



Country Operations Business Plan

November 2014

Cook Islands 2015–2017

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 October 2014)

Currency unit	–	New Zealand dollar/s (NZ\$)
NZ\$1.00	=	\$0.7842
\$1.00	=	NZ\$1.2752

ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
GDP	–	gross domestic product
ICT	–	information and communication technology
OCR	–	ordinary capital resources
NSDP	–	National Sustainable Development Plan
PRIF	–	Pacific Regional Infrastructure Facility
PSDI	–	Private Sector Development Initiative
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., FY2014 ends on 30 June 2014.
- (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 country operations business plan (COBP), 2015–2017 of the Asian Development Bank (ADB) for the Cook Islands is aligned with ADB's Pacific Approach, 2010–2014,¹ which serves as the country partnership strategy,² and the Cook Islands National Sustainable Development Plan (NSDP), 2011–2015.³ The shared focus of the COBP, the Pacific Approach, and the NSDP is on infrastructure development, renewable energy and energy efficiency, information and communication technology (ICT), public sector management, private sector participation, and capacity development. These strategic priorities are in line with the Midterm Review of Strategy 2020.⁴

2. **Focus of ADB assistance.** ADB's operations in the Cook Islands are demand-driven, within areas of ADB's comparative strength, and capitalize on regional approaches and partnerships. The COBP targets (i) enabling the government to continue implementing its reform program for the public sector, including strengthening public financial management and improving public service delivery, (ii) supporting the government's commitment to renewable energy, and (iii) escalating the efficiency of the ICT sector. An updated country partnership strategy results framework is in Appendix 1.

3. **Recent developments.** The Cook Islands is among the best performing Pacific island economies. However, the economy is narrowly based with heavy reliance on tourism and development partner-funded public infrastructure spending. The population continues to decline, from 15,324 residents in 2006 to 13,100 in 2013, affecting almost all the social and economic sectors in the country. Gross domestic product (GDP) growth decelerated to 3.2% in FY2013 from 4.4% in FY2012 as the result of a fall in capital investments and a drop in tourist arrivals. Tourism earnings and below-budget expenditures helped maintain the fiscal deficit at 2.0%. Net debt levels are 20.5% of GDP, below the government's own threshold of 35.0%. Fiscal deficits, exchange rate risk on external debt, and the importance of maintaining borrowing space to improve the country's resilience to natural disasters are being monitored.

4. The government has undertaken tax and welfare reforms targeting low-income earners and pensioners. Improvements to public sector management—including prudent debt oversight, good budget management, financial accountability, and transparent processes—are being pursued and monitored. However, reforms in the public sector require deepening to raise performance, productivity, and evaluation.⁵ Commitment to increasing the contribution of renewable energy to 50% of the total demand in the Cook Islands by 2015 and 100% by 2020 is being implemented.⁶ The Cook Islands is on track to meet the Millennium Development Goals by 2015 and has added another goal for improving governance. Recent elections saw the return of the incumbent Prime Minister Henry Puna and the Cook Islands Party government.⁷

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

² Memo approved by the vice-president in charge, Operations 2 on 1 July 2011 (paragraph 2b).

³ Government of the Cook Islands. 2011. *The Cook Islands National Sustainable Development Plan, 2011–2015. Rarotonga* (accessible from the list of linked documents in Appendix 2). The development of the NSDP, 2016–2020 will commence in 2015.

⁴ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila. (accessible from list of linked documents in Appendix 2).

⁵ Reforms relating to public administration, public expenditure and fiscal management, decentralization, and reform of state-owned enterprises.

⁶ The Cook Islands Renewable Energy Chart Implementation Plan, 2012–2020 sets a target of supplying electricity from renewable energy on all inhabited islands by 2020 and is estimated to cost NZ\$260 million.

⁷ Snap elections for the 24 parliamentary seats were held on 9 July 2014. The Cook Islands Party won 12, the Democratic Party won 9, and the One Cook Islands Party won 2. A draw result for the Mitiaro seat will be decided through a by-election on 11 November 2014. The first parliament session was held on 8 October 2014.

5. **Portfolio performance.** Since joining ADB in 1976, 18 loans (\$66.51 million) and 34 technical assistance (TA) projects (\$12.12 million) have been provided. ADB is currently providing support for asset management, social protection, and renewable energy; and is supporting private sector development through the Private Sector Development Initiative (PSDI).⁸ ADB is also closely engaged with the Pacific Regional Infrastructure Facility (PRIF) on the Cook Island's National Infrastructure Investment Plan. The government is committed to enhancing development effectiveness including government ownership, use of country systems, mutual accountability, broad-based consultation and participation, development partner coordination, and harmonization of sector support, particularly in infrastructure development, renewable energy, and public sector strengthening. Building country capacity, securing advisory TA, encouraging public policy dialogue, and generating community involvement through effective communication, remain top priorities.

II. INDICATIVE RESOURCE PARAMETERS

6. **Resource envelope 2015–2017.** The Cook Islands is eligible to borrow from ADB's ordinary capital resources (OCR). Indicative OCR resources available during 2015–2017 for ADB's sovereign operations amount to \$6.56 million.⁹ The government is interested in a policy-based public sector management reform program in 2015 valued at \$9.00 million. ADB's Pacific, and Strategy and Policy Departments will discuss options to either bring forward financing from future years to 2015 or to expand the OCR envelope available for the Cook Islands. An ICT submarine cable foreseen in 2018 will commence with preparatory TA in 2017. The indicative TA support averages \$300,000 annually and will support (i) public sector management reforms, (ii) establishment of the water utility authority, and (iii) preparing the standby ICT submarine cable project (Appendix 3, Tables A3.1 and A3.2).

7. The Cook Islands will continue to benefit from regional projects in line with the Regional Operations Business Plan, 2014–2016,¹⁰ particularly in the areas of economic management, governance, and climate change. Support from ADB's Private Sector Operations Department and PSDI for private sector development and PRIF support in the infrastructure sector is also available to the government.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

8. The 2014 Renewable Energy Sector Project is revalued at \$24.28 million including an ADB \$11.19 million (OCR) loan, European Union \$7.26 million grant, and government counterpart funding of \$5.83 million (Appendix 4, Table A4.1).¹¹ The public sector management TA in 2014 is moved to 2015.

⁸ ADB. 2013. *Technical Assistance for Asset Management for Sustainable and Improved Infrastructure Services Delivery*. Manila (TA 8416-REG); ADB. 2010. *Proposed Grant Assistance for Social Protection for the Vulnerable in the Pacific (Cook Islands, Marshall Islands, and Tonga)*. Manila (Grant 9151-REG); and ADB. 2011. *Technical Assistance for Promoting Energy Efficiency in the Pacific (Phase 2)*. Manila (TA 7798-REG). PSDI is a TA facility established by ADB and cofinanced by the Government of Australia to assist Pacific developing member countries to increase incomes, jobs, and economic growth through private sector growth.

⁹ This comprises of \$2.13 million in 2015, \$2.43 million in 2016, and \$2.00 million in 2017.

¹⁰ ADB. 2013. *Regional Operations Business Plan for the Pacific, 2014–2016*. Manila (accessible from list of linked documents in Appendix 2).

¹¹ Subject to formal confirmation from the Cook Islands, the proposed loan and administration of grant to the Cook Islands for the Renewable Energy Sector Project (project number 46453) will be circulated for the Board's consideration by 4 November 2014.

UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK

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

Country Development Goals				Changes from Last COBP
Sustainable development based on the attainment of a high quality of life consistent with people's aspirations, and in harmony with the Cook Islands culture and environment, through the development of: Goal 1: A vibrant Cook Islands economy with real GDP growth rate averaging 2.5% per annum Goal 2: Infrastructure for economic growth and sustainable livelihoods Goal 3: Energy security Goal 7: Good governance				This is the national vision of the Cook Islands National Sustainable Development Plan, 2011–2015, which underpins all eight national development goals
Sectors Selected by ADB				Changes from Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	
1. Public sector management (Core area: Others)				
Goal 1: Sustainable economic growth achieved through the diversification of the economic base and private sector-led growth. Goal 7: Effective system of government based on principles of good governance, well-functioning public sector and efficient use of public resources	Prudent macroeconomic stance sustained and guided by principles of fiscal responsibility. Improved public expenditure and financial accountability assessment rating to "A" for budget credibility by 2015 Current value (2013): B+ (2011 baseline: C) Net debt-to-GDP ratio not exceeding 35.0% by 2015 Current value (2014): 19.6% (2013 baseline: 20.5%)	Policy-based public sector management reform program Macroeconomic assessment conducted Strengthened capacity to manage for inclusive economic growth and improved public financial management systems (Pacific Economic Management TA) Support to establishing a water utility authority and strengthening public service effectiveness Pilot study on budgets and expenditure for infrastructure capital works and recurrent costs for maintenance of economic infrastructure (PRIF TA)	\$9.00 million OCR and \$500,000 TA for 2015-2017, 95% of total COBP envelope, of which: ESG – 0% GEM – 0% PSD – 50% RCI – 0% IEG – 100%	The public sector management TA in 2014 is moved to 2015.
2. Information and communication technology (Core area: Infrastructure)				
Goal 2: Increased productivity of environmentally sound infrastructure to sustain	Enhanced accessibility, affordability, information flows, and business opportunities through improved ICT infrastructure and services.	ICT submarine cable financing options Telecommunication Bill	\$500,000 TA for 2015-2017, 5% of total COBP envelope, of which: ESG – 50%	Once the PRIF—supported 5- to 10-year infrastructure plan is completed by end 2014, the focus will turn to delivery support and capacity building

<p>economic growth, improved livelihoods and environmental resilience</p>	<p>Cellular subscribers increased to 12,000 by 2017 Current value (2013): 10,915 (2011 baseline: 10,020)</p> <p>Internet users increased to 5,000 by 2017 Current value (2013): 2,690 (2011 baseline: 2,059)</p>	<p>(regulatory framework and) enacted and policies approved to ensure introduction of competition and improved services in the communication sector (PSDI TA)</p> <p>Management of public assets strengthened through development and implementation of asset management framework and plans (ADB TA)</p> <p>Medium-term infrastructure plan completed (PRIF TA)</p>	<p>GEM – 0%</p> <p>PSD – 50%</p> <p>RCI – 0%</p> <p>IEG – 100%</p>	<p>via local counterparts. The infrastructure plan will also be linked to the national budget process.</p> <p>Assets are managed by the Government of the Cook Islands with TA support from ADB in 2014.</p>
<p>3. Energy (Core area: Infrastructure, environment)</p>				
<p>Goal 3: Economic and social development and environmental integrity enhanced through improved energy security</p>	<p>Increased and more efficient use of renewable energy.</p> <p>Cook Islands energy needs from renewable sources increased to 50% by 2015 and 100% by 2020 Current value (2013): 5.9% (2011 baseline: 0.7%)</p>	<p>Support the government's policy to increase power generation from renewable sources, and enhance institutional capacity to implement the Cook Islands Renewable Energy Chart Implementation Plan, 2012-2020 target: 100% electricity from renewable energy on all inhabited islands by 2020.</p> <p>TA7798: Promoting Energy Efficiency in the Pacific (Phase 2).</p>	<p>\$11.80 million, 92% of total COBP 2014-2016 envelope, and additional cofinancing of \$7.26 million, of which:</p> <p>ESG – 100%</p> <p>GEM – 0%</p> <p>PSD – 50%</p> <p>RCI – 0%</p> <p>IEG – 100%</p>	<p>The 2014 renewable energy project was originally valued at \$20 million, including an ADB contribution of \$11.80 million OCR loan. The project is revalued at \$24.28 million including an ADB \$11.19 million (OCR) loan, European Union \$7.26 million grant, and government counterpart funding of \$5.83 million. The project will be presented for ADB Board approval in the fourth quarter of 2014.</p>

ADB = Asian Development Bank, COBP = country operations business plan, ESG = environmentally sustainable growth, GDP = gross domestic product, GEM = gender equity and mainstreaming, ICT = information and communication technology, OCR = ordinary capital resources, PRIF = Pacific Regional Infrastructure Facility, PSD = private sector development, PSDI = Private Sector Development Initiative, RCI = regional integration, TA = technical assistance.

Source: ADB estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/COBP/?id=COO-2015>

1. Country Strategy Analysis
2. ADB's Pacific Approach, 2010–2014
3. The Cook Islands National Sustainable Development Plan, 2011–2015
4. Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific
5. Regional Operations Business Plan for the Pacific, 2014–2016

INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Lending Products, 2015–2017

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/PDA	Cost (\$ million)							
						Total	ADB				Total	Gov't	Co-finance
							OCR	ADF		Grants			
2015 Firm													
Public Sector Management Reform Program	PSM	GI	IEG/PSD	PAUS	NA	9.00	9.00	0.00	0.00	9.00	0.00	0.00	
Total						9.00	9.00	0.00	0.00	9.00	0.00	0.00	
2016													
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total						0.00	0.00	0.00	0.00	0.00	0.00	0.00	
2017													
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total						0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Total						9.00	9.00	0.00	0.00	9.00	0.00	0.00	

ADB = Asian Development Bank; ADF = Asian Development Fund; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PDA = project design advance; PPTA = project preparatory technical assistance; PSD = private sector development; PSM = public sector management.

Source: Asian Development Bank estimates.

Table A3.2: Nonlending Products and Services, 2015–2017

Assistance Name	Sector	Division	Assistance Type	Sources of Funding		Total (\$'000)	
				ADB Source	Others Amount (\$'000)		
2015 Firm							
Supporting Public Sector Management Reforms	PSM	SPSO	CDTA	TASF	300.00	0.00	300.00
Supporting the Establishment of the Water Utility Authority	PSM/WUS	SPSO	CDTA	TASF	200.00	0.00	200.00
Total					500.00	0.00	500.00
2016							
None					0.00	0.00	0.00
Total					0.00	0.00	0.00
2017 Standby							
Preparing the ICT Submarine Cable Project	ICT	PAUS	PPTA	TASF	500.00	0.00	500.00
Total					500.00	0.00	500.00
Total					1,000.00	0.00	1,000.00

ADB = Asian Development Bank; CDTA = capacity development technical assistance; ICT = information and communication technology; PAUS = Urban, Social Development, and Public Management Division; PPTA = project preparatory technical assistance; PSM = public sector management; SPSO = Pacific Subregional Office; TASF = Technical Assistance Special Fund; WUS = water and other urban Infrastructure and services.

Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A4.1: Lending Products, 2014

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Cost (\$ million)							
						Total	ADB				Gov't	Co-finance	
							OCR	ADF		Grants			Total
2014 Firm													
Renewable Energy Project	ENE	GI	ESG/IEG	PATE	2013	24.28	11.19	0.00	0.00	0.00	5.83	7.26	
Total						24.28	11.19	0.00	0.00	0.00	5.83	7.26	

ADB = Asian Development Bank; ADF = Asian Development Fund; ENE = energy; ESG = environmentally sustainable growth; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PATE = Transport, Energy, and Natural Resources Division; PDA = project design advance; PPTA = project preparatory technical assistance.

Source: Asian Development Bank estimates

Table A4.2: Nonlending Products and Services, 2014

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2014								
None					0.00		0.00	0.00
Total					0.00		0.00	0.00

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.