



# Country Operations Business Plan

---

September 2015

## Cook Islands 2016–2018

This document is being disclosed to the public in accordance with ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 15 July 2015)

Currency unit	–	New Zealand dollar/s (NZ\$)
NZ\$1.00	=	\$0.6713
\$1.00	=	NZ\$1.4896

## ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
GDP	–	gross domestic product
ICT	–	information and communication technology
MOL	–	market-based ordinary capital resources
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., FY2015 ends on 30 June 2015.
- (ii) In this report, “\$” refers to US dollars unless otherwise stated.

<b>Vice-President</b>	S. Groff, Operations 2
<b>Director General</b>	X. Yao, Pacific Department (PARD)
<b>Regional Director</b>	R. Jauncey, Pacific Subregional Office, PARD
<b>Team leader</b>	B. Olsson, Country Coordination Officer, PARD
<b>Team members</b>	C. Currie, Senior Country Economist, PARD T. Faletau, Safeguards Officer, PARD P. Flegler, Investment Specialist, Private Sector Operations Department (PSOD) V. Jenner, Development Coordination Officer, PARD S. Lee, Principal Social Development Specialist, PARD W. Lee, Energy Specialist, PARD M. Lototele, Senior Economics Officer, PARD V. Narayan, Project Officer, PARD S. Pu, Principal Investment Specialist, PSOD R. Rabanal, Senior Economics Officer, PARD L. Sovea, Senior Programs Assistant, PARD C. Tinio, Associate Economics and Statistics Analyst, PARD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

## CONTENTS

	<b>Page</b>
I. CONSISTENCY OF THE BUSINESS PLAN WITH THE INTERIM PACIFIC APPROACH 2015	1
II. INDICATIVE RESOURCE PARAMETERS	2
III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS	2
APPENDIXES	
1. Updated Country Partnership Strategy Results Framework	3
2. List of Linked Documents	5
3. Indicative Assistance Pipeline	6
4. Assistance Program for the Current Year	8



## I. CONSISTENCY OF THE BUSINESS PLAN WITH THE INTERIM PACIFIC APPROACH 2015

1. The Asian Development Bank (ADB) country operations business plan, 2016–2018 for the Cook Islands is aligned with ADB's Interim Pacific Approach 2015, which extends the validity of its Pacific Approach, 2010–2014; the Midterm Review of Strategy 2020; and the Cook Islands National Sustainable Development Plan, 2011–2015.<sup>1</sup> The shared sector and thematic focus is on renewable energy and energy efficiency, information and communication technology (ICT), public sector management, private sector participation, and capacity development.

2. **Recent developments.** The Cook Islands is a small open economy with a high gross domestic product (GDP) per capita of NZ\$20,425 in FY2014. It has a narrow economic base focused largely on tourism and infrastructure development. Close to 123,000 visitor arrivals were recorded in FY2014, up 1.6% from FY2013. Similar numbers are expected in FY2016. GDP declined by 1.2% in FY2014 following a contraction of 1.7% in FY2013. Growth of 2.1% is forecast for FY2015, after which the economy is projected to contract by 0.3% in FY2016 as large public investment projects come to an end. Large capital expenditures continue to drive the government's expansionary fiscal policies, with budget deficits projected to jump from the equivalent of 3.0% of GDP in FY2014 to 7.3% of GDP in FY2015, before easing slightly to 7.1% in FY2016.<sup>2</sup> Net public sector debt, at just below 22% of GDP (NZ\$86 million), is well below the 35% of GDP target.<sup>3</sup> The Cook Islands is vulnerable to natural disasters and climate change conditions. This, combined with the lack of economic diversity, is a key obstacle to progress. Labor market constraints also present major limitations on economic growth, an issue that is worsened by continued depopulation, from 14,900 residents in FY2006 to 13,500 in FY2014.

3. **Focus of ADB assistance.** Firstly, ADB will support the government's commitment to increase the share of energy supply from renewable sources to 50% by 2015 and 100% by 2020 by leveraging additional grant financing and implementing the ADB-financed Renewable Energy Sector Project.<sup>4</sup> Secondly, ADB and the government will monitor the growth in demand for internet services following the O3b satellite service introduction and assess whether the demand level will justify the introduction of a cable system in 2019. A coherent and appropriate regulatory framework for telecommunications will need to be implemented.<sup>5</sup> Thirdly, ADB will support the government's public service strengthening strategy, including relevant policies, legislative framework, and institutional arrangements needed for public sector and state-owned enterprise reforms. Lastly, through the Private Sector Development Initiative (PSDI), ADB will support private sector development by engaging and exploring opportunities in the financial and telecommunications sectors by 2018.<sup>6</sup>

---

<sup>1</sup> ADB. 2015. *Interim Pacific Approach, 2015*. Manila; ADB. 2009. *Pacific Approach, 2010–2014*. Manila; ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila; Government of the Cook Islands. 2011. *The Cook Islands National Sustainable Development Plan, 2011–2015*. The national sustainable development plan for 2016–2020 is being developed.

<sup>2</sup> ADB. 2015. *Asian Development Outlook 2015: Financing Asia's Future Growth*. Manila.

<sup>3</sup> ADB accounts for 70% of the Cook Islands' gross debt portfolio. An ADB-supported macroeconomic assessment is planned for the fourth quarter of 2015.

<sup>4</sup> ADB. 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Grant to the Cook Islands for the Renewable Energy Sector Project*. Manila.

<sup>5</sup> With support from the Private Sector Development Initiative the government is working on telecommunications and commerce policies and bills to create a more competitive telecommunications industry.

<sup>6</sup> Key recommendations arising from the PSDI's private sector assessment in 2015 include strengthening public sector performance, improving business entry processes, improving the functioning of the financial system, strengthening the legislative framework for state-owned enterprises, and addressing competition-related concerns.

4. **Portfolio performance.** Since joining ADB in 1976, 19 loans for \$76.90 million, two grants for \$8.06 million, and 34 technical assistance (TA) projects for \$12.12 million have been provided to the Cook Islands. Capacity constraints—largely resulting from a scarcity of technical skills, high turnover of managerial staff, low retention of administrative skills, and insufficient community ownership—are the overriding concerns for project design, implementation, and monitoring. Outsourcing expertise, securing advisory TA, encouraging public policy dialogue, and generating community involvement are encouraged.

5. **Capacity development.** Support for building national capacity on public sector management, and in areas of public sector service delivery critical to fostering inclusive and sustainable growth and socioeconomic development, areas of economic management, governance, and climate change will be pursued. Regional TA resources will be programmed to build capacities in these areas.

## II. INDICATIVE RESOURCE PARAMETERS

6. **Resource envelope 2016–2018.** The Cook Islands is a Group C developing member country and has access to ordinary capital resources. The indicative resources available during 2016–2018 for sovereign operations amount to \$9.40 million. An ICT submarine cable project estimated to cost \$35.00 million is planned for 2019. To leverage further grant financing for renewable energy, ADB is assisting the Cook Islands to access \$4.12 million from the Global Environment Fund by early 2016. The indicative TA support averages \$300,000 annually and is allocated toward project preparatory TA for the ICT submarine cable in 2018 and a TA project to support public sector management in 2016, comprising support for both public service efficiency efforts and state-owned enterprise reforms.

7. **Regional support 2016–2018.** The Cook Islands will continue to benefit from regional support in line with the regional operations business plan, 2015–2017, particularly in economic management, finance, renewable energy, climate change, safeguards, and capacity development.<sup>7</sup> Other regional TA available to the government includes PSDI support for selected recommendations arising from the 2015 private sector assessment, particularly reforms in relation to state-owned enterprises; company law, including personal property securities; the financial sector; and telecommunications (including finalization of the competition policy and draft legislation); and the Pacific Region Infrastructure Facility for infrastructure planning, development, and management.

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

8. The public sector management TA in 2016 replaces the Supporting Public Sector Management Reforms and Supporting the Establishment of the Water Utility Authority TA projects originally planned in 2015. Preparatory TA for the ICT Submarine Cable Project, valued at \$500,000, has moved from 2017 to 2018 to align with the government's time lines for the proposed investment project in 2019.

---

<sup>7</sup> 2014. ADB. *Pacific Department Regional Country Operations Business Plan, 2015–2017*. Manila.

**UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK**  
(Board endorsement of the Interim Pacific Approach, 2015: June 2015; COBP: August 2015)

<b>Country Development Goals</b>				<b>Changes from Last COBP</b>
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				
<b>Sectors Selected by ADB</b>				<b>Changes from Last COBP</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 Resource Allocation in the Next Pipeline and Strategic Priorities</b>	
<b>1. Public sector management (Core area: Others)</b>				
Goal 1: Sustainable economic growth achieved through diversification of the economic base and private sector-led growth  Goal 7: Effective system of government based on principles of good governance, a well-functioning public sector, and efficient use of public resources	Prudent macroeconomic stance sustained and guided by principles of fiscal responsibility  Public expenditure and financial accountability assessment rating improved to "A" for budget credibility by 2015 Current value (2013): B+ (2011 baseline: C)  Net debt-to-GDP ratio not exceeding 35.0% by 2018 Current value (2015): 22% (2015 baseline: 22%)	Macroeconomic assessment conducted  Strengthened capacity to manage for inclusive economic growth and improved public financial management systems (Pacific Economic Management TA)  Support for establishing a water utility authority and strengthening public service effectiveness  Engaging and exploring opportunities arising from a private sector assessment in 2015 include strengthening public sector performance, improving business entry processes, improving the functioning of the financial system, strengthening the legislative framework for state-owned enterprises, and addressing competition-related concerns (PSDI TA)	\$500,000, 5% of total funding envelope of \$9.36 million (2016–2018 envelope), of which:  ESG – 0% GEM – 0% PSD – 50% RCI – 0%	The public sector management TA in 2016 replaces the Supporting Public Sector Management Reforms and Supporting the Establishment of the Water Utility Authority TA projects originally planned in 2015.

<b>2. Information and communication technology (Core area: Infrastructure)</b>				
Goal 2: Increased productivity of environmentally sound infrastructure to sustain economic growth, improved livelihoods and environmental resilience	<p>Enhanced accessibility, affordability, information flows, and business opportunities through improved ICT infrastructure and services</p> <p>Number of cellular subscribers increased to 12,000 by 2017 Current value (2013): 10,915 (2011 baseline: 10,020)</p> <p>Number of internet users increased to 5,000 by 2017 Current value (2013): 2,690 (2011 baseline: 2,059)</p>	<p>ICT submarine cable</p> <p>Telecommunications bill enacted and policies approved to ensure the introduction of competition and improved services in the communications sector (PSDI TA)</p> <p>Management of public assets strengthened through the implementation of an asset management framework and plans (ADB TA)</p> <p>Medium-term infrastructure plan completed (Pacific Regional Infrastructure Facility TA)</p>	<p>\$35 million in 2019 and \$500,000 preparatory TA in 2018, 5% of total funding envelope of \$9.36 million (2016–2018 envelope), of which:</p> <p>ESG – 50%</p> <p>GEM – 0%</p> <p>PSD – 50%</p> <p>RCI – 100%</p>	<p>Cabinet endorsed the Cook Islands' National Infrastructure Investment Plan in 2015 and is integrating it in the budget process.</p> <p>Asset Management TA completed in 2015. The government's formal adoption of the Asset Management Plan legislation will ensure the ongoing practice and rollout of asset management across the government and the remaining outer islands.</p>
<b>3. Energy (Core area: Infrastructure, environment)</b>				
Goal 3: Economic and social development and environmental integrity enhanced through improved energy security	<p>Increased and more efficient use of renewable energy</p> <p>Share of energy supply 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>\$4.12 million grant application approved in 2016 from the GEF is an addition to the Renewable Energy Project valued at \$24.28 million (ordinary capital resources \$11.19 million, European Union cofinancing \$7.26 million, and government contribution \$5.83 million) of which:</p> <p>ESG – 100%</p> <p>GEM – 0%</p> <p>PSD – 50%</p> <p>RCI – 0%</p>	<p>The Renewable Energy Project was approved in November 2014 and became effective on 9 February 2015. Additional grant funding is being pursued in 2015 via the GEF, with approval expected by the first quarter of 2016.</p>

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

Source: Asian Development Bank estimates.



**LIST OF LINKED DOCUMENTS**

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

1. Country Strategy Analysis
2. The Cook Islands National Sustainable Development Plan, 2011–2015
3. Regional Country Operations Business Plan, 2015–2017
4. ADB's Interim Pacific Approach, 2015
5. Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific

## INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Lending Products, 2016–2018

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Cost (\$ million)						
						ADB <sup>a</sup>						Co-finance
						Total	Market-based OCR	ADF Loans/ Concessional OCR	ADF Grants	Total	Gov't	
<b>2016 Firm</b>												
Renewable Energy Sector Project (GEF)	ENE	GI	ESG, IEG, PAR	PATE		4.12	0.00	0.00	0.00	0.00	0.00	4.12
<b>Total</b>						<b>4.12</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4.12</b>
<b>2017</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>2018</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>Total</b>						<b>4.12</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>4.12</b>

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

<sup>a</sup> Reflecting the approved combination of ADF lending operations with the OCR balance sheet that will become effective on 1 January 2017.

Source: Asian Development Bank estimates.

**Table A3.2: Nonlending Products and Services, 2016–2018**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding		Total (\$'000)	
				ADB Source	Others Amount (\$'000)		
<b>2016 Firm</b>							
Supporting Public Sector Management <sup>a</sup>	PSM	SPSO	CDTA	TASF	500.00	0.00	500.00
<b>Total</b>					<b>500.00</b>	<b>0.00</b>	<b>500.00</b>
<b>2017</b>							
None					0.00	0.00	0.00
<b>Total</b>					<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>2018 Standby</b>							
Preparing the ICT Submarine Cable Project	ICT	PAUS	PPTA	TASF	500.00	0.00	500.00
<b>Total</b>					<b>500.00</b>	<b>0.00</b>	<b>500.00</b>
<b>Total</b>					<b>1,000.00</b>	<b>0.00</b>	<b>1,000.00</b>

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.

<sup>a</sup> This technical assistance project will likely have two components: (i) support for public service efficiency efforts, and (ii) state-owned enterprise reforms. Source: Asian Development Bank estimates.

## ASSISTANCE PROGRAM FOR THE CURRENT YEAR

### Table A4.1: Lending Products, 2015

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/PDA	Cost (\$ million)							
						ADB				Total		Gov't	Co-finance
						ADF		OCR	Loans	Grants			
2015													
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, Gov't = government, OCR = ordinary capital resources, PDA = project design advance, PPTA = project preparatory technical assistance.  
Source: Asian Development Bank estimates.

### Table A4.2: Non-lending Products and Services, 2015

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2015								
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: Asian Development Bank estimates.