



COOK ISLANDS: Country Programming Mission
20 – 26 May 2015

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) 2016-2018 took place on 20-26 May 2015. Further discussions took place over June 2015 as government proceeded to develop its public service strengthening strategy. This memorandum of understanding (MOU) summarizes the discussions held and was agreed upon during a wrap up meeting with the Permanent Secretary for the Ministry of Finance and Economic Management on 10 July 2015. 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

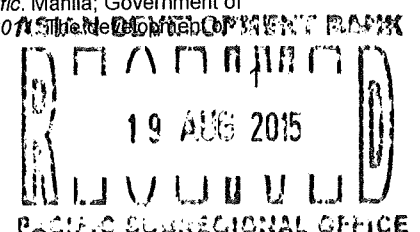
2. **ADB's engagement in Cook Islands.** Since joining ADB in 1976, 19 loans for \$76.90 million, 2 grants for \$8.06 million, and 34 technical assistance projects for \$12.12 million have been provided to the Cook Islands.

3. **Strategic focus.** The COBP, 2016 -2018 of ADB for the Cook Islands is aligned with ADB's Interim Pacific Approach 2015, which extends the validity of ADB's Pacific Approach 2010-2014, the Midterm Review of Strategy 2020, and the Cook Islands National Sustainable Development Plan (NSDP), 2011–2015.² The shared focus is on renewable energy and energy efficiency, information and communication technology (ICT), public sector management, private sector participation, and capacity development. ADB's operations are demand-driven, within areas of ADB's comparative strength, and capitalize on regional approaches and partnerships. In particular, the COBP supports economic development, environment integrity, and governance and partnerships, which are all key outcomes of the NSDP.

4. The government is committed to enhancing development effectiveness including government ownership, use of country systems, broad-based consultation and participation, development partner coordination, and harmonization of sector support, particularly in infrastructure development, renewable energy, and public sector

¹ The mission comprised Ms V. Jenner, ADB Development Coordination Officer, Ms C. Dolan, Administration Assistant, ADB Cook Islands Development Coordination Office, with remote support from Ms B. Olsson, Country Officer, ADB Pacific Subregional Office.

² 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*. Ngeru. The NSDP 2016–2020 is underway.



strengthening. Building country capacity, securing technical and advisory support, encouraging public policy dialogue, and generating community involvement through effective communication, continue to remain top priorities.

5. **Energy.** The government has committed to implementing its goal of electricity supply through renewable energy resource in the Cook Islands of 50% by 2015 and 100% by 2020. The Pacific Department's energy team is working closely with government and Entura (an engineering firm providing support to the Office of the Energy Commissioner and Renewable Energy Development Division), on the implementation of the ADB financed Renewable Energy Sector Project³ focusing on the Southern Island Group. To leverage further grant financing for this project, ADB is assisting the Cook Islands to access Global Environment Funds (GEF6) of \$4.1 million by early 2016. ADB is also seen as a strategic partner in supporting the development of pipeline projects to access Green Climate Funds as appropriate.

6. **Information and Communication Technology.** While the launch of the O3b satellite service and Telecom Cook Islands (now Bluesky Group),⁴ 3G mobile service network in 2014 has improved broadband internet capacity in the country, government remains interested in improving information and communication technology (ICT), particularly a submarine cable option arising from a feasibility study ADB supported to meet the expected growth in demand for high quality internet services.⁵ Should this project develop, the government will be looking at both sovereign and non-sovereign financing. ADB's Pacific Department ICT team and the Private Sector Operations Department will stay engaged with the government to monitor the growth in demand for internet services following the O3b introduction, and assess whether the demand level will justify the introduction of a cable system. As is already planned by the government, a coherent and appropriate regulatory framework for telecommunications will need to be implemented.⁶ The Cook Islands National Infrastructure and Investment Plan notes prioritization for this in 2019-2021⁷, which will require ADB support for a preparatory technical assistance in 2018.

7. **Public Service and State Owned Enterprises.** The government is in the process of finalizing its public service strengthening strategy and is requesting targeted development partner support to assist them in successfully implementing the strategy. A broader technical assistance (TA) titled Supporting Public Sector Management in 2016, and estimated at \$500,000, is expected to commence development in 2015 following cabinet decisions on the strategic direction, relevant policies, legislative framework, and institutional arrangements needed for public sector and state owned enterprise reforms (SOE).

8. **Private Sector.** The Private Sector Development Initiative (PSDI) completed a private sector assessment (PSA) in 2015 with a number of recommendations being

³ The Project was approved by ADB on 21 November 2014 and became effective on 9 February 2015. An ADB mission visited Cook Islands from 11 - 14 May 2015 to conduct an inception mission for the project and also discussed additional financing for the project from the Global Environment Facility.

⁴ Information related to the Telecom/Bluesky Group purchase can be found at <http://www.telecom.co.ck/view/page/media-releases-articles/story/bluesky-group-expands-to-cook-islands/>

⁵ The study was completed by the Private Sector Development Initiative (PSDI). PSDI is a technical assistance facility established by ADB and cofinanced by Australia to assist Pacific Developing Member Countries increase incomes, jobs, and economic growth through private sector growth.

⁶ The government is working on the telecommunication and commerce policies and bills to create a more competitive telecommunications industry, with support from PSDI.

⁷ Reference page xiv of the executive summary of the National Infrastructure Investment Plan found at <http://www.mfem.gov.ck/mfemdocs/amd/infrastructure/844-cook-islands-national-infrastructure-investment-plan-2015/file>.

presented in the report to government⁸. In particular, the government has prioritized company law reform in 2015-2016⁹. Additionally, the government and the private sector have shown an interest in working with ADB to better enable national competitive bidding on contracts and bolstering private sector investment options while recognizing size and scale limitations. ADB, through PSDI, will stay engaged and explore opportunities in the financial (including banking) and telecommunication sectors over the next 3-5 years.

9. **Capacity development.** Support for building national capacity on public sector management, and in those areas of public sector service delivery critical to fostering inclusive and sustainable growth and socio-economic development, areas of economic management, governance, and climate change will be pursued. TA resources will be programmed to build capacities in these areas. The Cook Islands will also continue to benefit from regional TA in line with ADB's Regional Operations Business Plan, 2015–2017. A country safeguards systems training, supported under a regional TA, is scheduled in the Cook Islands towards the second half of 2015.¹⁰

10. **Economic update.** The Cook Islands is a small open economy largely dependent on tourism and infrastructure development. Visitors to the Cook Islands increased to about 123,000 in FY2014, up by 1.6% over FY2013, and are expected to stabilize in FY2015 and FY2016. Gross domestic product (GDP) declined by 1.2% in FY2014, a slight improvement from 1.7% contraction in FY2013. It is forecasted to grow by 2.1% in FY2015 and then contract by 0.3% in FY2016 as large public investment projects end. Large capital expenditures continue to drive government's expansionary fiscal policies, with budget deficits seen 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. Despite a high GDP per capita (NZ\$20,425 in FY2014), 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 14,900 residents in 2006 to 13,500 in 2014.

11. Currently, the net public sector debt of NZ\$86 million is just under 22% of estimated GDP for 2014/15. This is below the 35% of GDP (around NZ\$138 million) agreed to under the Fiscal Responsibility Ratios and the Ministry of Finance and Economic Management's own threshold of 30% of GDP (around NZ\$119 million). Rigorous debt maintenance adds to the overall resilience of the country and ensures there is sufficient future capacity (around NZ\$18 million of possible debt capacity) within the public sector to cope with external shocks, including fiscal deficits, exchange rate risk on external debt, and the importance of maintaining borrowing space to improve the country's resilience to natural disasters. ADB's loans account for 70% of Cook Island's gross debt portfolio. ADB, through assistance from the regional Pacific Economic Management TA, will be assisting government with a macroeconomic assessment in quarter 4, 2015. The outcome will help determine government's readiness to take on further debt. Proposals to take on new loans on behalf of the Crown must be treated under the processes established within the Ministry of Finance and Economic

⁸ The report will be made available by quarter 4, 2015. Key recommendations from the assessment 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.

⁹ This will include personal property securities reform.

¹⁰ ADB. 2015. *TA 7566 Subproject for Training and Knowledge Sharing for Country Safeguards Systems Strengthening in the Pacific*. Manila.

Management Act 1995/96 (MFEM Act) and the Loan Repayment Fund Act 2014 (LRF Act).¹¹

III. INDICATIVE RESOURCES FOR 2016-2018

12. **Resource envelope.** The Cook Islands is eligible to borrow from Ordinary Capital Resources (OCR). For 2017-2018, the availability of \$3.3 billion concessional OCR is assumed annually. For Cook Islands, the indicative OCR resources available during 2015–2016 is \$5.06 million and 2017-2018 is \$6.43 million. Additional OCR and co-financing can be sourced to meet national needs. The final country allocations will be determined by the debt sustainability framework and ADB's country classification policy.¹²

13. **Loan and technical assistance for 2016–2018 pipeline:** An ICT submarine cable project is foreseen in 2019, and is estimated to cost \$35 million. The indicative TA support averages \$300,000 annually, or up to at least \$1million for 2016-2018. This is allocated towards a preparatory TA for the ICT submarine cable in 2018 (estimated at \$500,000) and a TA to support public sector management in 2016 (estimated at \$500,000), comprising support for both public service efficiency efforts and state owned enterprise reforms.

14. **Regional support for 2016-2018.** The Cook Islands will continue to benefit from regional support in line with the Regional Operations Business Plan, 2015–2017, particularly in the areas of economic management, finance, renewable energy, climate change, safeguards, and capacity development.¹³ Other regional TA available to government includes support from PSDI for selected recommendations arising from the 2015 PSA, particularly in relation to SOE reforms, company law and personal property securities reforms, financial services, and telecom reform (including finalization of the competition policy and draft legislation); and the Pacific Regional Infrastructure Facility for infrastructure planning, development and management.

15. **Current Year (2015).** ADB is seeking an additional \$4.12 million from the Global Environment Facility as a potential grant contribution to the Renewable Energy Sector Project (footnote 3). This is being pursued in 2015 and should be approved by early 2016.

16. **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 2016-2018:

Processing Events	Estimated dates
Draft COBP 2016 - 2018 for government review	30 July 2015
Government endorsement	15 August 2015
ADB Management approval	31 August 2015

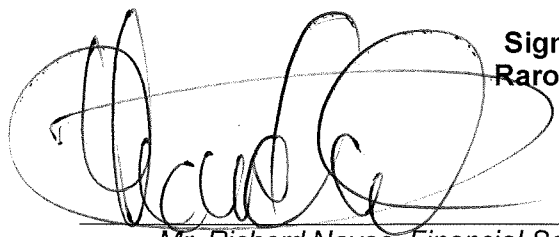
¹¹ In February 2014, the Parliament of the Cook Islands passed the Cook Islands Loan Repayment Fund Act 2014 formally creating a Loan Reserve Fund (LRF). The effect of the LRF is to quarantine those monies previously accumulated from being utilized for anything outside of debt servicing requirements. It also legislated a framework for management of all sovereign public debt and ensures the timely allocation of money from the Budget and repayment as required of all sovereign debt held by the Crown. Source < <http://www.mfem.gov.ck/loan-reserve-fund>>.

¹² ADB will support the macroeconomic assessment update in September 2015, as the Cook Islands is not a member of the World Bank or the International Monetary Fund.

¹³ ADB 2014 *Regional Operations Business Plan for the Pacific*, 2015–2017 Manila (accessible from list of linked documents in COBP).

IV. ACKNOWLEDGEMENT

17. 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 10 July 2015
Rarotonga, Cook Islands**


*Mr. Richard Neves, Financial Secretary
Ministry of Finance and Economic Management*

**Government of Cook Islands
Rarotonga, Cook Islands**



*Ms. Vanessa Jenner, Coordination Officer
Development Coordination Office*

**For the Asian Development Bank
Rarotonga, Cook Islands**



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

LIST OF PEOPLE MET

Heads Of Ministries and State Owned Enterprises

Mr. Matairangi Porea, Head of Ministry, Ministry of Agriculture
Mr. Sonny Williams, Head of Ministry, Ministry of Cultural Development
Mr Richard Neves, Head of Ministry, Ministry of Finance & Economic Management
Mrs. Myra Patai, Head of Ministry, Ministry of Foreign Affairs & Immigration
Mr Tingika Elikana, Head of Ministry, Ministry of Justice & Lands
Mr. Ben Ponia, Head of Ministry, Ministry of Marine Resources
Mr Vaine (Mac) Mokoroa, Head of Ministry, Infrastructure Cook Islands
Mr Russell Thomas, PS Commissioner, Office of the Public Service Commissioner
Mrs Daphne Ringi, Chief Executive Officer, Office of the Public Service Commissioner
Mr Ned Howard, Head of Ministry, Ministry of Transport (MoT)
Mr John Tangi, Clerk of Parliament, Parliamentary Services
Mr Tearoa Tini, Ombudsman, Office of the Ombudsman
Mr Allen Parker, Director of Audit, Audit Office (PERCA)
Mr Vaitoti Tupa, Director, National Environmental Services (NES)
Mr Halatoa Fua, CEO, Cook Islands Tourism Corporation
Paul Heckles, CEO, Cook Islands Financial Intelligence Unit & Financial Supervisory Commission

Development Coordination Division

Mr Peter Tierney, Manager
Mrs Nanise Okotai, Senior Policy and Planning Manager
Mrs Morgan Hanks, Programme Manager
Ms Tamara File, Team Coordinator
Ms Erina Korohina, Programme Manager
Mr Teokotai Nooapii, Programme Manager

Development Partners

Mr Joseph Mayhew, Manager Aid Program, NZ High Commission

Civil Society

Representatives from Cook Islands Civil Society Organisation,
Mr Keu Mataroa, Ms Lydia Sijp, Mr Kelvin Passfield and Mr Liam Kokaua (Te Ipukarea Society) and Ms Tamara File (Cook Islands Welfare Association)

Private Sector

Chamber of Commerce Board Members
Lynne Marsters (Secretary), Mike Pyenberg (Chair),
Teresa Managrangi-Trott, Steve Lyon, Gerard (Salsa), Bob Taylor

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	Total	OCR	Cost (\$ million)				Gov't	Co-finance
								Loans	Grants	Total	ADF		
2016 Firm													
Renewable Energy Sector Project (GEF 6)	ENE	GI	ESG/IEG	PATE	N/A	4.12	0.00	0.00	4.12	0.00	0.00	TBC	TBC
Total						4.12	0.00	0.00	4.12	0.00	0.00	TBC	TBC
2017													
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
2018													
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total						0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total						4.12	0.00	0.00	4.12	0.00	0.00	TBC	TBC

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; PDA = project design advance; PPTA = project preparatory technical assistance.
Source: Asian Development Bank estimates.

Table A3.2: Non-lending Products and Services, 2016–2018

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

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.

^aThis TA will likely have two components, namely, support for public service efficiency efforts and state owned enterprise reforms. Source: Asian Development Bank estimates.

ASSISTANCE PROGRAM FOR CURRENT YEAR

Table A4.1: Lending Products, 2015

Project/Program Name 2015	Sector	Poverty Targeting	Strategic Agendas and Drivers of Change	Division	Year of PPTA/ PDA	Total	OCR	Cost (\$ million)			Gov't	Co-finance
								Loans	Grants	Total		
None						0.00	0.00	0.00	0.00	0.00	0.00	0.00
Total						0.00	0.00	0.00	0.00	0.00	0.00	0.00

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 2015	Sector	Division	Assistance Type	Sources of Funding			Total (\$'000)
				Source	Amount (\$'000)	Others	
None					0.00		0.00
Total					0.00	0.00	0.00

ADB = Asian Development Bank

Source: Asian Development Bank estimates.