



# Country Operations Business Plan

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October 2012

## Cook Islands 2013–2015

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 22 October 2012)

Currency unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	=	\$0.8157
\$1.00	=	NZ\$1.2259

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
CPS	–	country partnership strategy
GDP	–	gross domestic product
NSDP	–	National Sustainable Development Plan
SPSO	–	Pacific Subregional Office
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., FY2012 ends on 30 June 2012.
- (ii) In this report, "\$" refers to US dollars unless otherwise stated.

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## I. CONSISTENCY OF THE BUSINESS PLAN WITH THE PACIFIC APPROACH 2010–2014

1. The Asian Development Bank (ADB) approved its Pacific Approach, 2010–2014 in November 2009 to achieve sustained, resilient, and improved living standards in the Pacific.<sup>1</sup> This aligns with the Cook Islands National Sustainable Development Plan (NSDP), 2011–2015's vision for Cook Islanders to enjoy the highest quality of life in harmony with their culture and environment.<sup>2</sup> The Pacific Approach includes operational priorities in energy and strengthening the government's core functions to improve public sector effectiveness. This country operations business plan (COBP) aligns with the aims of the Pacific Approach and the NSDP. Also, the COBP (i) continues ADB's emphasis on inclusive growth; (ii) strengthens knowledge solutions; (iii) addresses emerging needs within the broad contours of ADB's Strategy 2020;<sup>3</sup> and (iv) leverages resources through cofinancing. The Pacific Approach serves as the country partnership strategy for the Cook Islands.<sup>4</sup> An updated results framework is in Appendix 1.

2. The COBP targets (i) improving public infrastructure to establish the fundamentals for environmentally sustainable private sector-led growth, (ii) building capacity and reform agencies responsible for delivering infrastructure services, (iii) improving public financial management and public service performance, and (iv) supporting state-owned enterprise reform. Particularly, the COBP supports key NSDP outcomes like economic development, social development, environmental integrity, infrastructure, and good governance and partnership.

3. The Cook Islands economy achieved 3.4% growth in gross domestic product in FY2012, below the initial estimate of 5.4%. The shortfall reflects lower than expected capital expenditures and lower tourist spending. These depressed value-added and income tax receipts. Inflation is a concern, with prices up 4% in the third quarter of FY2012 over the same quarter in FY2011. Price increases results from higher fuel prices in late 2011.

4. Total projected revenue for FY2013 is NZ\$158.2 million and total expenditure NZ\$166.9 million, for a NZ\$8.7 million budget deficit. Debt currently equals 18.3% of the gross domestic product, or about half of the government ceiling of 35%. Still, the government remains cautious about future borrowing. The NSDP prioritizes upgrading infrastructure to sustain growth. Under the FY2013 budget, a 3-year national capital investment program aims for a more transparent allocation of capital investment to key economic sectors.

## II. INDICATIVE RESOURCE PARAMETERS

5. The Cook Islands is eligible to borrow from ordinary capital resources (OCR). The lending program for 2012 is \$6.0 million. An indicative lending program of \$19.0 million is proposed for 2013–2015. The appropriate amount of funding to be accessed for future operations will be determined by updating the debt sustainability assessment.<sup>5</sup> ADB will seek cofinancing while developing the assistance pipeline. The indicative lending program pipeline for 2013–2015 is provided in Appendix 3, Table A3.1.

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<sup>1</sup> ADB. 2009. *ADB's Pacific Approach, 2010–2014*. Manila (accessible from the list of linked documents in Appendix 2).

<sup>2</sup> Government of the Cook Islands. 2011. *The Cook Islands Te Kaveinga Nui National Sustainable Development Plan, 2011–2015*. Rarotonga (accessible from the list of linked documents in Appendix 2).

<sup>3</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila (accessible from the list of linked documents in Appendix 2).

<sup>4</sup> Memo approved by the Vice-President-in-Charge, Operations 2 on 1 July 2011, paragraph 2b.

<sup>5</sup> ADB will support the update of this assessment, as the Cook Islands is not a member of the World Bank or the International Monetary Fund.

6. The government has confirmed its interest in an investment project in renewable energy as prioritized in the Cook Islands Renewable Electricity Chart.<sup>6</sup> Cofinancing will be sought, and project preparation will carefully ensure adherence to ADB's Safeguard Policy Statement (2009).

7. Indicative annual technical assistance (TA) support in 2013–2015 averages \$500,000. As agreed with the government, ADB will continue support for public sector management, improving infrastructure services delivery, and preparing the proposed renewable energy project. An indicative nonlending program pipeline for 2013–2015 is in Appendix 3, Table A3.2.

8. The Cook Islands will receive support from regional TA projects in line with the Regional Operations Business Plan, 2013–2015, where feasible, based on capacity and political commitment.<sup>7</sup> Particularly, the Cook Islands will benefit from follow-on regional TA to promote energy efficiency,<sup>8</sup> economic management<sup>9</sup> and private sector development.<sup>10</sup> Support for climate change adaptation and mitigation will be sought, guided by the Climate Change Implementation Plan and using the range of funding windows available.<sup>11</sup>

9. ADB will support a pilot project that integrates community vulnerability mapping and adaptation planning into the development of the Cook Islands Disaster Risk Management and Climate Change Policy. ADB will also help the government prepare a feasibility study to explore technical and financial options for a proposed submarine cable. The Cook Islands benefits from additional technical support through the Pacific Infrastructure Advisory Centre, which also facilitates cofinancing from the Pacific Regional Infrastructure Facility.<sup>12</sup>

### III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

10. Changes to the 2012 program comprise (i) deferral of phase 2 of capacity development TA to improve the delivery of infrastructure services to 2013, and (ii) removal of planned project preparatory TA for the Rarotonga Water Supply Project. Other changes to the 2013–2015 lending and nonlending programs include (i) dropping of the Rarotonga Water Supply Project proposed for 2013, and (ii) new TA for \$1 million in 2014 to provide follow-on support to public sector reforms and public sector management. The 2012 pipeline is in Appendix 4.

<sup>6</sup> Government of the Cook Islands. 2012. *The Cook Islands Renewable Electricity Chart*. Rarotonga.

<sup>7</sup> ADB. 2012. *Regional Operations Business Plan for the Pacific, 2013–2015*. Manila (accessible from the list of linked documents in Appendix 2).

<sup>8</sup> ADB. 2011. *Promoting Energy Efficiency in the Pacific (Phase 2)*. Manila.

<sup>9</sup> ADB. 2011. *Pacific Economic Management—Enhanced Economic Management (Subproject 2)*. Manila.

<sup>10</sup> ADB. 2009. *Private Sector Development Initiative Phase 2*. Manila.

<sup>11</sup> ADB. 2009. *Mainstreaming Climate Change in ADB Operations: Climate Change Implementation Plan for the Pacific*. Manila (accessible from the list of linked documents in Appendix 2).

<sup>12</sup> ADB. 2008. *Establishment of the Pacific Infrastructure Advisory Center*. Manila.

## UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

(Board endorsement of the Pacific Approach, 2010–2014: November 2009; COBP: October 2012)

<b>Country Development Goals</b>				
To build a sustainable future that meets economic and social needs without compromising prudent economic management, environmental integrity, social stability, and the needs of future generations				
<b>Sectors Selected by ADB</b>				
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative 5-Year Resource Allocation and Thematic Priorities	Changes from Last COBP
<b>1. Public sector management (Strategy 2020 drivers of change 2: Good Governance and Capacity Development)</b>				
Strategic Goal 3: Innovative and well-managed private sector-led economy	<ul style="list-style-type: none"> <li>• Improved efficiency and effectiveness in public sector and public service delivery</li> <li>• tax revenue not exceeding 25% of GDP</li> <li>• public sector wages and salaries at 44% of total revenue in 2010 and reduced to 40% in out years</li> <li>• debt servicing as a percentage of total revenue not exceeding 5%</li> <li>• overall deficit not exceeding 2% of GDP</li> <li>• net debt-to-GDP ratio not exceeding 35%</li> </ul>	<p>Establish medium-term fiscal framework and develop medium-term budget.</p> <p>Conduct public service assessment.</p> <p>Conduct functional analysis of public service and review performance management.</p> <p>Improve opportunities for the vulnerable through improved infrastructure services delivery such as water supply.</p> <p>Continue public sector reform and initiate state-owned enterprise reform</p>	<p>\$7.0 million, 26% of total COBP projected financing, of which:</p> <p>ENV – 0%</p> <p>RCI – 0%</p> <p>GEN – 100%</p> <p>PSD – 100%</p> <p>\$6.0 million approved by the end of 2012, 22% of total COBP projected financing, of which</p> <p>ENV – 0%</p> <p>RCI – 0%</p> <p>GEN – 100%</p> <p>PSD – 100%</p>	TA for \$1 million to support public sector management is included in the 2014 pipeline.
<b>2. Transport and information and communication technology (Strategy 2020 Core Area 1: Infrastructure)</b>				
Strategic Goal 3: Innovative and well-managed private sector-led economy	<ul style="list-style-type: none"> <li>• Prioritized infrastructure investments to underpin environmentally sustainable growth</li> <li>• average number of marine accidents in the harbor environs annually reduced from 2 in 2002–2007 to 0 by 2013</li> </ul>	<p>Improve port facilities and services.</p> <p>Improve the delivery of infrastructure services.</p>	<p>\$0.4 million, 1.5% of total COBP projected financing, of which:</p> <p>ENV – 100%</p> <p>RCI – 100%</p> <p>GEN – 0%</p> <p>PSD – 100%</p> <p>\$0.0 million approved by the end of</p>	The results framework as it relates to the water supply and other municipal infrastructure services has been removed reflecting no active ADB engagement in this sector.
Strategic Goal 6: A	<ul style="list-style-type: none"> <li>• Secure and efficient port</li> </ul>			

<b>Country Development Goals</b>				
To build a sustainable future that meets economic and social needs without compromising prudent economic management, environmental integrity, social stability, and the needs of future generations				
<b>Sectors Selected by ADB</b>				
<b>Government Sector Objectives</b>	<b>Sector Outcomes that ADB Contributes to and Indicators</b>	<b>ADB Areas of Intervention</b>	<b>ADB Indicative 5-Year Resource Allocation and Thematic Priorities</b>	<b>Changes from Last COBP</b>
safe, secure, and resilient community	<p>infrastructure in Rarotonga, with climate change resilience incorporated in port infrastructure design, protocols, and operation</p> <ul style="list-style-type: none"> <li>number of cruise ships berthing alongside increased from 2 in 2007 to 25 per year by the end of 2012</li> <li>number of vessels longer than 100 meters calling at least 12 per year by the end of 2012</li> </ul>		2012.	
<b>3. Energy (Strategy 2020 Core Area 1: Infrastructure)</b>				
Strategic Goal 4: Sustainable use and management of natural resources and the environment	<ul style="list-style-type: none"> <li>Reduced dependence on imported fossil fuels for power generation</li> <li>diesel imports for power generation reduced by 3.35 million liters by 2015 from 6.7 million in 2012</li> <li>increased supply of clean and reliable power</li> <li>power supplied from renewable sources sufficient to meet the needs of 2,050 households by 2015 (1,025 in 2012)</li> </ul>	Implement cost-effective renewable energy.	<p>\$19.5 million, 72.5% of total COBP projected financing, of which:</p> <p>ENV – 100%</p> <p>RCI – 0%</p> <p>GEN – 0%</p> <p>PSD – 100%</p> <p>\$0.0 million approved by end 2012.</p>	Proposed project amount increased to \$19 million.

ADB = Asian Development Bank, COBP = country operations business plan, CPS = country partnership strategy, ENV = environmental sustainability, GDP = gross domestic product, GEN = gender equity, PPTA = project preparatory technical assistance, PSD = private sector development, RCI = regional cooperation and integration, TA = technical assistance.

Source: ADB estimates.

**LIST OF LINKED DOCUMENTS**

(<http://www.adb.org/Documents/COBP/?id=COO-2013>)

1. ADB's Pacific Approach, 2010–2014
2. The Cook Islands Te Kaveinga Nui National Sustainable Development Plan, 2011–2015
3. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020
4. Regional Operations Business Plan for the Pacific, 2013–2015
5. Mainstreaming Climate Change in ADB Operations: Climate Change Implementation Plan for the Pacific, 2009–2015



## INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Lending Products, 2013–2015

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	ADB		Total	Gov't	Cofinance	
							OCR	ADF				
								Loans				Grants
<b>2013</b>												
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>						<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>2014</b>												
Renewable Energy Project	ENE	GI	ENV	PATE	2013	21.00	19.00	0.00	0.00	19.00	TBD	2.00
<b>Total</b>						<b>21.00</b>	<b>19.00</b>	<b>0.00</b>	<b>0.00</b>	<b>19.00</b>	<b>TBD</b>	<b>2.00</b>
<b>2015</b>												
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>Total</b>						<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

ADB = Asian Development Bank; ADF = Asian Development Fund; ENE = energy; ENV = environmental sustainability; GI = general intervention; Gov't = government; OCR = ordinary capital resources; PATE = Transport, Energy, and Natural Resources Division; PPTA = project preparatory technical assistance; TBD = to be determined

Source: ADB estimates.

**Table A3.2: Nonlending Products and Services, 2013–2015**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding		Total (\$'000)
				ADB Source	Others Amount (\$'000)	
<b>2013</b>						
Preparing the Renewable Energy Project	ENE	PATE	PPTA	TASF	500.00	500.00
Improving Delivery of Infrastructure Services (Phase 2)	MS	SPSO	CDTA	Trust Fund	400.00	400.00
<b>Total</b>					<b>900.00</b>	<b>900.00</b>
<b>2014</b>						
Support to Public Sector Management	PSM	SPSO	CDTA	Trust Fund	1,000.00	1,000.00
<b>Total</b>					<b>1,000.00</b>	<b>1,000.00</b>
<b>2015</b>						
None					0.00	0.00
<b>Total</b>					<b>0.00</b>	<b>0.00</b>

ADB = Asian Development Bank; PATE = Transport, Energy, and Natural Resources Division; CDTA = capacity development technical assistance; ENE = energy; MS = multisector; PPTA = project preparatory technical assistance; PSM = public sector management; SPSO = Pacific Subregional Office; TASF = technical assistance special fund.

Source: ADB estimates.

## ASSISTANCE PROGRAM FOR CURRENT YEAR

### Table A4.1: Lending Products, 2012

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)							
						Total	ADB		ADF		Total	Gov't	Cofinance
							OCR	Loans	Grants	Total			
<b>2012</b>													
Economic Recovery Support Program (Cluster) Subprogram 2	PSM	GI	GRO	SPSO		6.00	6.00	0.00	0.00	0.00	0.00	0.00	
<b>Total</b>						<b>6.00</b>	<b>6.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	

ADB = Asian Development Bank, ADF = Asian Development Fund, GI = general intervention, GRO = economic growth, Gov't = government, OCR = ordinary capital resources, PPTA = project preparatory technical assistance, PSM = public sector management, SPSO = Pacific Subregional Office.  
Source: ADB estimates.

### Table A4.2: Nonlending Products and Services, 2012

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2012</b>								
None					0.00		0.00	0.00
<b>Total</b>					<b>0.00</b>		<b>0.00</b>	<b>0.00</b>

ADB = Asian Development Bank.  
Source: ADB estimates.