



SMART Economy Initiative

Supporting innovative ICT commercial ventures

Context

The Cook Islands economy is highly reliant on the tourism industry, with an estimated 65 per cent of economic activity driven directly and indirectly by tourism. This makes the economy vulnerable to shocks that directly impact the tourism industry. This includes global economic downturns, for example the 2008 Global Financial Crisis, or health pandemics like COVID-19 that more immediately and severely impact the industry due to travel restrictions.

Improving industry productivity – producing more output for the same amount, or fewer, inputs – and transforming our economy to become more complex and diverse, can bring considerable and sustainable benefits. A more productive, complex, and diverse economy is more dynamic and resilient to changing circumstances and shocks.

One of the keys to securing these benefits is encouraging the development and adoption of more innovative and productive technologies. Technologies underpin industry productivity, competitiveness and profitability and drive economic growth. Information and Communication Technology (ICT) applications and services in particular have a critical role to play in transforming the Cook Islands into a smarter, more complex, and diverse economy.

In 2020, with the step-change in internet connectivity following the establishment of the Manatua Cable and reform of the monopoly telecommunications market, the Cook Islands is well placed to embark on a commercial ICT transformation. The new submarine cable will provide affordable, expanded and faster international bandwidth to retailers, while a competitive and regulated telecommunications market will allow new players to enter the market and drive service and price benefits for consumers across the Cook Islands.

Globally, the COVID-19 pandemic is also likely to drive broader structural changes to the world economy, with increasing reliance on ICT applications and services providing not just smart but remote service capabilities.



The Government's broader economic response to the COVID-19 downturn provides an opportunity to marry short-term fiscal stimulus with a longer-term targeted structural initiative to foster the growth of new commercial ICT applications and services – to grow the digital economy – on the back of the telecommunications reforms.

Summary

The Government is introducing the **SMART Economy Initiative (SMART)** to provide a mix of grants and tax credits to support new commercial business ventures providing innovative ICT applications and services to business and consumers in the Cook Islands and abroad. The key features of the initiative are:

- **Public financial support** — cash grants up to \$100,000 and tax credits for eligible privately funded innovation investment expenditure. Equity options may be considered on a case-by-case basis for larger-scale commercially ready proposals.
- **Private sector support** — public grants will require matching private sector funding, direct and/or in-kind.
- **Eligible businesses** — small and medium enterprises (SME) with an annual turnover up to \$5 million, registered with Revenue Management Division (RMD) and up to date with tax returns, registered with the Cook Islands National Superannuation Fund (CINSF) and operating in the Cook Islands. New business startups are eligible with any awards contingent on registration with RMD and CINSF, and if a company, incorporation and registration under the *Companies Act 2017*.
- **Qualifying activities** — commercially-viable business ventures that will provide new or scaled-up innovative ICT applications and services to businesses and consumers, locally and/or overseas.
- **Two-stage application** — in Stage 1 applicants will submit a short concept note, with successful Stage 1 applicants invited to submit a detailed Stage 2 funding proposal describing the proposed venture, its innovation benefits, commercial viability, costs and implementation plans.
- **Assessment** — applications for **SMART Grant** funding, and the amount of funding, will be assessed by a **SMART Panel** based on the commercial, innovation and economic growth merits of the business proposal.
- **Timing** — Stage 1 applications, the Concept Note stage, will open from 1 July 2020.

SMART will be initially solely targeted at ICT-related business ventures. Conditional on the success of this initiative, the Government will consider expanding qualifying activities to other innovative, creative and complex business ventures.

Objective

SMART has two key objectives.

The first is to foster new or expanded commercial business ventures that will provide innovative ICT applications and services to business and consumers to help drive a more productive, complex, and diverse economy that is more dynamic and resilient to changing circumstances and shocks.

The initiative will serve as a catalyst for the private sector to capitalise on the step-change in internet connectivity brought by the Manatua Cable, supported by a competitive, regulated telecommunications market – to grow the digital economy.

The second, short-term objective, is to provide financial support to eligible businesses to make smart and productive commercial investment and employment decisions during this time of heightened economic uncertainty, decisions that will accelerate the bounce back from the crisis towards a more complex and diverse Cook Islands economy.

Eligibility to apply

The following eligibility requirements must be met to apply for the initiative:

- Your business is structured as a company, partnership or sole trader.
- Your business is registered with RMD and CINSF and operating in the Cook Islands as of 1 July 2020, and if a company, incorporated and registered under the *Companies Act 2017*.
- If your business is registered as a Foreign Enterprise with the Business Trade and Investment Board (BTIB), your proposal must be compliant with the terms and conditions of your BTIB approval.
- You agree to a business credit check by the Cook Islands Credit Bureau.
- Your business is tax compliant:
 - up to date with filing tax returns relating to periods which end before 1 July 2020;
 - a written commitment to file tax returns for the period 1 July 2020 to 31 December 2021 on time.
- If you are establishing a new business under your proposal, any funding award will be contingent on the business being registered with RMD and CINSF and, if a company, incorporated and registered under the *Companies Act 2017*.
- Your business is an SME with a turnover, or expected turnover if a new business, of up to \$5 million per year, and not more than 50 per cent owned or controlled by a business with an annual turnover greater than \$5 million.
- Your proposal relates to an eligible activity and you provide the required information on your proposal as set out the application template.
- Your proposal duration is between 6 and 36 months.

Submitting an application that meets the eligibility criteria does not guarantee funding under this initiative. Eligible applications will be assessed on their individual merits by the **SMART Panel**, with the Panel responsible for awarding funding to successful applicants. Panel decisions are final.

SMART public financial support

Four potential sources of public financial support from the Government will be available for successful **SMART** proposals.

Grants

Grants from \$25,000 up to a maximum of \$100,000 will be available from a **SMART Grant** pool of \$2 million. Successful applicants will be required to sign a Grant Funding Agreement with the Government. Grant payments to applicants will be treated as exempt from tax and will not form part of the business's taxable income. Grant funds cannot be used to pay for any costs incurred before a GFA is signed.

A staged funding approach will be considered for proposals that demonstrate the potential for exceptional innovation and broader benefits and that are not commercially ready and require support for additional research and development and/ or commercial testing. Such proposals may be awarded more than one consecutive grant on a case by case basis.

Equity

Government equity options will be considered on a case-by-case basis for larger-scale commercially ready proposals with exceptional broader economic benefits. There may also be an option to convert loan repayments into equity.

Tax credits

A **SMART Tax Credit** (STC) equivalent to 10 per cent of the value of qualifying privately funded expenditure related to the proposal will be available to successful participants in this initiative. STC will be applied against your income tax liability, is non-transferable and must be utilised in the period in which the expense is incurred.

Qualifying expenditure for STC includes:

- **New assets** — one off tax credit on the value of new ICT equipment purchased for eligible activities.
- **Employee costs** — costs for employees involved in eligible activities, including salaries, wages, overtime, bonuses, sick and annual leave. Cost apportionment can be applied for employees engaged part-time on eligible activities.
- **Goods and services** — the cost of acquiring goods and services (other than assets) you use on eligible activities.

The following compliance requirements apply to STC claims:

- all tax returns for the period commencing 1 July 2020 must be filed with RMD on time;
- any outstanding tax returns relating to periods ending before 1 July 2020 must be filed by 31 December 2021;
- applicants must keep detailed financial records to support claims on qualifying expenditure for STC in their tax returns.

Matching private sector funding

The following funding sources will be eligible as contributions towards the matching private sector funding requirement for **SMART Grants**:

- **Direct contributions** — sources include cash on hand, private equity and debt.
- **In-kind contributions** — the value of human and material resources directly connected with the proposal activities, limited to the following categories:
 - new equipment and technical supplies and services purchased by your business with its own money for proposal purposes;
 - personnel who will provide direct or indirect services on the proposal's activities;
 - contracted consultants who will lend their expertise and time to the proposal after it is funded.

Stage 2 proposal assessment criteria

Your Stage 2 proposal for funding, set out in the proforma SMART Application Template, must demonstrate:

- a clear innovative business venture that will provide new or scaled-up ICT applications or services to the business and/ or retail consumer market;

- a strong, commercially viable and deliverable business plan that addresses market potential and needs, presented through sound, practical financial plans and timelines;
- a business arrangement or working structure with the necessary skills and experience to implement the proposed venture successfully;
- awareness of all the main risks the venture will face (including contractor or equipment failure, recruitment delays, etc.) with realistic management, mitigation, and impact minimisation plans for each risk;
- clear potential to improve business, industry, sector or Cook Islands productivity in a positive way; and
- matching private sector funding, direct and/ or in-kind.

The **SMART Panel** will assess each eligible Stage 2 proposal on the above criteria and determine the level of **SMART Grant** funding to be awarded to successful proposals.

Benefits and examples of qualifying ICT activities

The benefits of this initiative for the Cook Islands economy, across all industry sectors, are expected to come from ICT proposals that will deliver:

- **Innovation** — new technologies, models, applications, services and business processes.
- **Entrepreneurship** — new domestic and international business opportunities through access to new markets but also from specialisation, division of labour and new combinations of products and services.
- **Lower transaction costs** — faster speed and quality of information flows generating higher price transparency and reduced transaction costs.
- **Better service delivery** — electronic service delivery increasing transparency, efficiency saving time and money for individuals and businesses.

A non-prescriptive list of innovative ICT business proposals that may qualify for this initiative includes:

- **Internet of things (IoT)¹**– IoT is reshaping and transforming existing industrial structures through innovative services or applications, improved products, more efficient processes, reduced consumption of resources and a better understanding of customers’ needs e.g. sensor applications, tracking and monitoring systems, smart grids, and smart farming applications.
- **Big data applications** – data holds enormous potential in fields such as health, food security, climate and resource efficiency to energy, intelligent transport systems and smart cities e.g. tools to mine, process, store and analyse big data and generate value.
- **Software applications and services** – e.g. e-commerce applications and app development.
- **Financial technology services (fintech)** — combining the latest technological developments with financial services or applications, fintech has helped businesses – often startups – disrupt the industry and provide better financial services to businesses and individuals alike e.g. mobile money, micro insurance and venture capital and reducing the cost of transactions through point of sale systems, online banking, and mobile banking.

¹ Devices – from simple sensors to smartphones and wearables – that are connected together and combined with automated systems to gather information, analyse it, and create an action.

- **Cybersecurity applications** – the emergence of new technologies brings new opportunities for enhanced business performance and operations, but also introduces information security and privacy risks that generate cybersecurity business opportunities.
- **Global outsourcing services** – e.g. offshore provision of customer and technical services online.

For those proposals for activities that require regulatory approvals, such as certification or licensing, grant funding awards will be contingent on the business obtaining the necessary approvals.

Activities that do not qualify for funding

Funding will not be provided for proposals that do not:

- meet the application eligibility or activity qualification requirements;
- address the size, potential and access to market for the business activity proposed to be funded;
- demonstrate the potential for the business idea or concept to lead to significant commercial return on investment, positive economic impact, growth and/ or scale-up of the business.

Funding will not be provided for proposals to:

- establish or operate mobile telecommunications networks or provide mobile telecommunications services;
- provide products or services that your business is already providing;
- purchase ICT equipment and services for normal business operations.

The SMART Panel

The **SMART Panel** will be responsible for assessing and approving successful applications for **SMART** funding. The Panel will be comprised of 3 members, with the Ministry of Finance and Economic Management (MFEM) providing secretariat services, including administration and disbursement of grant funds.

Membership of the Panel will encompass expertise and experience in ICT training, support, innovation and promotion in the private and public sectors and small and medium enterprise business development support.

How to apply

The two-stage application and approval process will commence from 1 July 2020.

Stage 1

Eligible applicants must submit a Concept Note, up to a maximum of two, using the SMART Concept Note Template that will be available at <http://www.mfem.gov.ck/economic-planning/erp-phase-ii>.

Concept Notes must be submitted in electronic form by email to MFEM.economics@cookislands.gov.ck entering “*SMART Economy Initiative*” in the subject line.

Following an assessment of Concept Notes by the SMART Panel, which may include an opportunity to present your case to the Panel, successful first-stage applicants will be invited to proceed to the second stage.

Stage 2

Successful first stage applicants must submit a formal proposal for funding using the SMART Application Template that will be available at <http://www.mfem.gov.ck/economic-planning/erp-phase-ii>.

A maximum of two Stage 2 proposals per business will be considered, with funding for the second proposal conditional on available resources.

Applicants that require assistance in developing or formulating their Stage 2 proposals can request technical assistance under this initiative.

Proposals will be assessed by the **SMART Panel** based on their commercial, innovation and economic growth merits.

Confidentiality and queries

Applications will be treated in the strictest confidence, with publication restricted to high level summaries of successful proposals and funding awarded.

If you have any queries about this initiative, or require assistance with the application process or your proposal, please contact the MFEM Economic Planning Division via email at MFEM.economics@cookislands.gov.ck and enter “*SMART Economy Initiative*” in the subject line. If you do not have access to e-mail, the Economic Planning Division can be contacted by phone on +682 29511.

Timing

Stage 1 **SMART** applications, the Concept Note stage, will open from **1 July 2020**.

Compliance, monitoring and evaluation

Successful applicants will be required to sign a Grant Funding Agreement (GFA) with the Government. The GFA will set out conditions relating to expenditure of grant funds, audit commitments, business reporting requirements and media obligations. Any grant funds that are not spent in accordance with GFA obligations will be required to be repaid.

As part of the application process, businesses will provide baseline data. The business reporting requirements in the GFA will then be used to monitor performance and evaluate the success of the **SMART Economy Initiative**.

SMART awareness raising

Public and business awareness of the initiative and its benefits in supporting eligible business ventures, will be critical to the success of the initiative. **SMART** will be publicised through:

- the MFEM and Business Trade and Investment Board (BTIB) websites;
- BTIB Newsletter;
- local newspaper, radio, and TV adverts and Facebook posts;
- the Cook Islands Chamber of Commerce;
- India–Cook Islands Centre of Excellence in Information Technology, University of the South Pacific.

Budget impact

This measure is estimated to cost \$2 million in 2020/21 for the grant funding, with an additional \$25,000 in administrative costs.

For further information contact:

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