



Country Operations Business Plan

September 2016

Cook Islands 2017–2019

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

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 September 2016)

Currency unit	–	New Zealand dollar/s (NZ\$)
NZ\$1.00	=	\$0.7249
\$1.00	=	NZ\$1.3795

ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
GDP	–	gross domestic product
OCR	–	ordinary capital resources
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., FY2016 ends on 30 June 2016.
- (ii) In this report, “\$” refers to US dollars unless otherwise stated.

Vice-President	S. Groff, Operations 2
Director General	X. Yao, Pacific Department (PARD)
Regional Director	R. Jauncey, Pacific Subregional Office (SPSO), PARD
Team leader	B. Olsson, Country Coordination Officer, SPSO, PARD
Team members	C. Currie, Senior Country Economist, SPSO, PARD C. Dolan, Administrative Assistant, SPSO, PARD T. Faletau, Safeguards Officer, SPSO, PARD M. Hazelman, Associate Project Analyst, SPSO, PARD V. Jenner, Development Coordination Officer, SPSO, PARD W. Lee, Energy Specialist, PARD M. Lototele, Senior Economics Officer, SPSO, PARD V. Narayan, Senior Project Officer, SPSO, PARD L. Sovea, Senior Programs Assistant, SPSO, PARD C. Tinio, Associate Economics and Statistics Analyst, PARD

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I. CONSISTENCY OF BUSINESS PLAN WITH COUNTRY PARTNERSHIP STRATEGY

1. The Asian Development Bank (ADB) country operations business plan (COBP), 2017–2019 for the Cook Islands is aligned with ADB’s Pacific Approach 2016-2020, which serves as the country partnership strategy.¹ The COBP will focus on (i) increasing the share of energy supply from renewable energy sources (ii) improving internet connectivity by escalating the efficiency of information and communications technology, (iii) strengthening resilience to natural disasters, and (iv) improving public sector effectiveness. The operational focus aligns with the strategic objectives of the Cook Islands National Sustainable Development Plan 2016-2020, with direct contribution to goals 5, 6 and 13.² Appendix 1 provides the country assistance results areas.

2. **Recent developments.** The Cook Islands is a small open economy with a high gross domestic product (GDP) per capita of NZ\$20,300 in FY2015 and it is largely dependent on tourism and infrastructure development. Visitors to the Cook Islands increased from 121,772 in FY2014 to 135,134 in FY2015, and some slight increases are expected with the arrival of a third airline, increasing annual visitors by up to 25,000. Despite a high GDP per capita, the lack of economic diversity, economies of scale, and vulnerability to climatic conditions makes any progress fragile and reversible. Labor market constraints also present major limitations on economic growth, an issue that is worsened by continued depopulation, from 14,700 residents in FY2011 to an estimated 13,100 in FY2015.³

3. Economic activity in the Cook Islands is expected to grow by 4.0% in FY2017, supported by public investment and improvements in tourism. Limited local capacity to implement capital projects and a shortage of tourist accommodation in the peak holiday seasons may constrain growth in the near term. A Debt Sustainability Analysis undertaken as part of the 2015 Macroeconomic Assessment finds the Cook Islands is at low risk of external debt distress. Net public debt rose from the equivalent of 9.7% of GDP to 21.7% over the period of FY2010 to FY2015, but is well within the government’s threshold of 35%. The government maintains a debt service reserve equivalent to 4.6% of GDP and proactively seeks to remain within ceilings for fiscal responsibility ratios.⁴

4. **Partnerships.** ADB coordinates closely with regional agencies and bilateral partners, particularly the European Union and New Zealand to deliver development assistance to Cook Islands. Additional cofinancing is being explored in ADB priority sectors.

5. **Portfolio performance.** ADB and Cook Islands have been working together since 1976, with 17 loan projects totaling \$77 million, 2 grant projects totaling \$8 million, and 37 technical assistance projects worth \$12 million. Human resource constraints, largely resulting from out migration of experienced and skilled workers, is the overriding concern for project design, implementation, and monitoring. Capacity building both at technical and management levels will continue to be the top priority of government and development partners. Outsourcing expertise, securing advisory technical support, encouraging public policy dialogue, and generating community involvement are encouraged.

¹ ADB. 2016. *Pacific Approach 2016-2020*. Manila.

² 2015. Government of the Cook Islands. *The Cook Islands National Sustainable Development Plan, 2016–2020*. Rarotonga. (accessible from the list of linked documents in Appendix 2). The COBP directly contributes to the achievement of Goal 5: Build resilient infrastructure and ICT to improve our standard of living, Goal 6: Improve access to affordable, reliable, sustainable, modern energy and transport, and Goal 13: Strengthen resilience to combat the impacts of climate change and natural disasters.

³ ADB. 2016. *Asian Development Outlook. Asia’s Potential Growth*. Manila; Cook Islands Statistics Office, <http://www.mfem.gov.ck/statistics>.

⁴ ADB. 2016. *Asian Development Outlook. Asia’s Potential Growth*. Manila; Government of Cook Islands. *Budget Estimates 2016/2017*. Rarotonga.

II. INDICATIVE RESOURCE PARAMETERS

6. **Resource envelope 2017–2019.** The Cook Islands is a Group C developing member country and is eligible to borrow from ADB's market-based ordinary capital resources (OCR). Indicative resources available during 2017–2019 amount to \$24 million. Cofinancing and funding from other sources, including the OCR regional cooperation and integration set-aside, will be actively explored as required. Proposed investments include additional cofinancing of \$4.2 million in 2016 from the global environment facility for the ADB-financed Renewable Energy Sector Project to support the government's efforts to increase power generation from renewable sources on all inhabited islands by 2020.⁵ ADB will support a submarine internet cable project in 2016 valued at \$37.0 million, of which ADB will provide \$10 million in OCR lending in collaboration with grant financing from the Government of New Zealand. Also, as part of a broader disaster risk management strategy, a development policy loan of \$10 million with a contingent credit line that provides immediate liquidity in the aftermath of a natural disaster will be developed for the Cook Islands in 2016.⁶ ADB's lending pipeline for 2017–2019 is in Tables A3.1 and A4.1.

7. **Technical Assistance** Cook Islands indicative annual technical assistance (TA) allocation of \$300,000 will support public sector strengthening priorities reflected in the government's public sector strategy, 2016–2025, and will be provided in 2017 and 2019. Cook Islands will benefit from regional projects particularly in economic management, finance, procurement, renewable energy, climate change, and capacity development in line with the regional operations business plan, 2017–2019.⁷ Other regional assistance available to the government includes support from the Private Sector Development Initiative for the financial sector and selected recommendations arising from the 2015 private sector assessment.⁸ ADB's nonlending pipeline for 2017–2019 is in Tables A3.2 and A4.2.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

8. The TA resources are allocated in 2017 and 2019 and have been renamed as Public Sector Strengthening projects to adjust to government's timeline and priority reform settings aimed at building a "Public Service of Excellence" over the medium term through a positive shift towards centralizing government functions and improving efficiency and public sector productivity. As prioritized by government, the preparation and approval for the submarine internet cable is moved from 2019 to 2016. The proposed Disaster Resilience Program in 2016 is a new and innovative utilization of available country resources as another means of improving the country's resilience to disaster risks, reducing the disruption to economic activity, and safeguarding government's fiscal position in the event of a natural disaster.⁹

⁵ 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.

⁶ While Cook Islands has an allocation of \$24 million in OCR lending over this COBP period, the required financing of \$20 million in 2016 for the proposed submarine internet cable project and disaster resilience program will require a bring forward of funds. Funding of \$20 million will also be equivalent to approximately 10% of GDP, leaving limited room for additional borrowing.

⁷ 2016. ADB. *Pacific Department Regional Operations Business Plan, 2017–2019*. Manila.

⁸ ADB. 2015. *The Cook Islands. Stronger Investment Climate for Sustainable Growth*. Manila.

⁹ World Bank. 2015. *Country Note: The Cook Islands—Disaster Risk Financing and Insurance*. Washington DC Recent analysis undertaken under the Pacific Catastrophe Risk Assessment and Financing Initiative indicates that the country faces an average annual loss of \$4.9 million from tropical cyclones alone, with probable maximum losses of \$56.8 million, \$103.0 million and \$198.1 million from 1-in-50, 1-in-100 and 1-in-250 year events respectively, equivalent to 18.8%, 34.0%, and 65.5% of GDP in FY2016.

COUNTRY ASSISTANCE RESULTS AREAS

Key Country Development Outcomes that ADB Contributes to	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in 2017–2019	Changes from Last COBP
1. Public sector management			
Efficiency and public sector productivity improved	Technical assistance to support prioritized activities identified in the Cook Islands public sector strategy, 2016 – 2025	Amount: \$1 million Share of COBP envelope: 4 %	The TA resources are allocated in 2017 and 2019 and have been renamed as Public Sector Strengthening projects to adjust to government's timeline and priority reform settings aimed at building a "Public Service of Excellence" over the medium term through a positive shift towards centralizing government functions and improving efficiency and public sector productivity
2. Energy			
Increased access to a higher share of electricity generated from renewable energy sources	Construct up to six solar photovoltaic power plants with a total installed capacity of about 3-megawatt peak coupled with batteries to store electricity from solar energy Rehabilitate the existing distribution network Provide institutional strengthening to the government to develop the energy efficiency policy implementation plan	Amount: \$4.2 million (global environment facility, GEF) Share of COBP envelope: 16 %	The additional GEF grant with the additional contribution from the government of \$1.31 million will increase the overall ADB administered Renewable Energy Project investment from the current \$24.28 million to about \$29.85 million.
3. Information and Communication Technology			
Improved telecommunications delivered through low cost and high quality submarine internet cable system connecting the Cook Islands to the international internet	Bidding for the project is responsive within time and budget. The submarine cable provider implements the project following industry standard and implementation guidelines. The submarine cable provider achieves 99% system availability.	Amount: \$10 million (OCR) Share of COBP envelope: 40%	As prioritized by government, the preparation and approval for the submarine internet cable is moved from 2019 to 2016

Key Country Development Outcomes that ADB Contributes to	ADB		
	Key Areas of Assistance	Indicative Resource Allocation in 2017–2019	Changes from Last COBP
4. Environment, Climate Change, and Disaster Risk Management			
Strengthened policy and institutional arrangements for disaster risk management, enhanced structural resilience, and expanded disaster risk financing delivered under a policy-based reform program	<p>Enhance disaster risk management policy and planning</p> <p>Improve monitoring and assessment of disaster impacts</p> <p>Increase the capacity of government agencies on disaster risk management</p> <p>Improve disaster and climate resilience of physical assets</p> <p>Augment fiscal buffers for disaster response</p>	<p>Amount: \$10 million (OCR)</p> <p>Share of COBP envelope: 40%</p>	<p>The proposed Disaster Resilience Program in 2016 is a new and innovative utilization of available country resources as another means of improving the country's resilience to disaster risks, reducing the disruption to economic activity, and safeguarding government's fiscal position in the event of a natural disaster</p>

ADB = Asian Development Bank, ADF = Asian Development Fund, COBP = country operations business plan, GEF = global environment facility, OCR = ordinary capital resources, TA = technical assistance.
Source: ADB estimates.

LIST OF LINKED DOCUMENTS

<http://adb.org/Documents/COBP/?id=COO-2017>

1. Country Strategy Analysis: Cook Islands Country Operations Business Plan, 2017–2019
2. The Cook Islands National Sustainable Development Plan, 2016–2020
3. Pacific Department Regional Operations Business Plan, 2017–2019
4. 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, 2017–2019

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Cost (\$ million)						
						ADB					Gov't	Co-finance
						Total	OCR	COL	ADF Grants	Total		
2017												
None												
Total												
2018												
None												
Total												
2019												
None												
Total												

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional OCR lending, Gov't = government, OCR = ordinary capital resources, PDA = project design advance, PPTA = project preparatory technical assistance.

Source: Asian Development Bank estimates.

Table A3.2: Nonlending Products and Services, 2017–2019

Assistance Name	Sector	Division	Assistance Type	Sources of Funding		Total (\$'000)
				ADB Source	Others Amount (\$'000)	
2017						
Public Sector Strengthening I	PSM	SPSO	CDTA	TASF	500.00	500.00
Total					500.00	500.00
2018						
None						
Total						
2019						
Public Sector Strengthening II	PSM	SPSO	CDTA	TASF	500.00	500.00
Total					500.00	500.00

ADB = Asian Development Bank; CDTA = capacity development technical assistance; PSM = public sector management; SPSO = Pacific Subregional Office; TASF = Technical Assistance Special Fund.

Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR THE CURRENT YEAR

Table A4.1: Lending Products, 2016

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/PDA	Cost (\$ million)						
						ADB					Gov't	Co-finance
						Total	OCR	COL	ADF Grants	Total		
2016												
Improving Internet Connectivity for the South Pacific	ICT	GI	IEG/PAR/GEM	PAUS	2016	37.0	10.0	0.0	0.0	10.0	2.0	25.0 ^a
Total						37.0	10.0	0.0	0.0	10.0	2.0	25.0
Disaster Credit Drawdown Policy-Based Program	PSM	GI	IEG	PAUS	NA	10.0	10.0	0.0	0.0	10.0	0.0	0.0
Total						10.0	10.0	0.0	0.0	10.0	0.0	0.0
Renewable Energy Sector Project (GEF 6)-additional financing	ENE	GI	IEG/PAR	PATE	2013	4.2	0.0	0.0	0.0	0.0	0.0	4.2 ^b
Total						4.2	0.0	0.0	0.0	0.0	0.0	4.2

ADB = Asian Development Bank, ADF = Asian Development Fund, COL = concessional OCR lending, COO = Cook Islands, ENE = energy, GI = general intervention, GEF = Global Environment Facility, GEM = gender equity and mainstreaming, Gov't = government, ICT = Information and Communication Technology, IEG = inclusive economic growth, NA = not applicable, OCR = ordinary capital resources, PAR = partnership, PATE = Transport, Energy, and Natural Resources Division, PAUS = urban, social development and public management division, PDA = project design advance, PPTA = project preparatory technical assistance, PSM = public sector management.

^a Government of New Zealand will provide \$20.0 million grant cofinancing and private investor(s) will provide counterpart equity financing equivalent to \$5.0 million.

^b Cofinancing from Global Environment Facility/Strategic Climate Change Fund.

Source: Asian Development Bank estimates.

Table A4.2: Nonlending Products and Services, 2016

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2016								
None								
Total								

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

LIST OF INDICATIVE KNOWLEDGE PUBLICATIONS AND EVENTS

Table A5.1: Knowledge Publications and Events for 2017

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Technical Assistance
Pacific Economic Monitor (July 2017)	Economics	Publication or document: Report	PARD	8565 ^a
Pacific Economic Monitor (December 2017)	Economics	Publication or document: Report	PARD	8565 ^a
Pacific Transport Update 2017	Transport	Publication or document: Report	PARD	
Pacific Energy Update 2017	Energy	Publication or document: Report	PARD	
Asian Development Bank and Cook Islands Fact Sheet 2017	General	Publication or document: Awareness-raising brochure or leaflet	PARD, DER	
Pacific Subregional Office Brochure 2017	General	Publication or document: Awareness-raising brochure or leaflet	PARD	
Country Information Note: Cook Islands 2017	General	Publication or document: Briefing material or talking points	PARD	
ADO Small Pacific Economies 2017	Economics	Publication or document: Report	PARD	
Pacific Update Conference 2017	General	Event: Regional	PARD, ADBI	8565 ^a
Regional Asian Development Outlook 2016-18	Economics	Publication or document: Report	PARD, DER	
Total number of publications: 9				
Total number of events: 1				

ADO = Asian Development Outlook, ADBI = Asian Development Bank Institute, DER = Department of External Relations, PARD = Pacific Department.

^a Asian Development Bank. 2013. *Technical Assistance for Pacific Economic Management (Phase 2)*. Manila.

Source: Asian Development Bank.

Table A5.2: Additional Knowledge Publications and Events Delivered in 2016

Title of Publication or Event	Subject	Type	Department or Sector Group or Thematic Group	Technical Assistance
2015 Cook Islands Macroeconomic Report (June)	Governance and public sector management	Publication or document: Report	PARD	
Pacific Economic Monitor (July 2016)	Economics	Publication or document: Report	PARD	8565 ^a
Pacific Economic Monitor (December 2016)	Economics	Publication or document: Report	PARD	8565 ^a
Pacific Private Sector Development Initiative: Activities in the Pacific 2016	Private sector	Publication or document: Report	PARD	8378 ^b
Pacific Transport Update 2016	Transport	Publication or document: Awareness-raising brochure	PARD	
Pacific Public Sector Management Update 2016	Governance and public sector management	Publication or document: Awareness-raising	PARD	
Pacific Opportunities: Leveraging Asia's Growth	Economics	Publication or document: Book	PARD	
Pacific Energy Update 2016	Energy	Publication or document: Report	PARD	
Pacific Subregional Office Brochure 2016	General	Publication or document: Awareness-raising	PARD	
Asian Development Bank and Cook Islands: Fact Sheet 2016	Economics	Publication or document: Awareness-raising brochure	PARD, DER	
Country Information Note: Cook Islands 2016	General	Publication or document: Briefing material or talking points	PARD	
ADO Small Pacific Economies 2016	Economics	Publication or document: Report	PARD	
Pacific Update Conference 2016	Economics	Event: Pacific Regional Conference	PARD, ADBI	8565 ^b
Total number of publications: 12				
Total number of events: 1				

ADB = Asian Development Bank, ADBI = Asian Development Bank Institute, ADO = Asian Development Outlook, DER = Department of External Relations, PARD = Pacific Department.

^a ADB. 2013. *Technical Assistance for Pacific Economic Management (Phase 2)*. Manila.

^b ADB. 2013. *Technical Assistance for Pacific Private Sector Development Initiative, Phase III*. Manila.

Source: Asian Development Bank.

Table A5.3: Innovation, Advanced Technology, and Pilot Initiatives to be Implemented in 2017

Item	Nature	Project Number	Sector or Theme	Division
None				
Total number of innovation, advanced technology, and pilot initiatives = 0				

Source: Asian Development Bank.