



Economic Recovery Roadmap (ERR) - Overview

The Cook Islands experienced one of the world's largest economic contractions as a result of COVID-19, with The Asian Development Bank estimating a peak-to-trough fall in nominal GDP of close to 32 per cent.

This fall hit the trade balance of the Cook Islands hard, with revenues raised from tourism activities drying up overnight, in what is the largest component of GDP (worth approximately \$1 million per day, or \$368 million per year, pre-COVID). As well as this direct impact, the falling of incomes has seen reductions in spending on goods and services produced domestically and overseas, and these impacts together have reduced business incomes. With lower incomes and the very high degree of uncertainty around the economy until borders remain open for some time, private investment is not expected to recover quickly.

The government support under the Economic Response Plan (ERP) from April 2020 through to June 2021 kept the economy from contracting further, and helped to minimize the pain felt by people and businesses of the Cook Islands. This support was extended into 2021/2022, but is planned to cease by April 2022.

From July 2021, the Economic Recovery Roadmap (ERR) replaced the ERP's response measures as the government's main vehicle to drive the Cook Islands' economic recovery. The ERR provides support for economic stimulus and reform measures, as well as continuing response measures designed to support businesses and households during the last stages of the pandemic. The ERR also finalises a number of longer-term programmes that were carried forward from the ERP, including grant payments and the Business Continuity Credit Facility (BCCF).

The ERR uses the Cook Islands Economic Development Strategy 2030 (EDS) as a foundation. The EDS will continue to act as a guiding document for government over the next decade, outlining actions to support the Cook Islands' continued development via the National Sustainable Development Agenda 2020+ (NSDA).

While the ERR actions are expected to run through to June 2025, many of the workstreams have a longer-term focus. We will conduct an initial evaluation of each workstream once the actions have been completed, and will continue to monitor results over subsequent years.

¹ Asian Development Bank, 2021. [Asian Development Outlook 2021: Financing a Green and Inclusive Economy](#).

² Ministry of Finance and Economic Management, 2021. [Cook Islands Economic Development Strategy 2030](#).

³ Office of the Prime Minister Cook Islands, 2022. [National Sustainable Development Agenda 2020+](#).



Programme purpose and objectives

The overarching purpose of the ERR is to facilitate sustainable economic recovery from the impacts of COVID-19 so the Cook Islands is on track to achieve the EDS 2030 objectives.

The overall objective of the ERR is to grow the Cook Islands' GDP to pre-COVID levels (around \$550 million), and towards the path we would have been on pre-COVID by 2025, while keeping within our fiscal responsibility rules.

Each ERR workstream will have its own purpose and objectives, as set out in the individual Programme Notes. The workstreams are not mutually exclusive; different streams work together to help achieve the overarching objective of the ERR.

Why do we need the ERR?

Economic stimulus pushes the economy back toward its optimum capacity levels, and aims to ensure that labour and capital continues to be used for production. More employed workers, consequently, means more money in the hands of Cook Islanders. Economic stimulus can also help provide households and firms with support to get through a period of distress, thus preventing a wave of business closures or unemployment that could weigh on growth in the long run. When there are fewer opportunities for Cook Islanders to earn a living, they may depart to New Zealand and Australia. This creates a downward spiral in which reducing populations lead to reducing economic activity, and in the worst case scenario, resulting in economic collapse.

ERR Workstreams

The specific scope of this work programme is measures to support economic stimulus and reform, rather than 'business-as-usual' government initiatives. Each workstream is described in further detail below.

1. Reducing the cost of borrowing

Loan interest rates in the Cook Islands are up to 5-7 percentage points higher than comparable products in New Zealand. This is a significant barrier to private investment in the Cook Islands. The objective of this workstream is to reduce the cost of borrowing (interest rates) in the Cook Islands to a point where they are much closer to interest rates in New Zealand. This will encourage a stronger recovery in investment – in turn driving both GDP immediately and in the future through increased capital and productivity.

As part of this workstream, the Reserve Bank of New Zealand is commissioning a report on the drivers of the spread between New Zealand and Cook Island costs of borrowing, and the magnitude of those drivers. The outcome of this report will determine whether, as a next step, the Cook Islands banking sector comes under the purview of the RBNZ's monetary policy framework.

2. Managing Public Debt – Loans and Aid Grants

Since the onset of the pandemic, the Cook Islands' government has taken on considerably more debt. The total debt drawn down in response to COVID-19 is \$129.1 million to December 2021,

plus \$55.4 million available in contingent debt (PFO – USD \$40.0 million). If including the Disaster Resilience Program loan this totals \$85.8 million available.

As part of the terms of the \$40 million ‘Policy-Based Loan’ (PBL) from the Asian Development Bank (ADB), the Cook Islands has worked closely with the ADB to identify and undertake key reforms to assist the economy in the recovery from COVID-19. These include the updated MTFP introduced in the 2022/23 Budget, and an enabling environment for the private sector (supporting the implementation of a comprehensive set of measures to establish and continue Quarantine-free travel (QFT) with New Zealand, and looking at key areas to address labour shortages, such as labour mobility options and reduce the cost of doing business). Through the MTFP, government follows the Net Debt and Investment Rules to ensure fiscal responsibility.

3. Infrastructure Investment

The purpose of this workstream is to mobilise government capital expenditure to achieve fiscal stimulus. Economic theory shows that Government infrastructure investment during an economic downturn can be an effective measure to mitigate the impacts of a recession on an economy. Governments around the world have employed this response to the economic shock of COVID-19. In 2021 the Cook Islands Government (CIG) released the updated National Infrastructure Investment Plan (NIIP), which refreshes government investment priorities and identifies projects that can be addressed over the following decade. This workstream focusses the government’s fiscal capacity for Infrastructure investment towards projects that offer more short-to-medium term benefits, and meet donors’ procurement and reporting requirements.

4. Barriers to Business Performance

Some Cook Islands laws, fees and regulations make it harder for new businesses to start, resulting in lower levels of competition, higher prices and less diversification. The objectives of this workstream are to:

1. ensure Cook Islands’ business laws provide an enabling environment for all types of businesses, including e-commerce and ‘gig work’
2. identify, and reduce or remove fees, laws and regulations that make it harder for new small to medium sized businesses to conduct more business.

This workstream includes establishing measurements for evaluating certain costs associated with operating a business in the Cook Islands, a policy exploration of the Cook Islands’ e-commerce settings, expanding the remit of the Competition and Regulation authority to other monopolies, and reviewing transport and environment processes. The outcome of the research and policy reviews will lead to recommendations on any change to the Cook Islands’ business laws.

5. Productivity Growth

Productivity growth is one of the key mechanisms that drives the overall economy and incomes upward over time. While standalone, this workstream focusses on tailoring outputs in other ERR workstreams to support increased productivity growth. In particular, this workstream will search for means to improve labour productivity, through a range of potential measures such as increasing the skills base in the Cook Islands and encouraging capital investment. The initial phase is research on lessons learned (both successful and unsuccessful projects) in other

jurisdictions that could be applicable to the Cook Islands context. The outcome of this research will determine the scope and objectives of later phases.

The Fees Free initiative is a component of the productivity growth workstream. This initiative has been extended through Semesters 1 and 2 of 2022, meaning tuition fees for all Cook Islands residents (Cook Islanders and those on work permits) studying undergraduate courses at certain institutions have been reduced to zero.

6. Improved Public Sector efficiency

The purpose of this workstream is to identify policy options to strengthen and improve functions, systems and structures of the Cook Islands Public Sector through greater collaboration between Government agencies to make the sector more responsive to our customers' needs and expectations and provide value-for-money services. This will be implemented in two phases:

1. a comprehensive Public Service Functional Review to be performed by an external Technical Advisor focusing on the Ministries, and Statutory and Crown Agencies
2. a phased change management plan – reflecting a whole of Government organizational framework, restructure and processes of the public service to better align its systems and processes with the changing economic environment, aligned with the National Sustainable Development Agenda, Economic Development Strategy, and the ERR.

7. Labour Force and Population

This workstream aims to stem population loss and stimulate population attraction and retention. The programme will cover projects for better measurement of inward and outward migration, immediate steps to recruit migrant labour to replace the migrant workforce that departed during border closures, longer term interventions to make the Cook Islands a better recipient country for migrants, promotion of working holiday visa pathways, diaspora attraction, and policy interventions for sustainable workforce growth for Cook Islanders in the Cook Islands.

8. Foreign Investment to benefit the Cook Islands

Attracting appropriate levels and types of foreign investment to the Cook Islands may be a source of continued economic development and growth – particularly through the recovery period of the pandemic. This workstream will review the investment rules with the effects of the pandemic in mind, reassessing what the best investment levels and types are, as well as updating the regulatory environment surrounding foreign investment, with review and analysis is being undertaken into the current levels of investment and the rules affecting it. This will provide a starting point to assess potential changes to ensure the rules best serve the Cook Islands economy. Any changes to the rules will be subject to consultation and will aim to strike a balance between attracting desirable investment from overseas, and ensuring our local entrepreneurs get opportunities to innovate and grow their businesses.

9. Reactive continuation of the ERP measures

The ERP was implemented at the beginning of the pandemic, aimed at supporting local business, and the livelihoods of those most affected by the economic impacts of COVID-19. As businesses continue to be affected by border closures, loss of workers and lower tourist revenue, some measures have been extended through 2021/2022. These include the Wage Subsidy, Sole Trader Grants, Business Grants and Fees Free Initiative.

In addition, the ongoing management of the Business Continuity Credit Facility (BCCF) has also been transferred to the ERR, and the final SMART Grant tranche payments. All remaining ERP transactions will be processed through the ERR going forward. This has enabled the finalisation of the ERP.

10. Short-term Economic Stimulus

The recovery from the economic impacts of the COVID-19 pandemic will take some time (estimated to be 3 to 5 years), and most other ERR workstreams deal with reforms that will have longer-run benefits for the economy. This workstream aims to support the recovery of the Cook Islands economy towards the pre-pandemic growth path as rapidly as possible through targeted investment to boost economic activity in the short-term.

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
Website: www.mfem.gov.ck

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