



PACIFIC DEPARTMENT
PACIFIC SUBREGIONAL OFFICE

COOK ISLANDS: Country Programming Mission
27 – 28 February 2017

MEMORANDUM OF UNDERSTANDING

BETWEEN THE GOVERNMENT OF COOK ISLANDS
AND THE ASIAN DEVELOPMENT BANK

I. INTRODUCTION

1. The Cook Islands country programming mission (the mission)¹ to discuss the country operations business plan (COBP) 2018-2020 took place on 27-28 February 2017. This memorandum of understanding (MOU) summarizes the discussions held. All agreements reached are subject to the review and approval of the higher authorities of the Asian Development Bank (ADB) and the Government of the Cook Islands (the government). A list of persons met is in Annex 1.

II. STRATEGIC PRIORITIES

2. **ADB's engagement in Cook Islands.** Since joining ADB in 1976, 20 loan projects totaling US\$86.9 million, 3 grant projects totaling US\$12.3 million, and 37 technical assistance projects worth US\$12.1 million have been provided to the Cook Islands.

3. **Strategic focus.** The Cook Islands COBP 2018–2020 is aligned with Pacific Approach, 2016–2020.² The COBP will focus on (i) increasing the contribution of renewable energy (ii) improving internet connectivity by escalating the efficiency of information and communications technology, (iii) strengthening resilience to natural disasters, (iv) accessing grant resources for water and sanitation, (v) improving public sector effectiveness, and (vi) supporting private sector development. The operational focus aligns with the strategic objectives of the National Sustainable Development Plan 2016-2020, with direct contribution to goals 5, 6 and 13.

(i) **Energy.** 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 processing additional grant financing of US\$12 million in 2017 sourced from the Green Climate Fund (GCF) to install three units of battery energy storage system on the main island of Rarotonga. To timely help the government achieves its renewable energy target, ADB will assist Te Aponga Uira and the government to design the business model and financing structure upon the receipt of government's official request.³ ADB is currently discussing options with government and exploring cofinancing options to construct a solar power system in Aitutaki, for which \$2.5 million will be required. The

¹ The mission comprised Mr. Robert Jauncey, Regional Director, SPSO; Beatrice Olsson, Country Officer, SPSO; Vanessa Jenner, ADB Liaison Officer and Charmaine Dolan, Administration Assistant, ADB Cook Islands Development Coordination Office.

² ADB. 2016. *Pacific Approach 2016-2020*. Manila.

³ ADB will seek a grant from regional technical assistance resources to undertake this.

construction of solar photovoltaic power plants in Mangaia, Mauke, Mitiaro, and Atiu, implemented under the ADB-financed Renewable Energy Sector Project, is expected to be completed by the end of 2017.⁴

(ii) **Information and Communication Telecommunications.** Cook Islands will be part of a proposed “Polynesian Cable Project” linking Samoa to French Polynesia to connect Rarotonga and Aitutaki with spurs and branching units along with Niue. The Cook Island cable system is estimated to cost US\$24 million and will be constructed and operated by a public-private partnership consortium with participation from OPT, the main French Polynesian telecoms operator, the Samoa Cable Corporation, Government of Niue and both Government and private investors from Cook Islands.⁵ Such a regional approach will help the Cook Islands to achieve economies of scale and share operating costs. The participating countries are in a process to sign an international treaty in April, establishing their commitment for the project and tendering will likely occur in mid-late 2017. ADB can provide US\$15 million lending from its ordinary capital resources (OCR) in 2017, with room to provide more if necessary.

(iii) **Disaster resilience management.** As part of a broader disaster risk management strategy, a development policy loan of US\$10 million was made effective in February 2017, making available a contingent credit line providing immediate liquidity in the aftermath of a natural disaster. The program will be drawn from ADB’s regular OCR, and denominated in the equivalent amount of NZ\$13,950. The loan has a 12-year term, including a grace period of 3 years, with repayments calculated based on a disbursement-linked amortization schedule. The annual interest rate will be determined in accordance with ADB’s lending facility based on the London interbank-offered rate, and an annual commitment charge of 0.15%. Although this is a contingent loan, government is required to factor this in their lending headroom calculations.

(iv) **Water and sanitation.** ADB has previously been involved in designing improved water supply systems in Cook Islands, a project ultimately financed jointly by China, New Zealand, and the European Union. Government and the community are highly focused on the need to improve sanitation, as the Cook Islands currently operates a distributed system of septic tanks rather than a central reticulated sewerage system, in order to maintain the Cook Islands “clean and green” international tourist brand. ADB could add value by seeking GCF grants to work alongside other partners for this project, and this will be explored further.

(v) **Public sector management.** Improving public service efficiency is a key priority for government and government’s priorities are reflected in the government’s public sector strategy, 2016 – 2025. Government has prioritized an e-government technical assistance in 2017 with further support to improve public service efficiency in 2019.

(vi) **Private sector.** The Private Sector Development Initiative (PSDI) completed a private sector assessment in 2015 with a number of recommendations being presented in the report to government.⁶ ADB, through PSDI, is working with Cook Islands on

⁴ The project is implemented together with government and Entura, the engineering firm providing support to the Office of the Energy Commissioner and Renewable Energy Development Division.

⁵ The cost of the Polynesian Cable Project is approximately US\$53 million, with the Cook Islands’ share (covering a portion of the main cable plus a spur) approximately US\$24 million.

⁶ 2015. ADB. *The Cook Islands: Stronger investment climate for sustainable growth*. Manila. Key recommendations from the assessment include strengthening public sector performance, improving business entry processes,

company law and personal properties securities reforms and will stay engaged and explore opportunities in the financial (including banking) sectors over this COBP period. Opportunities in regional tourism and small-medium enterprises financing initiatives will also be explored by PSDI. Government and local businesses are keen for ADB procurement to be adjusted to allow greater use of national competitive bidding. ADB is in the process of revising procurement thresholds across the Pacific, which could see more private sector involvement on ADB-financed projects.

III. INDICATIVE RESOURCES FOR 2018-2020

4. **Resource envelope.** The Cook Islands is classified as a Group C (Regular Ordinary Capital Resources-only countries) country in ADB. Indicative regular OCR available for commitment during 2018–2020 amount to US\$28 million. Cofinancing and funding from other sources, especially the GCF, will be actively explored. The indicative technical assistance support averages \$300,000 annually. The final country allocations will be determined by the debt sustainability framework and ADB's Graduation Policy.⁷ As the Cook Islands is due to graduate from OECD Development Assistance Committee assistance in 2017, and while this has no impact on ADB terms, ADB stands ready to support government as it navigates graduation and its' broader impacts. The COBP pipeline is in Annex 2.


5. **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 2018-2020:

Processing Events	Estimated dates
Draft COBP 2018 - 2020 for government review	3 April 2017
Government endorsement	14 April 2017
ADB Management approval	30 June 2017

IV. ACKNOWLEDGEMENT

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

Signed on 13th April 2017


 Mr. Garth Henderson, Financial Secretary
 Ministry of Finance and Economic Management
 Government of Cook Islands
 Rarotonga, Cook Islands


 Ms. Beatrice Olsson, Country
 Coordination Officer, Pacific Subregional
 Office, For the Asian Development Bank
 Suva, Fiji

improving the functioning of the financial system, strengthening the legislative framework for state-owned enterprises, and addressing competition related concerns.

⁷ A Debt Sustainability Analysis (DSA) undertaken by ADB in September 2015 finds the Cook Islands to be at low risk of external debt distress. The DSA assumes long run growth of 2.0%, fiscal surpluses of 2.0%, and inflation at 2.0%. The DSA also assumes that the government will hold insurance coverage over its assets and catastrophe insurance for the economy. The Cook Islands is classified as a Group C regular OCR-only country in ADB; ADB. 2016. *Concessional Assistance Policy*. Manila

ANNEX 1

LIST OF PEOPLE MET

Ministry of Finance and Economic Management	Hon. Mark Brown, Minister for Finance Garth Henderson, Financial Secretary Lavinia Tama, Development Coordination Division Manager
Office of the Prime Minister Renewable Energy Development Division ICT	Hon. Henry Puna, Prime Minister Elizabeth Wright-Koteka, Chief of Staff Tangi Tereapii, Director REDD Romani Katoa, Renewables Project Manager Pua Hunter, Director ICT
Te Aponga Uira (TAU), Power Utility	Apiti Timoti, Chief Executive Officer Tama Heather, Assistant Engineer Teiti Paio, Assistant Engineer
Development Partners Roundtable	Lavinia Tama, DCD Manager Tamari'i Tutangata, Chief Executive Officer, CIIC Patricia Tuara, UN Coordination Officer Andreas Demmke, Programme Manager, Development Coordination Division Jim Armistead, Director, Pacific Division, Ministry of Foreign Affairs and Immigration
Cook Island Tourism Board	Halatoa Fua, Chief Executive Officer
NZ High Commission	Peter Marshall, New Zealand High Commissioner to the Cook Islands Joseph Mayhew, First Secretary Development/ New Zealand Aid Programme Manager
Chamber of Commerce	Steve Lyons, President Lynne Samuel, Executive Director Executive Members Brian Baudinet, Erica Anderson, John Webb, David Street and Vaine Arioka Teariki Vakalalabure, Chief Executive Officer, Business Trade and Investment Board
Civil Society and Non-for Profit organizations	Cook Islands Civil Society Organisation Executives - Lydia Sijp, Keu Mataroa, Tepaeru Hagai, Nga Teao-Papatua Boyd Ellison, Akairo Consulting Services

Annex 2

INDICATIVE ASSISTANCE PIPELINE

Table A3.1: Lending Products, 2018–2020

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Cost (\$ million)						Co-finance
						Total	Regular OCR	ADF		Total	Gov't	
								COL	Grants			
2018												
Renewable Energy Sector	ENE	GI	IEG/PAR	PATE	2016	2.5	0.0	0.0	0.0	0.0	0.0	2.5
Project-additional financing for Aitutaki ^a												
Total												
2019												
None												
Total												
2020												
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.

^a A preliminary proposal has been submitted to the PRC fund. According to Office of Cofinancing, a new financing agreement between ADB and the Government of PRC is expected to be signed by both parties at the end of March 2017 following which proposals will be considered in June 2017 and a final decision would be made in mid-August 2017.

Table A3.2: Nonlending Products and Services, 2018–2020

Assistance Name	Sector	Division	Assistance Type	Sources of Funding				Total (\$'000)
				ADB		Others		
				Source	Amount (\$'000)	Source	Amount (\$'000)	
2018								
None								
Total								
2019								
Public Sector Strengthening	PSM	SPSO	CDTA	TASF	500.00			500.00
Total					500.00			500.00
2020								
None								
Total								

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, 2017

Project/Program Name	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Cost (\$ million)					Co-finance
						Regular OCR	ADB			Gov't	
							COL	Grants	Total		
2017											
Polynesian Cable Project (PCP)	ICT	GI	IEG/PAU/ GEM	PAUS	2016	15.0	0.0	0.0	15.0	0.0	9.0 ^a
Total						24.0	0.0	0.0	15.0	0.0	9.0
Renewable Energy Sector Project (GCF)-additional financing for Rarotonga BESS	ENE	GI	IEG/PAU	PATE	2016	0.0	0.0	0.0	12.0	0.0	12.0 ^b
Total						12.0	0.0	0.0	12.0	0.0	12.0

ADB = Asian Development Bank, ADF = Asian Development Fund, BESS = battery energy storage system, COL = concessional OCR lending, COO = Cook Islands, ENE = energy, GI = general intervention, GCF = Green Climate Fund, 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 Possible grant cofinancing from the Government of New Zealand and private investor(s) will provide counterpart equity financing but there is no firm commitment yet.

^b Cofinancing from Green Climate Fund.

Source: Asian Development Bank estimates.

Table A4.2: Nonlending Products and Services, 2017

Assistance Name	Sector	Division	Assistance Type	Sources of Funding		
				ADB		Total (\$'000)
				Source	Amount (\$'000)	
2017						
E-government for improved public service efficiency ^a	PSM	SPSO	CDTA	TASF	500.00	500.00
Total					500.00	500.00

ADB = Asian Development Bank.

Source: Asian Development Bank estimates.

^a Formerly referred to as Public Sector Strengthening I