



COOK ISLANDS: Country Programming Mission

1-10 August 2014

MEMORANDUM OF UNDERSTANDING

BETWEEN THE GOVERNMENT OF COOK ISLANDS
AND THE ASIAN DEVELOPMENT BANK

I. BACKGROUND

1. An in-country programming mission (the mission)¹ consulted with public, private and civil society organizations across Rarotonga, Cook Islands from 1-10 August 2014. This memorandum of understanding summarizes the mission's findings with regard to discussions on the draft country operations business plan (COBP) 2015–2017 and is subject to the approval of higher authorities of the Asian Development Bank (ADB) and the Government of the Cook Islands. A list of persons met is in Annex 1.

2. **ADB's engagement in Cook Islands.** Since joining ADB in 1976, 18 loans (\$63.85 million) and 34 technical assistance projects (\$12.12 million) have been provided. ADB is currently providing support towards asset management, social protection, and renewable energy.² ADB is also supporting private sector development through the Private Sector Development Initiative (PSDI). ADB is closely engaged with the Pacific Regional Infrastructure Facility (PRIF) on Cook Island's National Infrastructure Investment Plan.

3. **Economic update.** The Cook Islands is among the best performing of the Pacific island economies, however the economy is narrowly based with a heavy reliance on tourism and development partner-funded public infrastructure spending. Expanding the economic base and raising the level of investment in urban and outer island infrastructure to improve public services, encourage private sector investment, generate employment, and help curtail depopulation are government priorities. The resident population continues to decline, from 15,324 residents in 2006 to 13,100 in 2013, impacting almost all the social and economic sectors in the country.

Gross domestic product growth decelerated to 3.2% in FY2013 from 4.4% in FY2012 due to a fall in capital investments and drop in tourist arrivals. Tourism earnings and

¹ The Mission comprised Ms V. Jenner, Development Coordination Officer, Ms C. Dolan, Administration Assistant, ADB Cook Islands Development Coordination Office, with remote support from Mr R. Jauncey, Regional Director, and Ms B. Olsson, Country Officer, ADB Pacific Subregional Office.

² ADB. 2013. *TA8416: Asset Management for Sustainable and Improved Infrastructure Services Delivery*. Manila; ADB. 2010. *G9151: Social Protection of the Vulnerable in the Pacific* (Cook Islands, Marshall Islands and Tonga) Manila; ADB. 2011. *TA7798: Promoting Energy Efficiency in the Pacific (Phase 2)*. Manila.

below-budget expenditures helped maintain the fiscal deficit at 2.0.³ Net debt levels are 20.5% of GDP, below the government's own threshold of 35%, and 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. Further consideration by ADB of government's request to minimize exchange rate risks associated with its Asian Development Fund loans, will give the government comfort to consider future borrowings while maintaining public debt below the ceiling.⁴

The government has committed to achieving 100% electricity supply by renewable energy by 2020. ADB team is working closely with the Energy Commission to process a new renewable project by end-2014. This project, together with the ongoing regional project focused on energy efficiency, will help the government move towards achieving the Cook Islands Renewable Energy Chart Implementation Plan 2012-2020.⁵

The broadband internet capacity in the Cook Islands is expected to improve with the launch of the O3b [a new satellite constellation] service and Telecom Cook Islands 3G mobile service network in 2014.. For the medium-term, the government is considering a standby submarine cable option, arising from a feasibility study ADB supported,⁶ to meet the expected growth in demand for high quality internet services. Should this project develop, the government will be looking at both sovereign and nonsovereign financing. As is already planned by the government, a coherent and appropriate regulatory framework for telecommunications will need to be implemented.

II. COBP 2015-2017

4. **Strategic focus.** The country operations business plan, 2015–2017 is aligned with ADB's Pacific Approach, which serves as the country partnership strategy, and *Te Kavenga Nui* Cook Islands National Sustainable Development Plan (NSDP), 2011–2015.⁷ ADB's operations are demand-driven, within areas of ADB's comparative strength, and capitalize on regional approaches and partnerships.

The COBP targets are: (i) supporting the government's commitment to renewable energy, (ii) building sustainable capacity for public sector management focusing on

³ To grow the tourism sector through the provision of regular flight service, government has been underwriting Air New Zealand flights to Rarotonga, Cook Islands from Los Angeles and Sydney since 2007. Government has signed a new agreement for 2014-2018, and is expecting an increase from 22,000 to 30,000 of visitors from Sydney annually.

⁴ As of 20 February 2014, total ADF loan disbursements total US\$34,490 million and repayments total US\$7,776 million leaving balance of US\$26,714 million. Source: <http://wifisp1.adb.org/reports/getarchive.asp>. ADB will work with the Ministry of Finance to see how government can better manage currency risks for the ADF loan portfolio. As a way forward, ADB will look into the options raised by the Ministry of Finance to (i) pre-pay all ADF loans, and (ii) re-borrow as OCR. Still in its early stages, there are ongoing discussions pertaining to the ADF and OCR merger. Once this merger is approved and becomes operational, it will potentially provide ADF borrowers conversion options. Specific details on this merger will be made available soon.

⁵ ADB's support to government's efforts includes the ongoing TA7798 Promoting Energy Efficiency in the Pacific (Phase 2) project and a pipeline Renewable Energy Project (\$11.2 million OCR loan, with EU cofinancing of \$7.3 million), which will be submitted for Board consideration in 4th quarter 2014.

⁶ The study was completed by the Private Sector Development Initiative (PSDI). PSDI is a technical assistance facility established by ADB and cofinanced by Australia to assist Pacific DMCs increase incomes, jobs, and economic growth through private sector growth.

⁷ The development of the NSDP, 2016-2020 will commence in 2015.

improving public service delivery, and (iii) escalating the efficiency of the information and communications (ICT) sector to promote private sector development⁸. In particular, the COBP supports economic development, environment integrity, infrastructure, and governance and partnerships, which are all key outcomes of the NSDP.

5. **Pipeline of projects for 2015-2017.** The Cook Islands is eligible to borrow from Ordinary Capital Resources (OCR). The OCR allocation will be adjusted and cofinancing sought to meet funding requirements. The appropriate amount of funding to be accessed for future operations will be determined by updating the debt sustainability assessment.⁹ An ICT submarine cable project is included as a standby operation in 2017 to allow for preparatory technical assistance (TA) work in 2016. Refer to Annex 2, Table A3.1.

Indicative TA support in 2015–2017 averages \$300,000 annually. The government and the mission agreed for ADB TA support towards the public sector management and ICT sectors, specifically (i) establishing the water utility authority, (ii) strengthening public service effectiveness¹⁰, and (iii) preparation of a standby submarine cable. Refer to Annex 2, Table A3.2.

6. **Regional support for 2015-2017.** The Cook Islands will continue to benefit from regional projects in line with the Regional Operations Business Plan, 2014-2016, particularly in the areas of economic management and governance, climate change. Further PSDI support for private sector development and state-owned enterprise reforms and PRIF support in the energy and utilities sectors is also available upon request.

7. **Projects for approval in current year (2014).** The Renewable Energy project, valued 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 is due for ADB board approval on 30 September 2014. As government remains in caretaker mode, it is advisable to move the approval date to 4th quarter 2014 when government is formalized. There is no TA project to be approved in 2014. Refer to Annex 2, Tables A4.1 and A4.2.

8. **COBP Processing Schedule and Preparation Milestones.** The government and ADB have agreed on the following processing schedule for the finalization of the Cook Islands COBP 2015-2017:

Processing Events	Estimated dates
Conduct Country Programming Mission	1 – 10 August 2014
Draft COBP 2014-2016 for government review	20 August 2014
Government endorsement	27 August 2014
ADB Management approval	12 September 2014

⁸ Government is working on the telecommunication and commerce policies and bills to create a more competitive telecommunications industry, with support from ADB's Private Sector Development Initiative. ADB's Pacific Department ICT team and the Private Sector Operations Department will stay engaged with government to monitor the growth in demand for internet services following the O3b introduction, and assess whether the level will justify the introduction of a cable system.

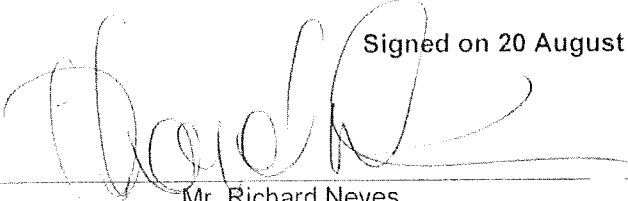
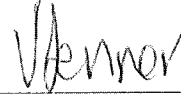
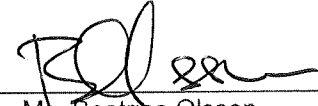
⁹ ADB will support the macroeconomic assessment update, as the Cook Islands is not a member of the World Bank or the International Monetary Fund.

¹⁰ While the scope is yet to be determined, this TA can support government's initiatives for strengthening the efficiency of the Public Service, with support to central agencies—Office of the Prime Minister, Ministry of Finance, Public Service Commission and Ministry of Justice.

III. ACKNOWLEDGEMENT

9. ADB would like to express its appreciation and gratitude for the hospitality, full cooperation, and the assistance extended to the mission by the Government of Cook Islands.

Signed on 20 August 2014

 _____ Mr. Richard Neves Financial Secretary, Ministry of Finance and Economic Management	 _____ Ms. Vanessa Jenner Coordination Officer Development Coordination Office
Government of Cook Islands Rarotonga, Cook Islands	For the Asian Development Bank Rarotonga, Cook Islands
	 _____ Ms. Beatrice Olsson Country Coordination Officer Pacific Subregional Office
	For the Asian Development Bank Suva, Fiji

LIST OF PEOPLE MET

Ministry of Finance and Economic Management

Richard Neves, Financial Secretary

Office of the Prime Minister

Elizabeth Wright-Koteka, Chief of Staff

Ministry of Internal Affairs

Bredina Drollett, Secretary, Internal Affairs

Development Coordination Division

Nanise Okotai, Acting Manager

Morgan Hanks, Program Manager

Tamara File, Team Coordinator

State-Owned Enterprises

Bim Tou, General Manager, Cook Islands Ports Authority

Apui Timoti, Chief Executive Officer, Te Aponga Uira

Public Service Commission

Daphne Ringi, Chief Executive Officer

Energy

Tangi Tereapii, Director Renewable Energy Development Division (REDD)

Cook Islands Investment Corporation

Tamarui Tutangata, Chief Executive Officer

Anne Taoro, Property Manager

Cook Islands Ports Authority

Bim Tou, Chief Executive Officer

Development Partners

Joseph Meyhew, Manager Aid Program, NZ High Commission

Steve Barrett, Senior Program Coordinator, NZ High Commission

Sean Buckley, Senior Program Coordinator, NZ High Commission

Civil Society

Taputu Mariri, Secretary, National Council of Women

Pat Farr, Disabilities Director

Maureen Hilyard, ICT Advocate group

Lynsay Rorokea, Social Impact Fund Chair

Private Sector

Chamber of Commerce Board Members

Brett Hooker, Chief Executive Officer, Westpac Banking Corporation

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)						Co-finance	
						Total	OCR	Loans	Grants	Total	Gov't		
2015													
None	NA	NA	NA	NA	NA	0.00	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	0.00
2016													
None	NA	NA	NA	NA	NA	0.00	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	0.00
2017 Standby													
ICT Submarine Cable	ICT	GI	IEG	PAUS	2016	35.00	35.00	35.00	0.00	35.00	0.00	TBC	TBC
Total						35.00	35.00	35.00	0.00	35.00	0.00	TBC	TBC
Total						35.00	35.00	35.00	0.00	35.00	0.00	TBC	TBC

ADB = Asian Development Bank; ADF = Asian Development Fund; GI = general intervention; Gov't = government; ICT = Information and Communication Technology; IEG = inclusive economic growth; NA = not applicable; OCR = ordinary capital resources; PAUS = Urban, Social Development, and Public Management Division; PDA = project design advance; PPTA = project preparatory technical assistance; TBC = to be confirmed.

Source: Asian Development Bank estimates.

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

Assistance Name	Sector	Division	Assistance Type	ADB		Sources of Funding		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2015 Standby								
Establishing the Water Utility Authority	PSM	SPSO	CDTA	TASF	200.00		0.00	200.00
Strengthening Public Service Effectiveness	PSM	SPSO	CDTA	TASF	300.00		0.00	300.00
Total					500.00		0.00	500.00
2016 Standby								
ICT Submarine Cable	ICT	PAUS	PPTA	TASF	500.00		0.00	500.00
Total					500.00		0.00	500.00
2017								
TBC	N/A	N/A	N/A	N/A	0.00		0.00	0.00
Total					0.00		0.00	0.00

ADB = Asian Development Bank; CDTA = capacity development technical assistance; ICT = Information and Communication Technology; NA = not applicable; 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; TBC = to be confirmed.
 Source: ADB 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	PDA	Year of PTA/PDA	Cost (\$ million)				Co-finance	
							Total	OCR	Loans	Grants		Total
Renewable Energy Project	ENE	GI	IEG/ESG	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; ESG = environmentally sustainable growth; ENE = energy; GI = general intervention; Gov't = government; IEG = inclusive economic growth; OCR = ordinary capital resources; PATE = Transport, Energy, and Natural Resources Division; PPTA = project preparatory technical assistance; PDA = project design advance.
Source: ADB estimates.

Table A4.2: Nonlending Products and Services, 2014

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

ADB = Asian Development Bank; NA = not applicable.
Source: ADB estimates.