



# Country Operations Business Plan

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July 2013

Cook Islands  
2014–2016

Asian Development Bank



## CURRENCY EQUIVALENTS

(as of 10 July 2013)

Currency unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	=	\$0.7850
\$1.00	=	NZ\$1.2739

## ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
COBP	–	country operations business plan
GDP	–	gross domestic product
NSDP	–	National Sustainable Development Plan
SPSO	–	Pacific Subregional Office
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., FY2013 ends on 30 June 2013.
- (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 Cook Islands country operations business plan (COBP), 2014-2016 is consistent with the Asian Development Bank's (ADB) Pacific Approach, 2010–2014 and Strategy 2020. The Pacific Approach, which serves as the country partnership strategy for the Cook Islands,<sup>1</sup> aims to achieve sustained, resilient, and improved living standards.<sup>2</sup> This aligns with the vision of the Cook Islands National Sustainable Development Plan (NSDP) 2011–2015, for Cook Islanders to enjoy the highest quality of life in harmony with their culture and environment.<sup>3</sup> The Pacific Approach includes operational priorities in energy and strengthening the government's core functions to improve public sector effectiveness. An updated results framework is in Appendix 1.

2. The COBP targets (i) improving public infrastructure to promote environmentally sustainable private sector-led growth, (ii) reforming agencies responsible for delivering infrastructure services, and (iii) improving public finance management and public service performance. Particularly, the COBP supports key NSDP outcomes like economic development, social development, environmental integrity, infrastructure, and good governance and partnership.

3. After a few years of economic decline, the Cook Islands has rebounded to positive growth on the back of increased public spending on infrastructure projects and the continuing strong performance of tourism. Gross domestic product (GDP) grew by 4.6% in FY2012 and growth is projected to decrease to 3.2% in FY2013 due to slower growth in tourist arrivals. In the medium term, GDP growth is projected to drop back to 1.8% in FY2014 due to a substantial fall in capital expenditure (most of which is donor-funded).

4. The fiscal responsibility ratios provide the overall framework for the national budget. The Cook Islands continue to exceed the 40% of total revenue threshold on wages and salaries while in more recent years, the overall budget deficit has been above its 2% of GDP benchmark. While the underwriting of airline routes has risen to 11% of total budget expenditure, it was 29% below budget. The government is also facing pressures for higher wages and welfare payments. Gross public debt currently equals 22% of GDP<sup>4</sup> below the government ceiling of 35%. The government is cautious about future borrowing and is exploring ways to minimize foreign exchange risks of borrowing through currency conversion.

## II. INDICATIVE RESOURCE PARAMETERS

5. The Cook Islands is eligible to borrow from ordinary capital resources (OCR). An indicative lending program of \$11.8 million is proposed for 2014–2016. The appropriate amount of funding to be accessed for future operations will be determined by updating the debt sustainability assessment.<sup>5</sup> ADB will seek cofinancing while developing the assistance pipeline. The indicative lending program pipeline for 2014–2016 is provided in Appendix 3, Table A3.1.

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<sup>1</sup> Memo approved by the Vice-President-in-Charge, Operations 2 on 1 July 2011, paragraph 2b.

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

<sup>3</sup> Government of the Cook Islands. 2011. *The Cook Islands Te Kaveinga Nui National Sustainable Development Plan, 2011–2015*. Rarotonga (accessible from the list of linked documents in Appendix 2).

<sup>4</sup> It should be noted that the Cook Islands has a Loan Reserve Fund of \$17.5 million, equivalent to 4.3% of GDP, net public debt to GDP is 19.8%.

<sup>5</sup> ADB will support the update of this assessment, as the Cook Islands is not a member of the World Bank or the International Monetary Fund.

6. The government has identified four areas of priorities over the next 3 years: (i) water and sanitation; (ii) renewable energy; (iii) governance; and (iv) information communication technology (ICT). The government confirmed for ADB to support an investment project in renewable energy. Project preparation will carefully ensure adherence to ADB's Safeguard Policy Statement (2009).

7. Indicative annual technical assistance (TA) support in 2014–2016 averages \$500,000. As agreed with the government, ADB will continue support for public sector management, asset management and state-owned enterprises reforms. An indicative nonlending program pipeline for 2014–2016 is in Appendix 3, Table A3.2.

8. The Cook Islands will receive support from regional TA projects in line with the Regional Operations Business Plan, 2013–2015, where feasible. The Cook Islands is benefitting from regional TAs to promote energy efficiency,<sup>6</sup> and economic management,<sup>7</sup> and private sector development (PSDI).<sup>8</sup> Through the results-based strategy and sector planning regional TA,<sup>9</sup> ADB will assist the Government in developing a proper regulatory framework for the telecommunications sector, which will predominantly focus on a review of draft commerce legislation which has been prepared to monitor a number of sectors. ADB will support the corporatization of all water related activities of the Ministry of Infrastructure and Planning through PSDI. The Pacific Infrastructure Advisory Centre will support the development of a 5-year infrastructure masterplan through the Pacific Regional Infrastructure Facility.<sup>10</sup>

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

9. For the 2013 program, the TA for asset management to sustain improved delivery of infrastructure services replaces Phase 2 of the improving delivery of infrastructure services TA, and is reduced to \$225,000 to reflect the decrease in scope to asset management only (Appendix 4). Changes to the 2014–2016 lending and nonlending programs include (i) decrease allocation for the renewable energy project (2014) to \$11.8 million upon the government's request, (ii) TA for public sector management for \$700,000 in 2014 to continue public sector reforms and develop a results-based management framework, and (iii) TA for SOE reforms \$500,000 in 2016.

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<sup>6</sup> ADB. 2011. *Promoting Energy Efficiency in the Pacific (Phase 2)*. Manila.

<sup>7</sup> ADB. 2011. *Pacific Economic Management—Enhanced Economic Management (Subproject 2)*. Manila.

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<sup>10</sup> ADB. 2008. *Establishment of the Pacific Infrastructure Advisory Center*. Manila.

**UPDATED COUNTRY PARTNERSHIP STRATEGY RESULTS FRAMEWORK**  
(Board endorsement of the Pacific Approach, 2010–2014: November 2009; COBP: July 2013)

<b>Country Development Goals</b>				
To build a sustainable future that meets economic and social needs without compromising prudent economic management, environmental integrity, social stability, and the needs of future generations				
<b>Sectors Selected by ADB</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 3-Year Resource Allocation and Thematic Priorities</b>	<b>Changes from Last COBP</b>
<b>1. Public sector management (Strategy 2020 drivers of change 2: Good Governance and Capacity Development)</b>				
Strategic Goal 3: Innovative and well-managed private sector-led economy	<ul style="list-style-type: none"> <li>Improved efficiency and effectiveness in public sector and public service delivery</li> <li>tax revenue not exceeding 25% of GDP</li> <li>public sector wages and salaries at 44% of total revenue in 2010 and reduced to 40% in out years</li> <li>debt servicing as a percentage of total revenue not exceeding 5%</li> <li>overall deficit not exceeding 2% of GDP</li> <li>net debt-to-GDP ratio not exceeding 35%</li> <li>At least three NGOs and/or CSOs delivered new home care and/or nursing services based on output-based grants; and at least 100 elderly and disabled people received new home care or nursing services by NGOs or CSOs</li> </ul>	<p>Establish medium-term fiscal framework and develop medium-term budget.</p> <p>Conduct macroeconomic assessment.</p> <p>Continue public sector reform</p> <p>Develop a results-based management framework</p> <p>Review of social welfare system</p> <p>Home care/nursing services for the elderly and the disabled provided by NGOs and CSOs</p>	<p>\$7.0 million, 26% of total COBP projected financing, of which:</p> <p>ENV – 0%</p> <p>RCI – 0%</p> <p>GEN – 100%</p> <p>PSD – 100%</p> <p>\$6.0 million approved by the end of 2012, 22% of total COBP projected financing, of which</p> <p>ENV – 0%</p> <p>RCI – 0%</p> <p>GEN – 100%</p> <p>PSD – 100%</p>	TA to support public sector management for \$1 million is reduced to \$700,000 and earmarked to continue public sector reforms and develop results-based management framework included in 2015 pipeline.
<b>2. Transport and information and communication technology (Strategy 2020 Core Area 1: Infrastructure)</b>				

<b>Country Development Goals</b>				
To build a sustainable future that meets economic and social needs without compromising prudent economic management, environmental integrity, social stability, and the needs of future generations				
<b>Sectors Selected by ADB</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 3-Year Resource Allocation and Thematic Priorities</b>	<b>Changes from Last COBP</b>
<p>Strategic Goal 3: Innovative and well-managed private sector-led economy</p> <p>Strategic Goal 6: A safe, secure, and resilient community</p>	<ul style="list-style-type: none"> <li>• Prioritized infrastructure investments to underpin environmentally sustainable growth</li> <li>• average number of marine accidents in the harbor environs annually reduced from 2 in 2002–2007 to 0 by 2013</li> <li>• Secure and efficient port infrastructure in Rarotonga, with climate change resilience incorporated in port infrastructure design, protocols, and operation</li> <li>• number of cruise ships berthing alongside increased from 2 in 2007 to 25 per year by the end of 2012</li> <li>• number of vessels longer than 100 meters calling at least 12 per year by the end of 2012</li> </ul>	<p>Improve port facilities and services.</p> <p>Improve the delivery of infrastructure services.</p> <p>Development of a 5-year infrastructure plan</p> <p>Construction of a submarine cable project</p>	<p>\$0.4 million, 1.5% of total COBP projected financing, of which:</p> <p>ENV – 100%</p> <p>RCI – 100%</p> <p>GEN – 0%</p> <p>PSD – 100%</p> <p>\$0.0 million approved by the end of 2012.</p>	<p>PIAC to support development of 5-year infrastructure plan.</p>
<b>3. Energy (Strategy 2020 Core Area 1: Infrastructure)</b>				



<b>Country Development Goals</b>				
To build a sustainable future that meets economic and social needs without compromising prudent economic management, environmental integrity, social stability, and the needs of future generations				
<b>Sectors Selected by ADB</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 3-Year Resource Allocation and Thematic Priorities</b>	<b>Changes from Last COBP</b>
Strategic Goal 4: Sustainable use and management of natural resources and the environment	<ul style="list-style-type: none"> <li>• Reduced dependence on imported fossil fuels for power generation</li> <li>• diesel imports for power generation reduced by 3.35 million liters by 2015 from 6.7 million in 2012</li> <li>• increased supply of clean and reliable power</li> <li>• power supplied from renewable sources sufficient to meet the needs of 2,050 households by 2015 (1,025 in 2012)</li> </ul>	Implement cost-effective renewable energy.	\$19.5 million, 72.5% of total COBP projected financing, of which: ENV – 100% RCI – 0% GEN – 0% PSD – 100% \$0.0 million approved by end 2012.	Total cost of proposed project \$20 million. OCR allocation \$11.8 million.

ADB = Asian Development Bank, COBP = country operations business plan, CPS = country partnership strategy, ENV = environmental sustainability, GDP = gross domestic product, GEN = gender equity, PPTA = project preparatory technical assistance, PSD = private sector development, RCI = regional cooperation and integration, TA = technical assistance.

Source: ADB estimates.

**LIST OF LINKED DOCUMENTS**

(<http://www.adb.org/Documents/COBP/?id=COO-2013>)

1. ADB's Pacific Approach, 2010–2014
2. The Cook Islands Te Kaveinga Nui National Sustainable Development Plan, 2011–2015
3. Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020
4. Regional Operations Business Plan for the Pacific, 2013–2015
5. Mainstreaming Climate Change in ADB Operations: Climate Change Implementation Plan for the Pacific, 2009–2015

## INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Lending Products, 2014–2016

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	ADB		Total	Gov't	Cofinance	
							OCR	ADF				
								Loans				Grants
<b>2014</b>												
Renewable Energy Project	ENE	GI	ENV	PATE	2013	21.70	11.80	0.00	0.00	0.00	2.00	7.90
<b>Total</b>						<b>21.70</b>	<b>11.80</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>2.00</b>	<b>7.90</b>
<b>2015</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>2016</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>

ADB = Asian Development Bank; ADF = Asian Development Fund; ENE = energy; ENV = environmental sustainability; GI = general intervention; Gov't = government; OCR = ordinary capital resources; PATE = Transport, Energy, and Natural Resources Division; PPTA = project preparatory technical assistance; TBD = to be determined

Source: ADB estimates.

**Table A3.2: Nonlending Products and Services, 2014–2016**

Assistance Name	Sector	Division	Assistance Type	Sources of Funding		Total (\$'000)	
				ADB Source	Others Amount (\$'000)		
<b>2014</b>							
Support to Public Sector Management	PSM	SPSO	CDTA	TASF	700.00	0.00	700.00
<b>Total</b>					<b>700.00</b>	<b>0.00</b>	<b>700.00</b>
<b>2015</b>							
None					0.00	0.00	0.00
<b>Total</b>					<b>0.00</b>	<b>0.00</b>	<b>0.00</b>
<b>2016</b>							
State Owned Enterprises Reforms	PSM	SPSO	CDTA	TASF	300.00	0.00	300.00
<b>Total</b>					<b>300.00</b>	<b>0.00</b>	<b>300.00</b>

ADB = Asian Development Bank; PATE = Transport, Energy, and Natural Resources Division; CDTA = capacity development technical assistance; ENE = energy; MS = multisector; PPTA = project preparatory technical assistance; PSM = public sector management; SPSO = Pacific Subregional Office; TASF = technical assistance special fund.  
 Source: ADB estimates.

## ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A4.1: Lending Products, 2013

Project/Program Name	Sector	Targeting Classification	Primary Theme	Division	Year of PPTA	Cost (\$ million)						
						Total	ADB			Total	Gov't	Cofinance
							OCR	Loans	Grants			
<b>2013</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>

ADB = Asian Development Bank, ADF = Asian Development Fund, GI = general intervention, GRO = economic growth, Gov't = government, OCR = ordinary capital resources, PPTA = project preparatory technical assistance, PSM = public sector management, SPSO = Pacific Subregional Office.

Source: ADB estimates.

Table A4.2: Nonlending Products and Services, 2013

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				
				ADB		Others		Total (\$'000)
				Source	Amount (\$'000)	Source	Amount (\$'000)	
<b>2013</b>								
Preparing the Renewable Energy Project	ENE	PATE	PPTA	Trust Fund	500.00		0.00	500.00
Asset Management to Sustain Improved Infrastructure Services Delivery	MS	SPSO	CDTA	TASF- Others	225.00		0.00	225.00
<b>Total</b>					<b>725.00</b>		<b>0.00</b>	<b>725.00</b>

ADB = Asian Development Bank, CDTA = capacity development technical assistance, ENE = energy, MS = multisector, PATE = Pacific Transport, Energy and Natural Resources Division, PPTA = project preparatory technical assistance, SPSO = Pacific Subregional Office, TASF = technical assistance special fund.

Source: ADB estimates.