future. Please refer to the ERR Programme Note on 'Managing Public Debt' for more information on this topic.

The Cook Islands generally has a small labour force which even prior to the pandemic impacted on our capacity to implement infrastructure projects. The further loss of productive labour force due to the economic recession has made this situation worse. This results in a limited supply of labour and resources with which to engage in infrastructure investment, meaning that only a limited number of projects can both be afforded but also not overload the productive capacity of the construction sector.

These combined fiscal and labour limits require careful infrastructure planning targeting both high-impact short-term labour force and economic benefits with appropriate long-term returns on investment. With debt and aid funding presently required to support Government's operating expenses and infrastructure investments, the cost to benefit considerations for each project require a clear rationale for investment.

Additionally, debt and aid funding must generally meet clear approval requirements for support from the donor or lender, with often strict procurement and reporting requirements or limits on how the funds may be used. As such, the infrastructure investment programme also requires a careful consideration of the use of CIG funds and donor (or debt) funds.

## **Project**

The infrastructure investment workstream of the Economic Recovery Roadmap is not a single project. Rather it is a focusing of Government's fiscal capacity for infrastructure investment towards those projects that meet the needs identified above, while also creating capacity for more jobs without over-stretching the existing available capacity.

The constraints in labour capacity means that engaging in multiple large projects simultaneously is impractical, therefore a mix of both large and small projects is needed. The first step will be an identification of NIIP<sup>1</sup> projects to identify those that offer short- and long-term economic benefit along with other considerations. Large projects (\$10m+) will be considered included including sanitation works, bridges and improvements to Avarua town.

Several very large projects are under consideration, including:

1. Mei te Vai Ki te Vai (Muri reticulated sewerage system)
2. Vaikapuangi Government Building

These projects may create a large number of jobs and have both short and long-term economic benefits, but are simultaneously very expensive projects (\$50 million plus) with potentially complex funding structures and significant design requirements.

Funding decisions for infrastructure investment will be made through Government's Tarai Vaka Process, and where funding is obtained directly through debt or with support of aid-funding such as the Infrastructure Trust Fund additional approval and project oversight is typically applied by the lender or donor.

## Engagement

This project will be led by multiple Government agencies including:

1. Cook Islands Investment Corporation and the Infrastructure Committee,
2. Infrastructure Cook Islands
3. Ministry of Finance and Economic Management

The NIIP underwent substantial public engagement in preparation as well as post-publication with the Cook Islands construction sector.

There is ongoing engagement with the New Zealand Ministry of Foreign Affairs and Trade (MFAT) through the New Zealand High Commission to the Cook Islands in regards to funding provided through the Infrastructure Trust Fund.

## Estimated Cost

Costs will be determined on a project specific basis as individual projects are identified and approved. These will be reported through the Budget Estimates in the 'Capital Schedule' or in the Official Development Assistance Schedule.

---

<sup>1</sup> <https://www.ciic.gov.ck/publications/infrastructure-plans/>

---

## For further information contact

Economic Planning Division

Ministry of Finance and Economic Management

PO Box 120, Avarua, Rarotonga, Cook Islands

Telephone: +682 29511 ext. 7208

Email: [mfem.economics@cookislands.gov.ck](mailto:mfem.economics@cookislands.gov.ck)

Website: [www.mfem.gov.ck](http://www.mfem.gov.ck)

### *Disclaimer*

*While all care has been taken to ensure that information contained in this publication is true and correct at the time of publication, changes in circumstances after the time of publication may impact on the accuracy of the information. The Government of the Cook Islands gives no warranty of assurance and makes no representation as to the accuracy of any information or advice contained in this publication, or that it is suitable for your intended use. You should not rely upon information in this publication for the purpose of making any serious, business or investment decisions without obtaining independent and/or professional advice in relation to your particular situation. The Government of the Cook Islands disclaims any liability or responsibility or duty of care towards any persons for loss or damage caused by any use of reliance on the information contained in this publication.*