



## Managing Public Debt – Loans and Aid Grants

### Overview

The Cook Islands' Government has worked with the Asian Development Bank (ADB) to secure financing for government in the form of a 'Policy-Based Loan' (PBL) of US\$40 million and a 'Precautionary Financing Option' (PFO) of an additional US\$40 million, should some conditions be met and the money be required. Both loans have been converted to New Zealand dollars and are worth \$55.4 million each, with a term of 15 years.

The ADB is one of the Cook Islands' closest development partners, and the major creditor for the Cook Islands' government. A multi-lateral institution, the ADB is jointly owned by its 68 members (including the Cook Islands), 49 of which are in the Asia-Pacific region. The ADB assists its members, and partners, by providing loans, technical assistance, grants and equity investments to promote social and economic development. More information about the ADB is available [here](#).

### Policy-Based Loan

As part of the terms of the PBL, the Cook Islands worked closely with the ADB to identify and undertake a number of key policy reforms designed to assist the economy in the recovery from COVID-19. These reforms were focused in two key areas:

**Reform area 1 - Fiscal management and sustainability:** This program will support approval and implementation of an updated Medium-term Fiscal Framework for FY2022-FY2025. This reform has already been implemented in the 2022/23 Medium-term Fiscal Strategy, and was published in the 2021/22 Half Year Economic and Fiscal Update (HYEFU).

**Reform area 2 - Enabling environment for the private sector:** The program will support the implementation of a comprehensive set of measures to establish and continue 'Quarantine-Free Travel' (QFT) with New Zealand, and will look at key areas to address labour shortages, such as labour mobility options and reduce the cost of doing business. These measures are either already implemented or are parts of the other work programmes of the Economic Recovery Roadmap.

Other existing reforms were already achieved in areas such as business registration and competition regulation.

The NZ\$55.4 million for the PBL was drawn down in December 2021.

## Precautionary Financing Option

The PFO is a contingent loan that will only be drawn down if certain conditions are met – and these primarily relate to potential border closures and the absence of tourists.

Government would prefer not to use this facility due to the additional debt servicing required, but if necessary it has the ability to draw up to a further NZ\$55.4 million to fund operations.

## Disaster Response Coverage

In addition to these facilities, government has a pre-existing loan agreement with the ADB to access a NZ\$30.3 million contingent loan that is available if a disaster were to occur, such as a cyclone. This is through Phase 3 of the ADB's Disaster Resilience Program.

## Overall Covid-19 related debt

Since the onset of the pandemic, the Cook Islands' government has taken on considerably more debt than was previously held. The amounts of this debt, with each loan and the terms of that loan are presented in Table 1. The total debt drawn down in relation to COVID-19 is \$129.1 million, plus \$55.4 million available in contingent debt (PFO). With the Disaster Resilience Program loan this totals \$85.8 million available.

Table 1: Pandemic and contingent debt taken on since the beginning of 2020

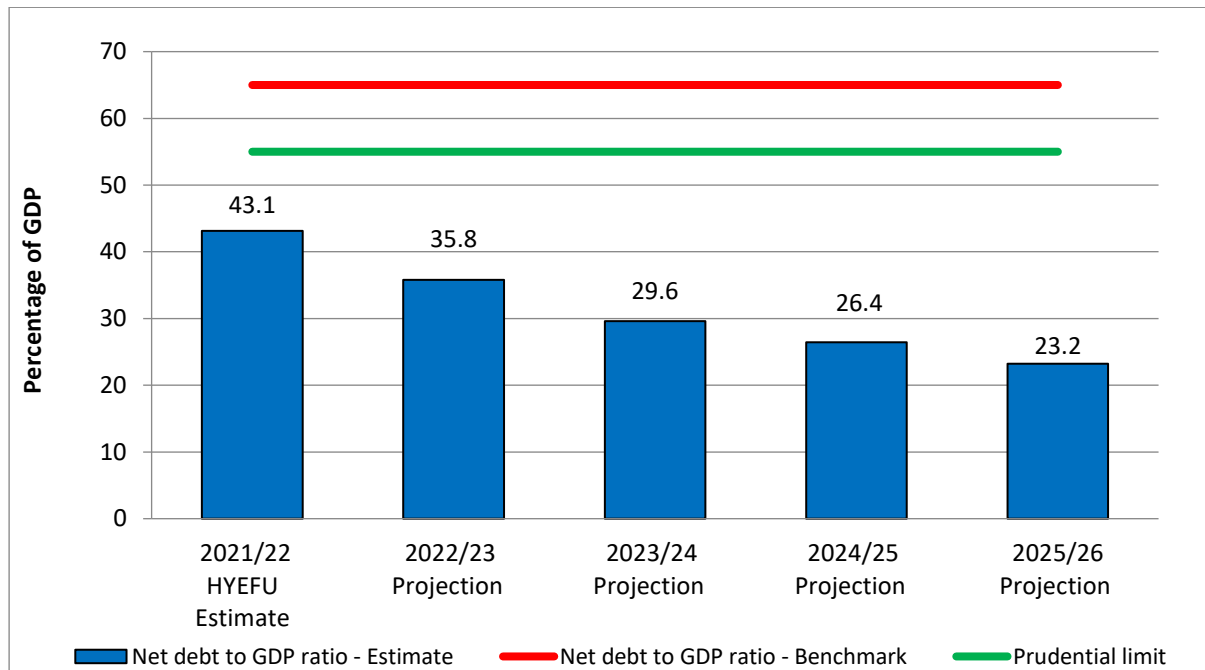
Lender	Loan	Currency	Amount (NZ\$ m)	Term (years)
<b>Loans Drawn</b>				
ADB	Disaster Resilience Program (Phase 2)	NZD	15.7	15
ADB	Covid Policy Response Option (CPRO) Loan	NZD	30.4	10
<a href="#">AIIB[1]</a>	CPRO Loan	USD	27.5	9
ADB	Policy Based Loan (PBL)	NZD	55.5	15
<b>Total Drawn</b>		<b>NZD</b>	<b>129.1</b>	
<b>Contingent debt</b>				
ADB	Disaster Resilience Program (Phase 3)	NZD	30.3	15
ADB	Precautionary Financing Option (PFO)	NZD	55.5	15
<b>Total Available</b>		<b>NZD</b>	<b>85.8</b>	

## Fiscal Rules and Government Debt Position

Through the Medium-Term Fiscal Framework (MTFF), government has a range of rules to follow that ensure fiscal responsibility. The rules that are most relevant to debt are the Investment Rule and the Net Debt Rule. These rules work together to commit by Government that any borrowing above a 55 per cent of GDP threshold is confined to “capital investment and / or targeted GDP stimulus”.

Figure 1: Net debt as a percentage of GDP

(source: 2021-22 HYEFU)

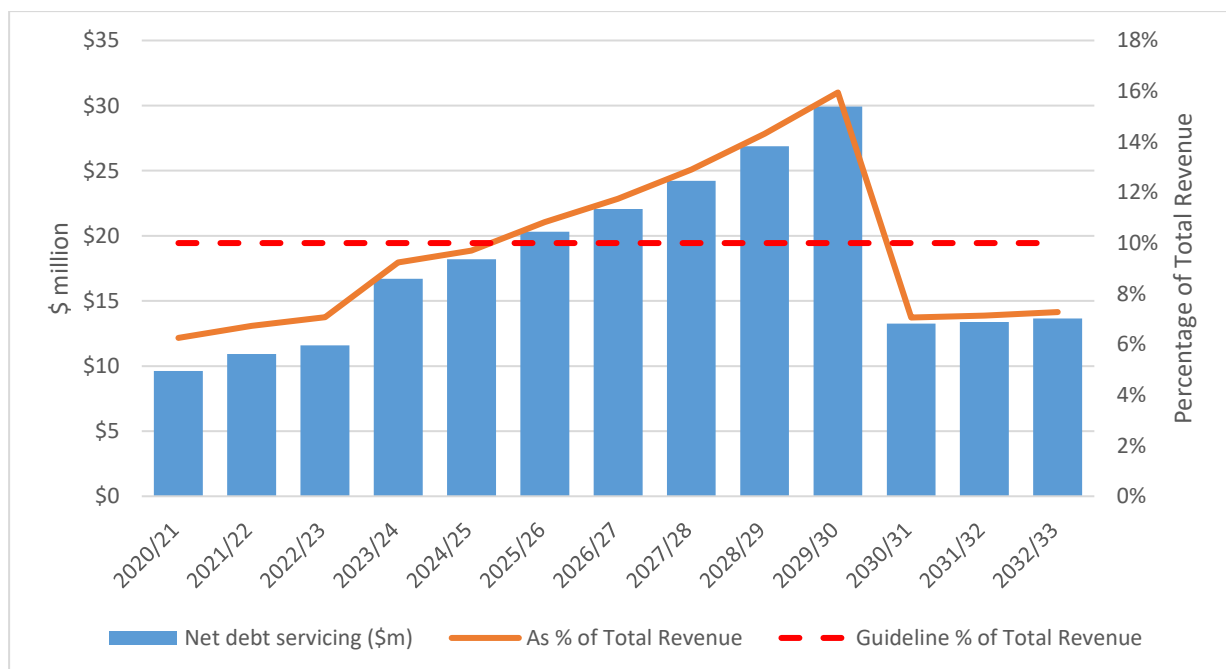


## Debt Servicing

Debt servicing is the repayment of debt – both principal and interest. With the additional debt taken on through the pandemic, the principal component has grown significantly – leading the debt servicing obligation to exceed the guideline toward the end of the decade (see Figure 2). The MTFF also contains a guideline regarding debt servicing, with the goal to keep this below a soft cap of 10 per cent of total government revenue and a hard cap of 15 per cent.

Figure 2: 10 year debt servicing profile on drawn debt (\$ million)

(source: 2021-22 HYEFU)



## Aid Funding

Also known as 'Official Development Assistance', aid funding typically consists of the provision of support through either financial means or the provision of goods and services. Financial support may be provided in the form of funds tied to a specific project, or as 'general budget support' that is treated as Government revenue.

Aid funding typically comes with terms and conditions as to what the funds may be used for, reporting requirements around the use of the funds, or other commitments around Government policy changes. In some cases these funds may be jointly administered, such as the funds provided to the Government by NZ-MFAT through the Infrastructure Trust Fund, or used at the discretion of the Government within parameters set by the donor party.

NZ-MFAT has provided substantial financial assistance to the Government since the start of the COVID-19 pandemic to support the Economic Response Plan and Economic Recovery Roadmap, and implementation of medical and border control requirements, along with access to COVID-19 vaccines. This assistance has substantially reduced the debt funding requirements of the Cook Islands, with the associated obligations principally around reporting on the use of the funds provided.

The Government has also received substantial support from other Governments and MLI's in the form of both goods and budgetary support. This support has been detailed in the Budget Estimates and the Half Year Economic and Fiscal Updates (HYEFU).

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