



# Completion Report

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Project Numbers: 42503-013, 42503-023  
Loan Numbers: L2565-COO, L2946-COO  
September 2015

## Cook Islands: Economic Recovery Support Program—Subprograms 1 and 2

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

Currency Unit – New Zealand Dollar (NZ\$)

		<b>At Appraisal</b>	<b>At Program Completion</b>
		10 August 2009	31 December 2013
NZ\$1.00	=	\$0.6712	\$0.6700
\$1.00	=	NZ\$1.4899	NZ\$1.4925

## ABBREVIATIONS

ADB	–	Asian Development Bank
ERSP	–	economic recovery support program
GDP	–	gross domestic product
IMF	–	International Monetary Fund
MFEM	–	Ministry of Finance and Economic Management
NIP	–	National Infrastructure Plan
NSDP	–	National Sustainable Development Plan
NSDC	–	National Sustainable Development Commission
PEFA	–	public expenditure and financial accountability
PFM	–	public financial management
SDR	–	special drawing rights
SOE	–	state-owned enterprise
TA	–	technical assistance

## NOTES

- (i) The fiscal year (FY) of the Government of the Cook Islands and its agencies ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends, e.g., FY2010 ends on 30 June 2010.
- (ii) In this report, “\$” refers to US dollars unless otherwise stated.

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	X. Yao, Pacific Department (PARD)
<b>Regional Director</b>	R. Jauncey, Pacific Subregional Office, PARD
<b>Team leader</b>	C. Currie, Senior Country Economist, PARD
<b>Team members</b>	M. Lototele, Senior Economics Officer, PARD M. Hazelman, Associate Project Analyst, PARD L. Sovea, Senior Programs Assistant, PARD

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## CONTENTS

	<b>Page</b>
<b>BASIC DATA</b>	i
I. PROGRAM DESCRIPTION	1
II. EVALUATION OF DESIGN AND IMPLEMENTATION	1
A. Relevance of Design and Formulation	1
B. Program Outputs	2
C. Program Costs	6
D. Disbursements and Program Schedule	7
E. Implementation Arrangements	7
F. Conditions and Covenants	7
G. Related Technical Assistance	8
H. Consultant Recruitment	8
I. Performance of Consultants, Contractors and Suppliers	8
J. Performance of the Borrower and the Executing Agency	8
K. Performance of the Asian Development Bank	8
III. EVALUATION OF PERFORMANCE	9
A. Relevance	9
B. Effectiveness in Achieving Outcomes	9
C. Efficiency in Achieving Outcome and Outputs	9
D. Preliminary Assessment of Sustainability	10
E. Institutional Development	10
F. Impact	10
IV. OVERALL ASSESSMENT AND RECOMMENDATIONS	10
A. Overall Assessment	10
B. Lessons	10
C. Recommendations	11
<b>APPENDIXES</b>	
1. Design and Monitoring Framework	12
2. Policy Matrix	15
3. Status of Compliance with Loan Covenants	21

## BASIC DATA

### A. Loan Identification

1.	Country	Cook Islands
2.	Loan Number	2565-COO 2946-COO
3.	Project Title L2565	Economic Recovery Support Program—Subprogram 1
	Project Title L2946	Economic Recovery Support Program—Subprogram 2
4.	Borrower	Cook Islands
5.	Executing Agency	Ministry of Finance and Economic Management
6.	Amount of Loan 2565	\$10,000,000.00
	Amount of Loan 2946	\$5,983,423.03 (NZ\$7,250,000)
7.	Program Completion Report Number	1536

### B. Loan Data

#### Loan 2565

1.	Appraisal	
	– Date Started	09 Aug 2009
	– Date Completed	14 Aug 2009
2.	Loan Negotiations	
	– Date Started	08 Sep 2009
	– Date Completed	09 Sep 2009
3.	Date of Board Approval	13 Oct 2009
4.	Date of Loan Agreement	29 Oct 2009
5.	Date of Loan Effectiveness	
	– In Loan Agreement	27 Jan 2010
	– Actual	26 Mar 2010
	– Number of Extensions	0
6.	Closing Date	
	– In Loan Agreement	31 Mar 2010
	– Actual	31 Mar 2010
	– Number of Extensions	0
7.	Terms of Loan	
	– Interest Rate	LIBOR
	– Maturity (number of years)	15
	– Grace Period (number of years)	3
8.	Disbursements(Loan 2565-COO)	
	a. Dates	

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Initial Disbursement	Final Disbursement	Time Interval
30 Mar 2010	30 Mar 2010	None

	<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>			
	26 Mar 2010	31 Mar 2010	0.25 months			
b.	Amount (\$million)					
<b>Category or Subloan</b>	<b>Original Allocation</b>	<b>Last Revised Allocation</b>	<b>Amount Canceled</b>	<b>Net Amount Available</b>	<b>Amount Disbursed</b>	<b>Undisbursed Balance</b>
Program	10.00	10.00	0.00	10.00	10.00	0.00
<b>Total</b>	<b>10.00</b>	<b>10.00</b>	<b>0.00</b>	<b>10.00</b>	<b>10.00</b>	<b>0.00</b>

**Loan 2946**

1. Loan Negotiations
  - Date Started 19 Oct 2012
  - Date Completed 23 Oct 2012
2. Date of Board Approval 22 Nov 2012
3. Date of Loan Agreement 16 Sep 2013
4. Date of Loan Effectiveness
  - In Loan Agreement 15 Dec 2013
  - Actual 22 Oct 2013
  - Number of Extensions 0
5. Closing Date
  - In Loan Agreement 31 Dec 2013
  - Actual 24 Jan 2014
  - Number of Extensions 0
6. Terms of Loan
  - Interest Rate: LIBOR
  - Maturity (number of years) 15
  - Grace Period (number of years) 3
7. Disbursements (Loan 2946-COO)
  - a. Dates

<b>Initial Disbursement</b>	<b>Final Disbursement</b>	<b>Time Interval</b>
13 Nov 2013	13 Nov 2013	none
<b>Effective Date</b>	<b>Original Closing Date</b>	<b>Time Interval</b>
22 Oct 2013	31 Dec 2013	3 months and 3 days

b. Amount (\$million)

<b>Category or Subloan</b>	<b>Original Allocation</b>	<b>Last Revised Allocation</b>	<b>Amount Canceled</b>	<b>Net Amount Available</b>	<b>Amount Disbursed</b>	<b>Undisbursed Balance</b>
Program	6.00	5.98	0.00	5.98	5.98	0.00
<b>Total</b>	<b>6.00</b>	<b>5.98</b>	<b>0.00</b>	<b>5.98</b>	<b>5.98</b>	<b>0.00</b>

**C. Program Data****Loan 2565**

## 1. Program Cost (\$ million)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Foreign Exchange Cost	10.00	10.00
Local Currency Cost	0.00	0.00
<b>Total</b>	<b>10.00</b>	<b>10.00</b>

## 2. Financing Plan (\$ million)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Implementation Costs		
Borrower Financed	0.00	0.00
ADB Financed	10.00	10.00
Other External Financing	0.00	0.00
<b>Total</b>	<b>10.00</b>	<b>10.00</b>
IDC Costs		
Borrower Financed	0.00	0.00
ADB Financed	0.00	0.00
Other External Financing	0.00	0.00
<b>Total</b>	<b>10.00</b>	<b>10.00</b>

ADB = Asian Development Bank, IDC = interest during construction.

## 3. Program Performance Report Ratings

<b>Implementation Period</b>	<b>Ratings</b>	
	<b>Development Objectives</b>	<b>Implementation Progress</b>
From 1 January 2008 to 30 December 2011	Satisfactory	Satisfactory

**Loan 2946**

## 1. Program Cost (\$ million)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Foreign Exchange Cost	6.00	5.98
Local Currency Cost	0.00	0.00
<b>Total</b>	<b>6.00</b>	<b>5.98</b>

## 2. Financing Plan (\$ million)

<b>Cost</b>	<b>Appraisal Estimate</b>	<b>Actual</b>
Implementation Costs		
Borrower Financed	0.00	0.00
ADB Financed	6.00	5.98
Other External Financing	0.00	0.00
<b>Total</b>	<b>6.00</b>	<b>5.98</b>
IDC Costs		
Borrower Financed	0.00	0.00
ADB Financed	0.00	0.00

Other External Financing	0.00	0.00
<b>Total</b>	<b>6.00</b>	<b>5.98</b>

ADB = Asian Development Bank, IDC = interest during construction.

### 3. Program Performance Report Ratings

Implementation Period	Ratings	
	Development Objectives	Implementation Progress
From 1 March 2010 to 31 December 2013	Satisfactory	Satisfactory

## D. Data on Asian Development Bank Missions

### Loan 2565

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-finding	20 April 2009	3	7	a, b
Loan appraisal	09 August 2009	2	5	a, b
Review	19 January 2010	2	3	a, b
Program completion review <sup>a</sup>				a

a = economist, b = programs officer.

<sup>a</sup> Desk review.

### Loan 2946

Name of Mission	Date	No. of Persons	No. of Person-Days	Specialization of Members
Fact-finding	12 April 2011	2	7	a, b
Review	22 August 2011	2	5	a, b
Program completion review	7 July 2015			a

a = economist, b = programs officer.

## I. PROGRAM DESCRIPTION

1. At the request of the Government of the Cook Islands, the Board of Directors of the Asian Development Bank (ADB) approved a program cluster of two subprogram loans totaling \$16 million for the Economic Recovery Support Program (ERSP) in October 2009.<sup>1</sup> Subprogram 1 of the ERSP cluster for which a \$10 million loan agreement was signed on 29 October 2009, was designed to (i) facilitate infrastructure investment in a period of constrained revenue; (ii) help prioritize infrastructure investments; (iii) raise the policy profile of vulnerability issues; and (iv) strengthen aspects of public financial management (PFM). Subprogram 2, (\$6 million equivalent) approved in November 2012<sup>2</sup> was designed to (i) further support government budget priorities; and (ii) promote public sector reforms and measures to help protect the vulnerable and safeguard the fiscal position of the Cook Islands to promote higher and more inclusive economic growth.<sup>3</sup>

2. The two ERSP subprograms provided five outputs: Output 1: budget support enabling higher capital expenditure by government on infrastructure works generating jobs and business activity and creating a sustainable base for a higher level of long-term growth driven by the private sector; Output 2: priority structural reforms and governance improvements implemented across the infrastructure sectors; Output 3: targeted support to the most vulnerable members of the community by government; Output 4: the maintenance of fiscal responsibility by the Ministry of Finance and Economic Management (MFEM); and Output 5: communication of economic and fiscal management initiatives by MFEM (Appendix 1).

## II. EVALUATION OF DESIGN AND IMPLEMENTATION

### A. Relevance of Design and Formulation

3. The program design was relevant at appraisal and remained relevant at the time of program completion. The program incorporated lessons from ADB's earlier experience in policy-based lending in the Pacific.<sup>4</sup> The design and implementation supported higher public spending on rebuilding and rehabilitating social and economic infrastructure, the provision of increased support to the most vulnerable, and improved government financial management. The ERSP was consistent with the strategic focus of ADB's country partnership strategy for 2008–2012 to improve economic and social infrastructure and public service delivery.<sup>5</sup> The ERSP closely aligned with the government's National Sustainable Development Plan 2007–2010 (NSDP), which had among its strategic outcomes largely private sector-led economic growth, achievement of minimum standards of basic infrastructure, and a more equitable distribution of economic growth.<sup>6</sup> The subsequent NSDP 2011–2015 reaffirmed these strategic outcomes.

4. The Cook Islands had achieved 6 consecutive years of growth to 2004 (averaging 6.1% annually) supported by a program of economic reforms that began in the late 1990s. However,

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<sup>1</sup> ADB. 2009. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan for Subprogram 1 to Cook Island: Economic Recovery Support Program*. Manila.

<sup>2</sup> Delay in the loan agreement was largely due to the process involved for transferring all loans to NZD.

<sup>3</sup> ADB 2012. *Report and Recommendation of the President to the Board of Directors: Proposed Program Cluster and Loan for Subprogram 2 to Cook Island: Economic Recovery Support Program*. Manila.

<sup>4</sup> ADB. 1999. *Reforms in the Pacific: An Assessment of the Asian Development Bank's Assistance for Reform Programs in the Pacific*. Manila; ADB. 2009. *ADB Support for Public Sector Reforms in the Pacific: Enhance Results through Ownership, Capacity, and Continuity*. Manila (ADB Special Evaluation Study).

<sup>5</sup> ADB. 2008. *Country Partnership Strategy: Cook Islands, 2008–2012*. Manila.

<sup>6</sup> Government of the Cook Islands. 2007. *Te Kaveinga Nui (Pathway to Sustainable Development in the Cook Islands) Living the Cook Islands Vision: A 2020 Challenge: National Sustainable Development Plan (2007–2010)*. Rarotonga.



by 2005 the growth momentum had stalled. Minimal infrastructure investment (in part due to a need to bring debt under control), cyclones (in 2005 and 2010), lack of skilled professional staff due to outmigration, high inflation, and the global economic crisis (which saw a significant drop in revenues from tourism in 2009) led to a period of economic stagnation from 2006 through to 2010. The ERSP provided a much needed stimulus to the Cook Islands' economy by increasing funding available for infrastructure investment and, through this, maximizing the use of local private sector businesses for the supply of goods and services. The program cluster was thus a timely intervention designed to support the government's response to the downturn in economic growth while helping to maintain the government's reform agenda as a foundation for sustained growth.

## **B. Program Outputs**

### **1. Output 1: Higher Capital Expenditure by Government**

5. The ERSP loan supported the government's efforts to fund a higher level of capital expenditure on infrastructure. At appraisal it was intended that ADB and other development partner support would enable priority investments in airport expansion and road and water supply rehabilitation to be brought forward into fiscal year (FY) 2010. However, this proved to be too optimistic as the necessary project design and other preparatory work (including agreeing project funding with development partners) were not sufficiently advanced for implementation. This led to a delay in government meeting the subprogram 1 target of lifting government capital expenditure in FY2010 above the 12% of gross domestic product (GDP) achieved in FY2009. The target was, however achieved in FY2012. By the time the subprogram 2 loan agreement was signed in September 2013, the government had advanced capital works projects including land reclamation, road and water main upgrade and renewal, and the construction of an interisland shipping terminal.<sup>7</sup> In FY 2014, the government capital expenditure reached 13.7% of GDP, rising to 15.1% of GDP in FY 2015.

6. A second target for output 1 from subprogram 1 was to align capital expenditure in FY 2010–2011 with the Infrastructure Master Plan prepared in 2007. This was not only achieved, but building on this, a National Infrastructure Investment Plan 2015 (NIIP) was prepared and published.<sup>8</sup> The NIIP outlines the Cook Islands' priorities and plans for major infrastructure over 2015 to 2025 and the funding and implementation of these investments. It is a "living" document, which will be updated as new information becomes available and circumstances change. The NIIP is an integral part of the shorter term 3-year budget cycle, which identifies planned government capital expenditure in the next year and broader projections for the following 2 years.<sup>9</sup>

7. The secretariat of the Infrastructure Committee (which includes members from Infrastructure Cook Islands [ICI], Ministry of Finance and Economic Management [MFEM], the

<sup>7</sup> Subprogram 2 was approved by the ADB Board of Directors in November, 2012 but the loan agreement was not signed until September, 2013. This was because the government wanted to finalize the 2014–2015 budget and in particular the associated capital plan before the loan agreement was signed.

<sup>8</sup> Government of the Cook Islands. 2015. *Cook Islands National Infrastructure Plan*. Rarotonga: Government of the Cook Islands and the Pacific Region Infrastructure Facility (PRIF). Endorsed and adopted by the Cook Islands government on 14 April. (The PRIF is a multi-development partner coordination, research, and technical facility, which supports infrastructure development in the Pacific. Members include ADB, Australian Department of Foreign Affairs and Trade, European Union and European Investment Bank (EUEIB), Japan International Cooperation Agency (JICA), New Zealand Ministry of Foreign Affairs and Trade (MFAT), and the World Bank Group.

<sup>9</sup> For example, the 2015–2016 budget published in June 2015 identifies planned expenditure for 2015–2016 and projections for expenditure in 2016–2017 and 2017–2018.

Office of the Prime Minister [OPM] and the private sector) has been established within the Cook Islands Investment Corporation (CIIC), which is also the holding company for the Airport Authority, Ports Authority, and Electricity Authority state-owned enterprises (SOEs).

## 2. Output 2: Priority Structural Reforms and Governance Improvements Implemented Across the Infrastructure Sectors

8. This output was intended to build upon the 2008 infrastructure governance framework, which was a set of government-initiated policy principles and actions designed to achieve sound governance, investment decisions, and operational management in the infrastructure sector. As part of subprogram 1, a number of milestones were identified to be achieved before approval of financing subprogram 2. Generally these were achieved.<sup>10</sup>

9. The NSDP 2011–2015 was released in December 2011 and includes infrastructure sector objectives and strategies that guide ministerial business plans and budget allocations. In keeping with the national gender policy, the NSDP has a mainstreamed gender perspective, and equity is one of its seven guiding principles.<sup>11</sup> Implementation of the Infrastructure Master Plan was reviewed in August 2011 to assess progress in meeting infrastructure priorities, and to offer recommendations on future infrastructure delivery. The Office of Outer Islands has been established within the OPM, and some decentralization of decision making to outer island governing bodies has occurred in conjunction with changes to the central government funding formulas to each of the outer islands. In February, 2012 a renewable electricity chart was prepared and released and the cabinet approved a water policy standard.

10. Under subprogram 1, the government financed an independent economic review of the impact of its underwriting of losses on Air New Zealand's nonstop Los Angeles–Rarotonga and Sydney–Rarotonga routes.<sup>12</sup> The review assessed the likely performance and profitability of the subsidized routes as an input to government decisions on future support, or otherwise for these routes. The findings of the review were that the economic benefits of underwriting the routes exceeded the economic cost to government. Provision of the subsidized services was put out to competitive tender and Air New Zealand was awarded a 4-year contract to continue the services.

11. The government considered cost recovery and user charges and agreed in principle to applying user charges to provision of water to households and businesses on Rarotonga and to specific charges in respect of sanitation in the Muri-Avana lagoon area of Rarotonga. It is proposed to introduce water charges in 2017–2018 with the completion of major works improving water supply on Rarotonga.<sup>13</sup> For the FY2013 budget, MFEM developed a transparent process for identifying the costs of SOE community service obligations, where the

<sup>10</sup> See Appendix 2.

<sup>11</sup> Government of the Cook Islands. 2011. *Cook Islands National Policy on Gender Equality and Women's Empowerment and Strategic Plan of Action, 2011–2016*. Rarotonga.

<sup>12</sup> Eagle Aviation Consulting and Covec were jointly engaged to undertake this review.

<sup>13</sup> There is some doubt as to whether the water charges set will lead to full cost recovery, including the recovery of capital costs. The government's interim program providing significant subsidies (about 75% of total installed cost on average) to the cost of installation of household tanks on Rarotonga saw significant uptake—about 2,000 tanks were installed under the scheme, which—together with about 750 households with existing tanks—means 2,750 of Rarotonga's 4,370 households (2011 census), i.e., about 63%, now have own storage. While not all households with own storage currently collect rainwater, the introduction of charges is likely to incentivize many to do so. This own-storage and rainwater collection conjunction with monthly allowances of unpriced water consumption will limit the extent households will be required to pay water charges. Also churches, schools, and government agencies will be exempt from paying water charges.

government requires an SOE to provide some goods and services to certain categories of users at a price that does not cover all costs. This reporting of community service obligation costs has continued in subsequent budgets.

12. In September, 2011 the government removed price control orders on all groceries (excluding bread) and laundry products to remove distortions in the economy impacting on the private sector.

13. Under subprogram 2, the milestone sought was the reduction in the subsidies to airline services. This was not achieved (and was no longer relevant) due to the findings of the independent review that the subsidies yielded positive economic benefits.<sup>14</sup> The second milestone was the Ministry of Outer Islands and Infrastructure and Planning capital expenditure in FY 2013 not exceeding more than 4% of its budget allocation. The functions of this ministry have been split and relocated within the OPM (outer islands) and Infrastructure Cook Islands (infrastructure and planning) and discrepancies in budgeted and actual expenditure have reduced to within the 4% threshold.

### **3. Output 3: The Most Vulnerable Members of the Community Receive Targeted Support from Government**

14. In 2010 an independent review of the Cook Island's social welfare system was undertaken and two milestones under subprogram 1 of the ERSP were (i) the public release of the independent review report, and (ii) the start of a consultative review of the social welfare system. These milestones were achieved in 2012.<sup>15</sup> The third milestone under subprogram 1 was the pilot scheme to provide home care to the elderly and disabled and to monitor performance and outcomes. This was also achieved and begun in 2012 with support from ADB.<sup>16</sup> The piloted schemes were two home care and support services to welfare recipients (on Rarotonga and Mangaia Islands) and two "meals on wheels" services to welfare recipients (on Mauke and Atiu Islands). A third "meals on wheels" service (on Aitutaki Island) was subsequently piloted.

15. Under subprogram 2, the milestone to be achieved was for an allocation within the FY2013 budget for new social welfare services that targeted the most vulnerable members of the community. This was achieved, although the sustainability of these activities will depend on new funds from the government, now that funds from the JFPR are no longer available. The government in the 2015–2016 budget has committed additional funding (NZ\$60,000) to the Social Impact Fund (a fund of NZ\$860,000 per annum funded by the governments of the Cook Islands and New Zealand), which provides home care to vulnerable groups with priority areas being domestic violence, mental health, disabilities, and family support.<sup>17</sup>

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<sup>14</sup> This is consistent with the Eagle Aviation Consulting and Covec report's findings that the Los Angeles–Rarotonga service underwrite was substantially positive (between \$6.6 million and \$7.7 million net contribution to GDP per annum) and the Sydney–Rororotonga service underwrite was marginally negative (between \$0.1 million and \$0.7 million net reduction in GDP per annum). The report also suggested that the underwritten services be put out to bid and that fixed annual underwrite contributions be negotiated to provide incentives to reduce the costs and risks of the underwrite. This advice was followed by the Cook Islands government.

<sup>15</sup> Ministry of Internal Affairs. 2010. *Review of the Social Welfare System*. Rarotonga: Government of the Cook Islands. <http://intaff.whupi.com/wp-content/uploads/2014/04/PDF-Social-Welfare-Review-June-2010.pdf>

<sup>16</sup> ADB. 2010. *Report and Recommendation of the President to the Board of Directors. Proposed Grant for Social Protection of the Vulnerable in the Pacific*. Manila. (Grant 9151-REG, approved 13 September, \$3.0 million through the Japan Fund for Poverty Reduction [JFPR]).

<sup>17</sup> The fund now is distributed directly to a reduced number of health care provider nongovernment organizations (NGOs), to reduce administration costs and achieve economies of scale.

16. The administration of this fund by the Ministry of Internal Affairs is consistent with an increased understanding of the important role the home health care sector will need to play in the face of rising demand for health care funds generally. Grants for home care workers have been increased (to NZ\$175 per month), although these fall short of a proper wage.

17. On 31 March 2014, the government introduced a package of new taxation and other measures that have indirectly improved the targeting of government assistance to the vulnerable. Pensions were increased by 25% but became taxable, which gave more to the elderly but reduced the net income of those with income from other sources. Other changes that were part of the 31 March 2014 taxation reform package was a reduction of the burden on wage earners through a reduction in income taxes and an increase in taxes on consumption (value-added tax [VAT]).

#### **4. Output 4: Ministry of Finance and Economic Management Maintains Fiscal Responsibility**

18. The economic contraction in FY2009, and the change in government in the November 2010 elections, provided strong impetus for improvement of public financial management (PFM) systems. Under subprogram 1, the government increased its commitment to fiscal responsibility. A public expenditure and financial accountability (PEFA) assessment, which independently assessed the strengths and weaknesses in PFM performance, guided the development of the PFM road map for FY2012–FY2015.<sup>18</sup> The PEFA performance indicators provided the baseline against which the PFM measures were (and continue to be) monitored quarterly. The first quarterly monitoring report was completed in February 2012 and the most recent published in March 2015. The key PFM indicator ratios are (i) tax revenue to GDP, (ii) government personnel costs to total revenue, (iii) government budget deficit to GDP, (iv) government debt-servicing costs to total revenue, and (v) government net debt to GDP. The performances of these ratios against the benchmarks show general compliance. The ratio of tax revenue to GDP has crept up above the 25% benchmark; the ratio of government personnel costs has fallen below the 40% benchmark; the government budget deficit has remained below its 5% threshold although is projected to increase above 5% in FY2017 and FY2018 and debt servicing costs from some significant project loans begin to be incurred; and the ratio of government debt to GDP has remained comfortably within its 35% benchmark.<sup>19</sup>

19. The subprogram 2 milestone was for the government's FY2011–2013 budgets to comply with all the principles of fiscal responsibility stated in the MFEM Act. The principles are (i) managing total Crown<sup>20</sup> debt at prudent levels to provide a buffer against factors that may impact adversely on the level of total Crown debt in the future, by ensuring that, unless such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenue in the same financial year; (ii) achieving and maintaining levels of Crown net worth in the future; (iii) prudently managing the fiscal risks facing the Crown; and (iv) pursuing policies that are consistent with a reasonable degree of predictability about the

<sup>18</sup> P. Okotai, et al. 2011. *Public Financial Management Performance Report and Performance Indicators*. Rarotonga: Ministry of Finance and Economic Management.

<sup>19</sup> A problem arises with benchmark ratios set as percentages of GDP in that changes in the ratios over time may reflect changes in the way GDP is measured rather than a change in the PFR measure itself.

<sup>20</sup> The "Crown" is the Government of the Cook Islands, which includes every department, instrument and agent of the Government, and anybody corporate or organization that is wholly owned or controlled by or has significant financial inter-dependence with any such department, instrument, agent, body corporate or organization, and any local authority.

level and stability of tax rates for future years. This milestone has been achieved in broad terms, although the taxation reforms package in 2014 necessitated significant changes to the incidence of tax away from wage earners toward consumption taxes and the taxing of income from pensions and interest. While this led to a significant change in tax rates, it was considered necessary to broaden the tax base and to make the tax system more equitable.

20. The medium term budget framework has been strengthened and provides a clear presentation of the full costs of ongoing policies to better inform cabinet's resource allocation decisions. Since FY2011, the budget documents have provided a statement of the government's operations in accordance with the International Monetary Fund (IMF) government finance statistics standards to enable consistency in budget analysis, including across countries. The government adopted the IMF government finance statistics presentation for the FY2013 budget (and FY2012 outturn). The inclusion of aid-funded work programs within the outcomes and key deliverables of ministry and agency business plans further strengthens the budget-planning link and places performance responsibility for these with the heads of ministries or agencies.

## **5. Output 5: Ministry of Finance and Economic Management Communication of Economic and Fiscal Management Initiatives**

21. Implementation of the communications strategy, which formed part of subprogram 1, has continued to develop during implementation of subprogram 2, increasing awareness and ownership of the government's fiscal planning and responses to the macroeconomic environment. Transparency and access to information has improved—quarterly financial reviews, PEFA reports, the PFM road map, budget papers, and semiannual economic and fiscal updates are available on the MFEM website. Up to 8 July 2015, there had been 9,878 downloads from the budget papers webpage since it was created in February 2013 (an average of 4,233 per annum)<sup>21</sup>; 4,224 hits on the Budget and Planning Division webpage since it was created in February 2012 (an average of 1,267 hits per annum); 7,654 hits on the economic and fiscal updates webpage since it was created in July 2005 (an average of 765 hits per annum); 7,270 hits on the quarterly financial report webpage since it was created in February 2012 (an average of 2,182 hits per annum); and 3,603 hits on the SOE reporting webpage since it was created in December 2012 (an average of 1,395 hits per annum). While a wide array of economic and fiscal documents are freely available, their accessibility to the public is constrained by the technical nature of much of the documentation.

### **C. Program Costs**

22. ADB provided support under a program of cluster loans of \$10.0 million for subprogram 1 and \$6.0 million for subprogram 2. These loans helped the government to partly offset the impact of the global economic crisis and the cyclones in 2005 and 2010 by supporting elevated capital expenditure, although not until FY 2012, rather than FY 2010 as intended at appraisal.

23. The loan size was determined after considering (i) the estimated impact of the global economic crisis and the projected deficit financing requirements; (ii) the availability of additional funding from other development partners in the event the government was unable to meet its financial requirements; (iii) the significance and complexity of the policy actions of the ERSP, and the budgetary resources and political capital to implement the program successfully; and

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<sup>21</sup> This is compared to 2,550 downloads of all budget, economic policy and national planning documents from the MFEM website in FY10.

(iv) the conformity of the ERSP with ADB's country partnership strategy (footnote 5).

24. The support also helped encourage improvements in PFM and protection of the most vulnerable. There were no changes to program costs during implementation.

#### **D. Disbursements and Program Schedule**

25. The appraisal disbursement schedule was realistic. The loan proceeds were disbursed to the Cook Islands according to ADB's simplified disbursement procedures and related requirements for program loans.<sup>22</sup> No corrective actions were taken by the borrower or ADB. Disbursement of subprogram 1 was delayed due to the government's desire to undertake the necessary planning and preparatory work for the capital works projects to be funded by the ERSP but was still largely in line with the disbursement schedule. The delay in expenditure of funds under subprogram 1 meant subprogram 2 triggers were achieved later than originally anticipated and consequently the disbursement of funds under subprogram 2 was also delayed. However the delays were necessary to ensure expenditure under the program was efficient and effective.

#### **E. Implementation Arrangements**

26. There were no major changes to implementation arrangements. These were adequate as designed to deliver program outputs and to achieve the program purpose. MFEM was the executing agency responsible for the overall program implementation—including carrying out the policy actions, reporting to ADB, administering and disbursing the two subprogram loan proceeds, and maintaining records and accounts—and oversaw the legal, policy, and regulatory actions agreed to by the government and ADB. The National Sustainable Development Committee (consisting of officials from MFEM, the Cook Islands' Office of the Attorney General, the Officer of the Public Service Commissioner, and the Ministry of Foreign Affairs) was the Program Coordinating Committee, which met as required to monitor progress, oversee implementation of the program, and provide guidance and direction to MFEM.

#### **F. Conditions and Covenants**

27. The covenants under the loan agreement were largely complied with (Appendix 5). No covenants were modified, suspended, or waived during the program period. The program used ADB's policy-based program modality and was based on the development policy letter and policy matrix for the two subprogram loans. All policy actions identified in the design and monitoring frameworks and agreed with the government were complied with, although with some delays encountered. The government made specific assurances to (i) adopt and maintain policy positions as contained in the development policy letter and policy matrix, (ii) inform ADB of any changes in relevant policies and of policy discussions with other multilateral or bilateral agencies that would have implications for the program cluster, (iii) adequately resource the program in a timely manner, (iv) monitor and biannually report to ADB on implementation of policy actions and their impact on budget outcomes, and (vi) continue program monitoring and evaluation for at least 1 year after program completion and produce a program completion report. As already noted, initial delays in the utilization of subprogram 1 loan funds were encountered as preparatory work for capital works projects needed to be completed before expenditure on them began. Also, delays in the preparation of government annual accounts and

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<sup>22</sup> ADB. 1998. *Simplification of Disbursement Procedures and Related Requirements for Program Loans*. Manila.

other economic indicators have contributed to delays in monitoring the programs' impacts.<sup>23</sup> To date the government has not provided a report on the overall impact of the policy reforms described in the Policy Letter and Policy Matrix (as per Section 4.05 (b) of Article 4, Particular Covenants, of the Loan Agreement for subprogram 1). While this has not detracted from the program's performance, ADB staff could have requested more regular specific reporting on the program to ensure better compliance with the monitoring and reporting covenants.

#### **G. Related Technical Assistance**

28. No specific technical assistance (TA) was provided for the program design or implementation. Instead support from ongoing regional TA and country capacity development TA supported specific elements of the program as the various needs arose. Areas addressed included economic management, public financial management, and the social protection of vulnerable groups.<sup>24</sup>

#### **H. Consultant Recruitment**

29. No consultants were recruited for the design or implementation of ERSP subprograms 1 or 2.

#### **I. Performance of Consultants, Contractors and Suppliers**

30. There were no consultants, contractors, or suppliers involved in the design or implementation of subprograms 1 or 2.

#### **J. Performance of the Borrower and the Executing Agency**

31. The performance of the borrower and the executing agency is rated satisfactory. Although initial delay in using the funds made available under subprogram 1 was encountered, this was because the planning and other preparatory work for the infrastructure projects on which it was intended to spend the funds was not sufficiently advanced. The borrower performed well during program design and also eventually during implementation. The government undertook a number of infrastructure sector structure reforms, and improved governance. It continued to improve financial management and reporting and some steps were taken to better target government assistance to vulnerable members of the community.

#### **K. Performance of the Asian Development Bank**

32. ADB staff at headquarters and the Pacific Subregional Office in Suva (and the ADB

<sup>23</sup> During the period covered by the program's implementation the MFEM has implemented several revisions to the way GDP is measured. As a result national income accounts remain "estimates" or "provisional" for some time before they are confirmed as "actual" data. For example, in the Cook Islands Government 2014/15 Half Year Economic and Fiscal Update (December 2014), the data for FY2013 is recorded as "actual"; the data for FY2014 is recorded as "estimates" and for FY2015 and subsequent years as "projections."

<sup>24</sup> ADB. 2009. *Technical Assistance for Pacific Economic Management*. Manila (TA 7280-REG); ADB. 2009. *Technical Assistance to the Cook Islands for Infrastructure Services Delivery Improvement*. Manila (TA 7287-COO, approved 19 May, \$600,000); ADB. 2010. *Technical Assistance to the Cook Islands for Public Finance Management and Public Sector Performance Review*. Manila (TA7646-COO, approved 12 November, \$300,000); ADB. 2010. *Technical Assistance for Pacific Economic Management—Enhanced Economic Management (Subprogram 2)*. Manila (TA 7681-REG, approved 6 December, \$1.0 million); ADB. 2010. *Report and Recommendation of the President to the Board of Directors. Proposed Grant for Social Protection of the Vulnerable in the Pacific*. Manila. (Grant 9151-REG, approved 13 September, \$3.0 million through JFPR).

development coordination office, within MFEM in Rarotonga upon establishment in August 2012) all played key roles in helping the government design and/or implement the ERSP. ADB staff actively monitored the ERSP's progress and completion of policy triggers for subprograms 1 and 2. ADB could have assisted the program's implementation more by insisting on the government better documenting proposed and actual expenditure financed under the program. The performance of ADB in program implementation is rated satisfactory.

### **III. EVALUATION OF PERFORMANCE**

#### **A. Relevance**

33. The ERSP's design was appropriate and relevant at appraisal, during the program's implementation, and remains so at project completion. It fully aligned with the government's 2007–2010 NSDP and the subsequent NSDP 2011–2015. The ERSP was consistent with the strategic focus of ADB's country partnership strategy for 2008–2012 to improve economic and social infrastructure and public service delivery. The program's emphasis on ongoing improvement in infrastructure governance, financial management, and reporting and better targeting of assistance to vulnerable groups within the community remained relevant throughout the period of program implementation and these goals continue to be priorities for the country's future economic and social wellbeing.

#### **B. Effectiveness in Achieving Outcomes**

34. The program was expected to achieve an increase in the level of government capital spending as early as FY2010 but it did not achieve this until FY 2012 when expenditure on projects financed from the program started. However, the ERSP indirectly contributed to responding to the global economic crisis in that it enabled the government to retain levels of recurrent expenditure in FY 2010 and FY 2011. The triggers set for the release of funds under subprogram 2 were met by October 2012 and for the most part the subprogram 2 milestone indicators have been met (see Appendix 2) (Footnote 3). The ERSP is assessed as having been effective in achieving its targeted outcomes.

#### **C. Efficiency in Achieving Outcome and Outputs**

35. Several capital works projects were brought forward under the ERSP. This and the establishment of a new procurement website will yield a future ongoing stream of economic and social benefits. No quantification of these benefits has been undertaken. In terms of process efficiency, there were some initial delays after loan effectiveness before expenditure of subprogram 1 funds but this was to enable adequate project planning and preparatory work to be completed and this ultimately added to program efficiency. The program modality of the loan enabled the maximization of local goods and service suppliers and this improved program implementation in terms of stimulating the local economy. Competitive bids were let for the supply of materials and civil works construction by the Cook Islands' private sector. The government met the preconditions for release of funds. The fiscal targets set out in the program were achieved and provided a stimulus to growth. Fiscal responsibility targets were generally met, allowing the government to continue with its program of improvement in PFM over the medium term. The ERSP is assessed as having been efficient in achieving its targeted outcome and outputs.



#### **D. Preliminary Assessment of Sustainability**

36. Program sustainability is largely assessed as likely given the commitment of the government to ongoing improvements in capital asset whole-of-life management (including improving the timeliness and levels of operations and maintenance expenditure) and ongoing PFM improvements. The continuing dissemination of financial and economic management information via the MFEM's website will maintain accountability to, and communication with, the public, while the government is committed to a consultative approach in respect of public sector and social welfare reforms. The availability of sustainable funding of the piloted schemes to help vulnerable groups (home care support and meals on wheels) is however uncertain.

#### **E. Institutional Development**

37. The program reinforced improvements in infrastructure governance, PFM, delivery of public welfare services to vulnerable communities, and public communication. The program also provided increased opportunities for the Cook Island's private sector.

#### **F. Impact**

38. No specific targets were set for GDP growth as a direct result of the ERSP. However the program will have contributed to GDP, or at least higher levels of GDP than otherwise would be the case. Unfortunately, revisions in the way GDP is estimated make GDP growth rate estimates unreliable indicators of the program's economic impact. Also, and most significantly, factors exogenous to the program (such as trends in annual tourist numbers and expenditure) have had a greater impact on the Cook Islands economic growth.

### **IV. OVERALL ASSESSMENT AND RECOMMENDATIONS**

#### **A. Overall Assessment**

39. The program was implemented as planned, providing an economic stimulus in response to a slowdown in economic activity and was fully aligned with the government's infrastructure governance, financial management and social assistance reform plans, and ADB's country strategy. The program modality was useful in that it maximized the use of the country's own private sector in the provision of goods and services for capital works projects finance under the program. The program was relevant at the time of appraisal and continued to be during program implementation. It was efficiently implemented and was effective in achieving its goals of stimulating the local economy, improving infrastructure governance and PFM, and providing more assistance to vulnerable members of the community. The positive social and economic impacts provided by the program are likely to be sustainable. The program is assessed as successful overall.

#### **B. Lessons**

40. The provisions of funds under a program loan will generally only have an immediate impact on the overall level of economic activity if a pipeline of projects is in place when the funding becomes available. This was not the case when the ERSP subprogram 1 loan was disbursed, but the delay in capital project construction to ensure more sustainable and beneficial projects were implemented was desirable. The Cook Islands governance of infrastructure projects had improved by the time of the release of subprogram 2 funds with project priorities and planning further advanced, providing a number of potential projects that

could immediately use the ERSP funding assistance. The program modality is beneficial in that it enables the recipient government implementing agency to maximize the use of local suppliers of goods and services through appropriate project selection and contract package sizing.

### **C. Recommendations**

41. **Future monitoring.** The fiscal and economic performance of the Cook Islands, as of all Pacific developing member countries, is well monitored by the Pacific Economic Monitor that is produced by the regional policy economic management TA. No further monitoring is required.

42. **Covenants.** As recorded in Appendix 5, all particular covenants specified as reform actions and measures in the policy matrix were completed and do not need to be further monitored.

43. **Further action or follow-up.** Ongoing political and public sector reforms will further improve the efficiency and effectiveness of the agencies responsible for overseeing, owning, implementing, and maintaining public sector infrastructure assets in the Cook Islands. Similarly, targeting of assistance to vulnerable groups within the community may need to be further improved so that available resources for welfare assistance could be used more effectively.

44. **Additional assistance.** ADB should discuss the need for fiscal and economic policy advisory TA with the government and with other development partners. In this regard the government has asked ADB to support a comprehensive macroeconomic assessment in October 2015 to allow it to scrutinize and remain vigilant to changes in both the internal and external environment that might impact on the economy in the near to medium term—e.g., impact on debt-servicing ratios as current large loans grace periods expire and/or any further deterioration in tourism sector from continued increased competition from other destinations or from an economic downturn in the New Zealand economy.

45. **Timing of the program performance evaluation report.** The program is substantially completed. The performance evaluation report should be undertaken and disseminated as soon as possible.

### DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Achievements of Economic Recovery Support Program to 17 July 2015	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Economic recovery combined with protection of the most vulnerable and the fiscal position</p>	<p>Real GDP growth progressively raised to the government's target long-run growth rate of 3.5% by 2016 (2009 baseline: 2.4%)</p> <p>Relative standard of living of the vulnerable groups of the community improved, as measured by a rising expenditure share of the lowest quintile of households (2007 baseline: 9%) and proportion of households headed by women in the lowest quintile (2007 baseline: 31.8%) in the 2013 household income and expenditure survey</p>	<p>Real GDP growth peaked at 4.1% in 2011/12. Since then real GDP growth has been, or is projected to be, negative out to 2018/19, except for 2015/16 when +1.4% real GDP growth is projected. However revisions in the way GDP is estimated make GDP an unreliable measure of program effectiveness. Also exogenous factors (in particular changes in levels of tourism expenditure) have considerable impacts on GDP growth rates.</p> <p>An updated household income and expenditure survey has yet to be undertaken. It is scheduled to be undertaken in 2015/16.</p>	<p>National accounts, budget papers, including budget policy statement, and MFEM economic and fiscal updates</p> <p>Household income and expenditure surveys</p>	<p><b>Assumptions</b></p> <p>The global economy continues to recover from the downturn</p> <p>The private sector responds to the improved economic conditions</p> <p><b>Risk</b></p> <p>External shocks (natural disasters, high oil prices) damage the economy</p>
<p><b>Outcome</b></p> <p>The government ensures sustainable budget allocations for needed capital investment and social protection</p>	<p>Growth of construction value added is 5.5% or greater in FY2012 and FY2013</p> <p>Welfare payments (on a sex-disaggregated basis) above FY2011 rate in FY2012 and FY2013 (FY2011 baseline: NZ\$12.3 million in total, government to provide gender breakdown)</p>	<p>Construction value added in FY2012 grew 30.0% on FY2011. But FY2013 construction value added decreased by 47.0%.</p> <p>Welfare payments NZ\$12.5 million in FY2012, NZ\$13.1 million in FY 2013, NZ\$13.6 million in FY2014, NZ\$16.5 million in FY2015 and projected to be NZ\$17.0 million in FY2016. Sex-disaggregated</p>	<p>Budget papers including budget policy statement, MFEM economic and fiscal updates</p> <p>Budget papers including budget policy statement</p>	<p><b>Assumption</b></p> <p>Government agencies continue to be committed to improved performance</p> <p><b>Risks</b></p> <p>Parliamentary and community support for the government's actions is insufficient</p> <p>Government agencies fail to restrain low-priority current expenditure</p>

Design Summary	Performance Targets and Indicators with Baselines	Achievements of Economic Recovery Support Program to 17 July 2015	Data Sources and Reporting Mechanisms	Assumptions and Risks
		data not available but since 1 January 2013, all working women entitled to at least 6 weeks paid maternity leave with government financial support for employers. In FY2016 it is estimated 80 women will receive this benefit.		
<b>Outputs</b> 1. Higher capital expenditure by government	FY2012 and FY2013 budgets allocate more than 12% of GDP to capital expenditure (FY2009 baseline: 12% of GDP)  Alignment of capital expenditure in FY 2010-2011 with the Infrastructure Master Plan prepared in 2007	This was achieved but not until FY2012, reflecting the need to do necessary preparatory works for capital works projects for funding under subprogram 1.  This was achieved and building on this, a National Infrastructure Investment Plan 2015 (NIIP) was prepared and published.	Budget papers including budget policy statement	<b>Assumptions</b> Government prioritizes capital expenditure on the basis of economic returns  Sufficient personnel to manage the expansion in capital expenditure
2. Priority structural reforms and governance improvements implemented across the infrastructure sectors	Reduction in subsidies to air services in FY2013  Ministry of Outer Islands and Infrastructure Planning FY2013 expenditure is within 4% of budget allocation	Subsidies to air services reviewed but not removed. Air services put out to competitive tender. Level of subsidies has not reduced but varied according to fuel costs and passenger loadings on subsidized services. Benefits of subsidies assessed by government to exceed subsidy costs.  Achieved with restructuring of this ministry and changes to funding formulas for outer island assistance	Budget papers including budget policy statement  Budget papers including budget policy statement	The NSDP–annual budget link remains strong.
3. The most vulnerable members of the community receive targeted support from	FY2013 budget allocations for new targeted social welfare services (FY2011 baseline: none)	Reform of taxation system has seen better targeting of tax incidence and this has indirectly improved targeting of welfare assistance. Paid maternity	Budget papers including budget policy statement	<b>Assumptions</b> Cost of targeting support to the vulnerable is affordable and practical  Sufficient personnel to

Design Summary	Performance Targets and Indicators with Baselines	Achievements of Economic Recovery Support Program to 17 July 2015	Data Sources and Reporting Mechanisms	Assumptions and Risks
government		leave introduced for women employees and increases in care giver payments. Other programs (home care and meals on wheels) piloted but requiring funding for sustainability.		manage the expansion in support for the vulnerable
4. MFEM maintains fiscal responsibility	FY2011–FY2013 budgets comply with all principles of fiscal responsibility stated in the MFEM Act	Achieved and ongoing	Budget papers including budget policy statement	<b>Assumptions</b> No external economic shocks Sufficient personnel to manage the budget process
5. MFEM communication of economic and fiscal management initiatives	Downloading of key budget, economic policy, and national planning documents from MFEM website is 20% above 2010 levels (2010 baseline: 2,550 downloads of budget documents)	Achieved and substantially exceeded.	Reports from MFEM website	<b>Assumptions</b> Government maintains support for transparency Public interest in accessing available government information

GDP = gross domestic product, IMF = International Monetary Fund, MFEM = Ministry of Finance and Economic Management, NSDP = National Sustainable Development Plan, PFM = public financial management, PSIP = Public Sector Investment Program, SDS= Strategy for the Development of Samoa.  
 Source: Asian Development Bank.

## POLICY MATRIX

TABLE A2.1: POLICY MATRIX: SUBPROGRAM 1

Output	Triggers under Subprogram 1 Release of Subprogram 2 Tranche	Policy Actions	Subprogram 2 Prior Policy Actions – Completed by October 2012
<b>Output 1:</b> Higher capital expenditure by government	1.1 Funding in the FY2010 budget for infrastructure and building work investment is in accordance with the priorities as stated in the IMP and is prioritized according to the process of subprogram 1 policy output 2.6. Alignment of capital expenditure for FY 2011 with the Infrastructure Master Plan	1.1 Funding in the FY2010–FY2012 budgets for infrastructure and building works investment is in accordance with the priorities as stated in the IMP and is prioritized according to the process of subprogram 1 policy output 2.6. Capital Expenditure aligned with the Infrastructure Master Plan	Complied with (July 2011).
	1.2 Confirmation that the FY2010 budget funded a higher level of capital expenditure than in the FY2009 budget (as estimated).	1.2 The FY2010 budget funds capital expenditure not less than in the FY2009 budget (NZ\$17.5 million).	Complied with (July 2011).
<b>Output 2:</b> Priority structural reforms and governance improvements implemented across the infrastructure sectors	2.1 FY2011 and FY2012 budgets provide for continued implementation of infrastructure and building work investment priorities as stated in the IMP. <sup>a</sup>		Complied with (July 2011) and ongoing.
	2.2 Implementation of key elements of the Infrastructure Governance Framework including: <ul style="list-style-type: none"> <li>– Preparation and Cabinet approval of policy statements for each infrastructure sector (roads, airports, ports and harbors, government buildings, energy, water supply, sanitation and waste management) including provisions for user charges, cost recovery and community service obligations;</li> <li>– Preparation and Cabinet approval of asset management and forward budgeting frameworks for each infrastructure sector;<sup>b</sup> and</li> <li>– Tabling in Parliament of amendments to legislation governing infrastructure service delivery and institutions, including institutional improvement and reforms, agency responsibilities and</li> </ul>	2.1 Implementation of key elements of the Infrastructure Governance Framework including <ul style="list-style-type: none"> <li>– release by the Prime Minister’s Office of the NSDP 2011-2015 which sets out infrastructure sector objectives and strategies;</li> <li>– release by the Prime Minister’s Office of a Renewable Electricity Chart;</li> <li>– Government completes First Quarter Review of the Infrastructure Master Plan 2007-2012;</li> <li>– Cabinet endorsement of a Policy Standard for Water Supply in Rarotonga;</li> <li>– Cabinet gives in-principle agreement to implementation of cost recovery and user charges in the Rarotonga water sector; and</li> <li>– Cabinet approves the development of sanitation user charges for the Muri-</li> </ul>	Complied with (December 2011).  Complied with (February 2012).  Complied with (August 2012).  Complied with (February 2012).  Complied with (September 2012).  Complied with (September 2012).

Output	Triggers under Subprogram 1 Release of Subprogram 2 Tranche	Policy Actions	Subprogram 2 Prior Policy Actions – Completed by October 2012
	powers for public infrastructure provision, ongoing asset maintenance management, provision for internal and external audit, and as relevant user charges and cost recovery, and multi-year budgeting. <sup>b</sup>	Avana area.	
	<p>2.3 MFEM prepares a report reviewing arrangements and agency responsibilities for the economic regulation of monopolies and other forms of anti-competitive behavior, including at a minimum:</p> <ul style="list-style-type: none"> <li>– statutory monopolies, with a view to removing those are not in the public interest (e.g., telecommunications)<sup>b</sup>; and</li> <li>– price controls.</li> </ul>	<p>2.2 Cabinet considers recommendations of the functional review of the public sector and agrees to:</p> <ul style="list-style-type: none"> <li>– a focus on productivity and performance in the public sector;</li> <li>– the provision of capacity building inputs to support the performance management process; and</li> <li>– phased implementation of recommendations on Outer Islands.</li> </ul> <p>2.3 Government, through the Prices Tribunal rescinds price orders on grocery and laundry products.</p>	<p>Complied with (January 2012).</p> <p>Complied with (October 2011). Price control retained on bread.</p>
	<p>2.4 Competitive tendering of access to monopoly public assets and economic development subsidies, where feasible and in the public interest, including at a minimum:</p> <ul style="list-style-type: none"> <li>– the private operation of government-owned monopoly assets<sup>b</sup>; and</li> <li>– subsidies for international air travel.</li> </ul>	<p>2.4 Complete an independent economic analysis of airline subsidies which:</p> <ul style="list-style-type: none"> <li>– estimates the net economic benefits to the Cook Islands of the underwritten routes; and</li> <li>– assesses likely performance and profitability of underwritten routes.</li> </ul> <p>2.5 Adoption of a transparent process for financing provision of CSOs in the FY2013 budget.</p>	<p>Complied with (May 2012).</p> <p>Complied with (July 2011).</p>
<b>Output 3:</b> The most vulnerable members of the community receive targeted support from government	3.1 MFEM and line ministries prepare a report which reviews social security benefits to assess the adequacy of benefits and to identify savings to be redirected to the most vulnerable members of the community.	<p>3.1 Government makes public the consultant’s report, Review of the Social Welfare System, June 2010.</p> <p>3.2 Government releases a public statement which:</p> <ul style="list-style-type: none"> <li>• sets out the intent to start a second round review of the social welfare system to</li> </ul>	<p>Complied with (May 2012).</p> <p>Complied with (March 2012).</p>

Output	Triggers under Subprogram 1 Release of Subprogram 2 Tranche	Policy Actions	Subprogram 2 Prior Policy Actions – Completed by October 2012
	3.2 Performance monitoring being implemented for the delivery of services used by the most vulnerable members of the community.	<p>enable Cabinet consideration by September 2013; and</p> <ul style="list-style-type: none"> <li>• sets out a schedule for public consultations during the review of the social welfare system.</li> </ul> <p>3.3 At least two contracts are signed for a pilot of direct service provision to the vulnerable (home care for the elderly and persons with disabilities) which:</p> <ul style="list-style-type: none"> <li>• involves existing NGOs in service provision;</li> <li>• builds NGO capacity for such service provision; and</li> <li>• includes a monitoring and evaluation framework to assess performance of the pilot.</li> </ul>	Complied with (March 2012).
<b>Output 4:</b> MFEM maintains fiscal responsibility	<p>4.1 FY2011 and FY2012 budgets manage total Crown debt<sup>f</sup> at prudent levels to provide a buffer against factors that may impact adversely on the level of total Crown debt in the nature, by ensuring that, unless such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenues in the same financial year.</p> <p>4.2 FY2011 and FY2012 budgets manage achieve and maintain levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future.</p> <p>4.3 FY2011 and FY2012 budgets manage prudently the fiscal risks facing the Crown.</p> <p>4.4 FY2011 and FY2012 budgets pursue policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.</p>	<p>4.1 FY2011–FY2013 budgets are certified by the Financial Secretary as meeting the principles of responsible fiscal management set out in the MFEM Act 1995–1996 Part III, clause 23(2):</p> <ul style="list-style-type: none"> <li>– managing total Crown debt<sup>f</sup> at prudent levels to provide a buffer against factors that may impact adversely on the level of total Crown debt in the nature, by ensuring that, unless such levels have been achieved, the total operating expenses of the Crown in each financial year are less than its total operating revenues in the same financial year; and</li> <li>– achieving and maintaining levels of Crown net worth that provide a buffer against factors that may impact adversely on the Crown's net worth in the future; and</li> <li>– managing prudently the fiscal risks facing the Crown; and</li> <li>– pursuing policies that are consistent with a reasonable degree of predictability about the level and stability of tax rates for future years.</li> </ul>	Complied with (July 2012).



Output	Triggers under Subprogram 1 Release of Subprogram 2 Tranche	Policy Actions	Subprogram 2 Prior Policy Actions – Completed by October 2012
	4.5 Updated Manila Agreement financial ratios met in FY2011 and FY2012.	4.2 Government meets fiscal responsibility ratios, set in subprogram 1, regarding tax revenue to GDP (25%), net debt to GDP (35%), and debt servicing to revenue (5%) in FY2011- FY2013 and projects overall budget deficit to GDP (+/-2%) will be within the ceiling by FY2014 and personnel expenditure to revenue ratio (40%) by FY2015.	Complied with (July 2012).
	4.6 Budgets for FY2011 and FY2012 to provide a Statement of Government Operations in accordance with the International Monetary Fund's Government Finance Statistics standards).	4.3 A Statement of Government Operations in accordance with the International Monetary Fund's Government Finance Statistics standards is available for FY2011 and FY2013 budget shifts to a presentation of Crown revenue <sup>9</sup> and expenditure (including FY2012 outturn) consistent with the standards set out in the IMF Government Financial Statistics Manual 2001 (GFS Framework).	Complied with (July 2012).
	4.7 Government to maintain the financial contribution needed to retain Standard & Poor's (S&P's) Rating Services through FY2011 and FY2012. <sup>c</sup>		Dropped as a priority trigger under subprogram 1 for release of subprogram 2 funds but in fact S&P rating service maintained through FY2011 and FY2012, and subsequently.
	4.8 Development partner-funded activities included in ministry outputs and subject to the same performance review as government-funded functions.	4.4 Ministry and agency business plans will highlight outputs, objectives, outcomes and key deliverables covering government funded work plans and confirmed aid funded work plans.	Complied with (December 2011).
	4.9 Review of the value for money from Payments on Behalf of the Crown and their inclusion in Ministry outputs. <sup>d</sup>		Complied with (October 2012).
	4.10 Adoption of a medium-term budget framework in FY2011.	4.5 Adoption of a medium-term budget framework in FY2011 and continued use in FY2012 and FY2013.	Complied with (July 2011).
		4.6 Government develops a PFM roadmap, based on the findings of the PEFA, and completes the first review of progress.	Complied with (February 2012).

Output	Triggers under Subprogram 1 Release of Subprogram 2 Tranche	Policy Actions	Subprogram 2 Prior Policy Actions – Completed by October 2012
<b>Output 5:</b> MFEM communication of economic and fiscal management initiatives	5.1 The Cabinet-endorsed communications and engagement strategy implemented.	5.1 The Cabinet-endorsed communications and engagement strategy under subprogram 1 implemented.	Complied with (October 2012) and ongoing.

ADB = Asian Development Bank, CSO = community service obligation, ERSP = Economic Recovery Support Program, IMP = infrastructure master plan, MFEM = Ministry of Finance and Economic Management, PEFA = public expenditure and financial accountability; PFM = public financial management; TA = technical assistance.

a This is addressed under actions in support of output 1.

b Legislative changes, infrastructure budgeting, asset management, and consideration of monopoly ownership and management have been overtaken by consideration of recommendations of the functional review and activities will recommence once functional arrangements have been finalized.

c “Crown debt” is debt held by the Crown, which is the Government of the Cook Islands, which includes every department, instrument and agent of the Government, and any body corporate or organization that is wholly owned or controlled by or has significant financial inter-dependence with any such department, instrument, agent, body corporate or organization, and any local authority.

d This was considered non-core to the program, although Government is continuing to fund this activity.

e The priority of this action was downgraded within the PFM reform plan.

f “Crown debt” is debt held by the Crown, which is the Government of the Cook Islands, which includes every department, instrument and agent of the Government, and any body corporate or organization that is wholly owned or controlled by or has significant financial inter-dependence with any such department, instrument, agent, body corporate or organization, and any local authority.

g “Crown revenue” is revenue raised by the Crown, which is the Government of the Cook Islands, which includes every department, instrument and agent of the Government, and any body corporate or organization that is wholly owned or controlled by or has significant financial inter-dependence with any such department, instrument, agent, body corporate or organization, and any local authority.

Source: Ministry of Finance and Economic Management and ADB estimates.

TABLE A2.2: POLICY MATRIX: SUBPROGRAM 2

Output	Targets for Subprogram 2	Policy Actions	Subprogram 2 Target Achievements by July 2015
<b>Output 1:</b> Higher capital expenditure by government	1.1 FY2012 and FY2013 budgets allocate more than 12% of GDP to capital expenditure (FY2009 baseline: 12% of GDP).	1.1 This was achieved but not until FY2014, reflecting the need to do necessary preparatory works for capital works projects for funding under subprogram 1.	Achieved eventually.
<b>Output 2:</b> Priority structural reforms and governance improvements implemented across the infrastructure sectors	2.1 Reduction in subsidies to air services in FY2013	2.1 Subsidies to air services reviewed but not removed. Air services put out to competitive tender. Level of subsidies has not reduced but varied according to fuel costs and passenger loadings on subsidized services. Benefits of subsidies assessed by government to exceed subsidy costs.	Not achieved but benefits of subsidy assessed as outweighing the cost.
	2.2 Ministry of Outer Islands and Infrastructure Planning FY2013 expenditure is within 4% of budget allocation.	2.2 Achieved with restructuring of this Ministry and changes to funding formulae for outer island assistance.	Achieved.
<b>Output 3:</b> The most vulnerable members of the community receive targeted support from government	3.1 FY2013 budget allocations for new targeted social welfare services (FY2011 baseline: none).	3.1 Reform of taxation system has seen better targeting of tax incidence and this has indirectly improved targeting of welfare assistance. Paid maternity leave introduced for women employees and increases in care giver payments. Other programs (home care and meals on wheels) piloted but requiring funding for sustainability.	Achieved.
<b>Output 4:</b> MFEM maintains fiscal responsibility	4.1 FY2011-FY2013 budgets comply with all principles of fiscal responsibility stated in the MFEM Act.	4.1 Achieved in broad terms, although the taxation reforms package in 2014 necessitated significant changes to the incidence of tax away from wage earners towards consumption taxes and the taxing of income from pensions and interest. Whilst this led to a significant change in tax rates, it was considered necessary to broaden the tax base and to make the tax system more equitable.	Achieved.
<b>Output 5:</b> MFEM communication of economic and fiscal management initiatives	5.1 Downloading of key budget economic policy, and national planning documents from MFEM website is 20% above 2010 levels (2010 baseline: 2,550 downloads of budget documents).	5.1 The MFEM website now contains a wide variety of budget papers, half yearly economic updates, and other financial and economic papers. Visits to the website and downloading of documents are increasing and substantially exceed 2010 levels.	Achieved.

Source: Ministry of Finance and Economic Management and ADB estimates.

### STATUS OF COMPLIANCE WITH LOAN COVENANTS

Covenant	Reference in Loan Agreement	Status of Compliance
<b>Loan No. 2565</b>		
The Borrower shall cause the program to be carried out with due diligence and efficiency and in conformity with sound administrative, public financial management, public policy, social protection, and governance practices.	Section 4.01 (a)	Complied with
In carrying out the program the borrower shall perform, or cause to be performed, all obligations set forth in Schedule 5 to this Loan Agreement.	Section 4.01 (b)	Complied with
The Borrower shall make available, promptly as needed, the funds, facilities, services, and other resources, which are required, in addition to the proceeds of the Loan, for carrying out the program.	Section 4.02	Complied with
The Borrower shall ensure that the activities of its departments and agencies with respect to carrying out the program are conducted and coordinated in accordance with sound administrative policies and procedures.	Section 4.03	Complied with
The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the program.	Section 4.04 (a)	Complied with
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Section 4.04 (b)	Complied with
As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the program and/or the program cluster covering subprogram 1, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter and Policy Matrix.	Section 4.05 (a)	Complied with
The reports furnished under (a) above shall be used at the completion of the program cluster to produce a comprehensive report on the overall impact of the policy reforms described in the Policy Letter and the Policy Matrix.	Section 4.05 (b)	Not complied with <sup>a</sup>
<p>Program Management</p> <p>MFEM shall be the Program Executing Agency, responsible for program implementation activities, reporting to ADB. MFEM shall be supported by relevant line agencies and authorities of the Borrower, including the OPM, OPSC, OAG, Ministry of Infrastructure and Planning, Cook Islands Ports Authority, Cook Islands Airport Authority, Ministry of Transport, Cook Islands Investment Corporation, Ministry of Internal Affairs, Ministry of Health and Ministry of Education (collectively, the key line agencies).</p>	Schedule 5, Para. 1	Complied with
<p>Program Management</p> <p>The National Sustainable Development Commission (NSDC) shall be the Program coordinating committee, comprising officials from MFEM, OPSC, OAG and the Borrower's Ministry of Foreign Affairs and shall be responsible for coordinating the implementation and the sustaining of the program's actions, together with the key line agencies. The NSDC shall meet as needed, or at least</p>	Schedule 5, Para. 2	Complied with

<p>every quarter to monitor progress, oversee implementation and provide guidance and direction to MFEM and the key line agencies. ADB and other donor partners may be invited to participate in NSDC's meetings as an observer.</p>		
<p>Implementation of the Policy Letter The Borrower shall ensure that the policies adopted and actions taken prior to the date of this Loan Agreement as described in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the program period and subsequently.</p>	Schedule 5, Para. 3	Complied with
<p>Policy Dialogue The Borrower shall (a) keep ADB informed of, and from time to time exchange views on, sector issues, policy reforms and additional reforms during the program period that may be considered necessary or desirable, including the progress made in carrying out policies and actions set out in the Policy Letter and the Policy Matrix and actions under TA Projects; (b) promptly discuss with ADB problems and constraints encountered during implementation of the program and the TA Projects and appropriate measures to overcome or mitigate such problems and constraints; and (c) keep ADB informed of policy discussions with other multilateral or bilateral agencies that have implications for implementation of the program and TA Projects, and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing or implementing any such proposals.</p>	Schedule 5, Para. 4	Complied with
<p>Counterpart Funds The Borrower shall ensure that the Counterpart Funds are used to finance the local currency costs relating to the implementation of the program and that the necessary budget appropriations and adequate resources are allocated and released in a timely manner in order to ensure effective implementation of the program and other activities consistent with the objectives of the program cluster.</p>	Schedule 5, Para. 5	Complied with
<p>Monitoring and Review The Borrower shall ensure that MFEM is responsible for: (a) establishing a program performance monitoring system (PPMS) in a form and with a composition acceptable to ADB within 3 months after the Effective Date; (b) carrying out monitoring and evaluation of the program for at least one year after completion of the program, or the program cluster (whichever is later); and (c) maintaining all relevant monitoring data to evaluate the benefits of the program. Specific performance indicators, as agreed with ADB, shall be used to assist with monitoring the implementation of policy actions and their impact on budget outcomes and public enterprise performance (including financial and performance indicators). The Borrower shall ensure that the key line agencies actively assist and support ongoing monitoring and evaluation of the program and the TA Projects including facilitating consultations with civil society, the development partner community and other key stakeholders as appropriate.</p>	Schedule 5, Para 6	Partially Complied with <sup>b</sup>

<p>Monitoring and Review</p> <p>The Borrower shall ensure that: (a) reporting on progress of the program and TA Projects through periodic meetings is made by the key line agencies to MFEM which will in turn report to ADB; and (b) consultative meetings with civil society and the development partner community are held to solicit their feedback on effectiveness and emerging needs of activities under the program cluster, and other impacts of implementing the program.</p>	Schedule 5, Para 7	Partially Complied with <sup>c</sup>
<p>The Borrower and ADB shall jointly conduct semiannual reviews of the macroeconomic and fiscal conditions of the Borrower's economy and assess the impact and evaluate the benefits of the program to identify lessons in accordance with ADB's Performance Management System. The Borrower shall cause the MFEM and key line agencies to submit a program completion report to ADB within 12 months after the Effective Date that assesses compliance with, and impact of, the agreed actions under the program on each sector and describes lessons identified during the program period. The Borrower and the ADB may use the findings of such assessment and evaluation to refine the Program Cluster by outlining priority reforms and assistance needed for sustained economic recovery.</p>	Schedule 5, Para 8	Complied with

<sup>a</sup> Footnote 23

<sup>b</sup> The triggers were met and there is substantive reporting of macroeconomic and fiscal statistics and reports. There appears to have been limited specific reporting in written form at least from Government to ADB.

<sup>c</sup> See footnote b

Covenant	Reference in Loan Agreement	Status of Compliance
<b>Loan No. 2946</b>		
The Borrower shall cause the program to be carried out with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.	Section 4.01 (a)	Complied with
In carrying out the program the Borrower shall perform, or cause to be performed, all obligations set forth in Schedule 4 to this Loan Agreement.	Section 4.01 (b)	Complied with
The Borrower shall make available, promptly as needed, the funds, facilities, services, and other resources, which are required, in addition to the proceeds of the Loan, for carrying out the program.	Section 4.02	Complied with
The Borrower shall ensure that the activities of its departments and agencies with respect to carrying out the program are conducted and coordinated in accordance with sound administrative policies and procedures.	Section 4.03	Complied with
The Borrower shall maintain, or cause to be maintained, records and documents adequate to identify the Eligible Items financed out of the proceeds of the Loan and to indicate the progress of the Program.	Section 4.04 (a)	Complied with
The Borrower shall enable ADB's representatives to inspect any relevant records and documents referred to in paragraph (a) of this Section.	Section 4.04 (b)	Complied with
As part of the reports and information referred to in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning the implementation of the program, including the accomplishment of the targets and carrying out of the actions set out in the Policy Letter.	Section 4.05	Complied with
Implementation Arrangements MFEM shall be the Program Executing Agency, responsible for the overall program implementation, including carrying out of policy actions, reporting to ADB. NSDC, comprising officials from MFEM, the Borrower's Office of the Attorney General, Office of the Public Service Commissioner, and Ministry of Foreign Affairs shall be the Program coordinating committee. NSDC shall meet as needed, or at least every quarter to monitor progress and oversee the implementation of the Program and provide guidance and direction to MFEM.	Schedule 4, Para. 1	Complied with
Policy Actions and Dialogue The Borrower shall ensure that all policy actions adopted under the program as set forth in the Policy Letter and the Policy Matrix, continue to be in effect for the duration of the program.	Schedule 4, Para. 2	Complied with
Policy Actions and Dialogue The Borrower shall keep ADB informed of policy discussions with other multilateral or bilateral aid agencies that have implications for implementation of the Program Cluster and the Program and shall provide ADB with an opportunity to comment on any resulting policy proposals. The Borrower shall take ADB's views into consideration before finalizing or implementing any such proposal.	Schedule 4, Para. 3	Complied with
Counterpart Funds The borrower shall ensure that the Counterpart Funds are used	Schedule 4, Para. 4	Complied with

to finance the implementation of certain programs and other activities consistent with the objectives of the program.		
<p><b>Procurement</b> The Borrower shall ensure that each contract for Eligible Items is awarded on the basis of the purchaser's normal commercial procurement practices, in the case of procurement by the private sector, or the Borrower's prescribed procurement procedures, in the case of procurement by the public sector, having due regard for the principles of economy and efficiency.</p>	Schedule 4, Para. 5	Complied with
<p><b>Governance and Anticorruption</b> The Borrower shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the program; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.</p>	Schedule 4, Para. 6	Complied with
<p><b>Monitoring and Review</b> The Borrower shall ensure that MFEM is responsible for: (a) maintaining a program performance monitoring system established for the Programmatic Approach; (b) carrying out monitoring and evaluation of the program for at least one year after completion of the program; and (c) maintaining all relevant monitoring data to evaluate the benefits of the program. Specific performance indicators, as agreed with ADB, shall be used to assist with monitoring the implementation of policy actions and their impact on budget outcomes and public enterprise performance (including financial and performance indicators). The Borrower shall ensure that the key line agencies actively assist and support ongoing monitoring and evaluation of the program including facilitating consultations with civil society, the development partner community and other key stakeholders as appropriate.</p>	Schedule 4, Para 7	Partially complied with <sup>a</sup>
<p><b>Monitoring and Review</b> The Borrower shall ensure that: (a) reporting on progress of the program through periodic meetings is made by the key line agencies to MFEM which will in turn report to ADB; and (b) consultative meetings with civil society and the development partner community are held to solicit their feedback on effectiveness and emerging needs of activities under the Programmatic Approach and other impacts of implementing the program.</p>	Schedule 4, Para 8	Partially complied with <sup>b</sup>
<p><b>Monitoring and Review</b> The Borrower and ADB shall jointly conduct semiannual reviews of the macroeconomic and fiscal conditions of the Borrower's economy and assess the impact and evaluate the benefits of the program to identify lessons in accordance with ADB's Performance Management System. The Borrower shall cause the MFEM and key line agencies to submit a program completion report to ADB within 12 months after the Effective Date that assesses compliance with, and impact of, the agreed actions under the program on each sector and describes lessons identified during the program period.</p>	Schedule 4, Para 9	Complied with

<sup>a</sup> The triggers were met and there is substantive reporting of macroeconomic and fiscal statistics and reports. There appears to have been limited specific reporting in written form at least from Government to ADB.

<sup>b</sup> See footnote b