

## PRESENTATION TO UNESCAP - JAKARTA 28 APRIL

I would like to thank UNESCAP and the Indonesian Ministry of Finance for organising the meeting and the opportunity to present to the wide range of delegates here today.

I would like to ask you all to consider the geography of the Pacific Ocean. As we see here today we often see a view of the globe which provides us with the familiar continental landmarks like the Americas, Europe, Asia and Africa.

But view it from our perspective when there is a point when the sun is directly over the equator and the Earth rotates to a position where only the Pacific Ocean is lit up. Someone peering into a telescope on another planet will only see Micronesia, some parts of Melanesia and Polynesia. It is a unique view of our blue planet, and in viewing that picture you begin to contextualise the issues of remoteness and size which face the countries of the Pacific.

Countries in the Pacific are often referred to as small islands states, but in fact we also see ourselves as large ocean states (LOS) the guardians of the Pacific and her resources. The Cook Islands - where I live, has 15 islands with a total land area of 260 km<sup>2</sup> scattered amongst 2.2 square kilometres in the Pacific, the main island being Rarotonga.

The Pacific Island countries face what appear to be significant and almost insurmountable multifaceted infrastructure challenges.

### *The Continued Challenges Of Investment Infrastructure*

The continued challenge to invest in appropriate infrastructure which will improve economic productivity and genuinely contribute towards improving the livelihoods of people requires resources, capital, technical and entrepreneurial – many of which are lacking in the Pacific.

### *Our Approach In The Cook Islands*

As we focus on the possibility that we will be categorised as a middle income country making the ODA equation harder for us; our immediate response in the Cook Islands has been fivefold:

- Maximising our own source revenue whilst ensuring the economy is not burdened and that we manage our natural marine resources sustainably;
- Implementing robust public sector debt processes to manage public sector debt and provide some space in the future;
- improve our own planning and budgeting processes and systems to incorporate all sources of “public funding”;
- better coordinate the efforts of our development partners to ensure they are country led; and
- attempt to access new modalities of funding particularly in the climate change space.

### *Maximising Own Source Revenue*

We would all like to be self-sufficient, unfortunately like many other PIC's our economic base is narrow, our industrial base is small and as a result our tax base is also narrow. There are some

resources richer such as Timor-Leste PNG who have some scope to broaden their economic prospects.

In our particular case tourism is our comparative advantage and accounts for around 60 per cent of GDP, and more increasingly fishing revenues as we integrate ourselves into the regional fishery.

In some cases in the Pacific fishing revenues make up a large portion of own sourced revenue, Tuvalu and Kiribati come immediately to mind. That is limited with a fishery where some of the species are under stress, and therefore require careful management on a regional basis.

Another aspect is seabed mining – but this is still an industry which can be best described as embryonic, however the Cook Islands and Tonga have implemented fiscal and licencing regimes. We have looked at the possibility of establishing a sovereign wealth fund, but personally I am not banking on revenues coming any time soon.

There is limited capacity to extract further money for the infrastructure needs as much of this revenue base is going into services such as education, health and welfare.

### *Integrating Development Partners*

So the focus on capital development needs to be on development partner money, whether is through traditional ODA channels or climate change financing.

The Cook Islands has seen the importance of an integrated approach and has fundamentally changed the approach on the management of monies for capital development. The investment in infrastructure is now an ongoing part of the budget process, outlining a four year plan overseen by an infrastructure committee consisting of representative from the Ministry of Finance, the Cook Islands Investment Corporation (CIIC) which oversees the SOE's , the Ministry of Infrastructure to continue overseeing the plan and progress. The committee oversees capital regardless of which source of funding it comes from whether it be an SOE, the government budget or a development partner budget. Often members of the Infrastructure Committee are members on the project steering groups which are actually running the projects.

The Cook Islands has embarked on a unique and extraordinary partnership with the our two largest development partners New Zealand and China to work in an integrated manner reinvest in a water supply system which aims to provide potable water to all of the main island of Rarotonga.

This project is worth around \$60 million NZD, probably insignificant in terms of relative size which would be invested by many of the nations in this room. But this amount equates to close to 20 per cent of GDP. This is significant, with New Zealand contributing 15, China through a concessional loan of \$23 million and the Cook Islands funding the remainder through the budget.

This effort led by the Cook Islands sees both partners working through the outcomes and the finances of the project, the details of the financing from all three partners is updated regularly in our budgeting document, as is progress on our website [www.tematovai.com](http://www.tematovai.com).

There have been challenges as we three different systems of working – but a lot of goodwill has put it in a position where we believe we will achieve a very positive outcome.

### Using Our Systems

What this outlines is the use of country systems, some countries may not have that capacity, but we do, and if we don't we would like to build it. In the Cook Islands we have done a significant amount of work to have development partners trust our systems.

This has been our basis for an application to the Climate Change Adaptation Fund which is currently being considered, and also for the Green Climate Fund.

But these are problematic, understandably those that transfer resources into climate change funds would like to see these monies going towards mitigation and adaptation activities, but I believe, and many in the Pacific do that access to the funds are problematic and difficult.

### Moving Towards Middle Income Status

As a country moving towards middle income status access to ODA and concessional funding the Cook Islands will face challenges in mobilising financial resources. But it is a double edged sword just like many others in this space the gains which are achieved in a decade can be wiped out by the onset of a shock which arises from a natural event. We are now witnessing the terrible circumstances in Nepal and just recently the devastation which was leashed on Vanuatu by Cyclone Pam and earlier on with floods in the Solomon Islands.

There needs to be some acknowledgement of the scale of our countries and their particular vulnerabilities to go alongside the broader measurement of GDP per capita. After all one single disaster can have an immediate and dramatic impact on that measure in a very significant way.

### Building Resilience

This of course leads us into the issues of building resilience which is crucial. Resilience in responding to events when they occur, we have the Pacific Catastrophic Insurance Scheme which covers a number of countries who have pooled their effort to obtain parametric insurance for immediate response. The acid test of that insurance will be the outcome of the payout to Vanuatu.

Some scope should be looked at more medium term responses in regard around building resilience.

### Public Debt Sustainability

Public sector debt is a traditional means by which to finance infrastructure, the old equation of the economic returns on the investment should outweigh the cost of the debt. However debt sustainability is a critical issue in some countries of the Pacific, who are under some strain. The problem becomes increasingly enhanced when an exogenous shock like a cyclone or a tsunami comes along.

In the Cook Islands we have implemented a new piece of legislation to manage our debt, it simply imposes some discipline in budgeting for debt on a long run basis. But even we have limits and our debt buffer is in place to ensure we have some capacity to borrow in the case of a natural disaster.

So there are limits in the public debt space.

### Private Sector Investment

There may be some scope for private sector investment, but the volumes and returns which a private sector owner may require are just not as apparent like they are in other nations. However

there are opportunities for the private sector, particularly if their capacity can be built to compete with bigger companies from overseas.

In the Cook Islands the Chamber of Commerce has made the bold target of implementing fifty per cent of development partner projects by 2015, and 100 per cent by 2020, matching the governments fifty/15 and 100/2020 target for renewable energy.

### Climate Change Financing

Climate change in itself is presenting the Pacific with two significant issues, adapting infrastructure to cope with the predicted increase in sea levels and also the predictions that storm events may increase their ferocity.

The Pacific Islands have worked together in this space to look at the various modalities, these have focussed on:

- Budgetary support – which is seen as the preferred modality, it strengthens systems.
- National Trust Fund Arrangements – offers a modality and allows resources to accrue over time and be disbursed at a more timely manner, Tuvalu is a good example.
- Regional or Sub Region Fund – Limited capacity in some countries can provide economies of scale.
- Regional Technical Support Mechanism – Identify funding opportunities and provide technical assistance.

Thank you chair and I hope I have kept within my allotted speaking time.