



Country Operations Business Plan

August 2007

Cook Islands

2007–2009

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 6 August 2007)

Currency Unit	–	New Zealand dollar (NZ\$)
NZ\$1.00	–	\$0.7606
\$1.00	–	\$1.3147

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
AusAID	–	Australian Agency for International Development
JSF	–	Japan Special Fund
CPA	–	country performance assessment
COBP	–	country operations business plan
CSPU	–	country strategy and program update
NSDP	–	National Sustainable Development Plan
NZAID	–	New Zealand International Development Agency
PBA	–	Performance-Based Allocation
PDMC	–	Pacific developing member country
SOE	–	state-owned enterprises
TA	–	technical assistance

NOTE

In this report, "\$" refers to US dollars unless otherwise stated.

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CONTENTS

	Page
I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY	1
II. INDICATIVE LENDING AND NONLENDING PROGRAMS	2
A. Lending Program	2
B. Nonlending Program	2
III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS	3
IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS	3
V. RESULTS-BASED MONITORING	3

TABLES

1. Indicative Assistance Pipeline for Lending Products, 2007–2009	4
2. Indicative Assistance Pipeline for Nonlending Products and Services, 2007–2009	4
3. Summary Information on Proposed Indicative Lending and Nonlending Products and Services for 2007	5

I. CONSISTENCY OF THE BUSINESS PLAN WITH THE CURRENT COUNTRY PARTNERSHIP STRATEGY

1. The country strategy and program update (CSPU) 2004-2006¹ was designed to assist in (i) improving financial management and planning capacity; (ii) rationalizing state-owned enterprises; and (iii) supporting private sector growth, particularly in the tourism sector through improved public infrastructure. The country suffered damaging cyclones in early 2005, in response to which ADB provided an emergency assistance loan to reduce the negative impact of disaster relief on budget stability.

2. Overall, the economic outlook has improved since the last CSPU. Notwithstanding the frequent changes in the Government brought about by weak party affiliations, the Cook Islands has enjoyed relative political stability and sustained average annual growth of 3.8% from 2002 to 2006, primarily led by the private sector. Supported by prudent fiscal management and the building of financial reserves from budget surpluses, the Cook Islands settled 50% of its total debt in 2006, thereby reducing its debt-to-GDP ratio to 20%. However, the tight fiscal policy required to reduce these debt levels was at the expense of the country's physical infrastructure. The existing infrastructure is inadequate for the demands placed upon it by the growth in tourism, particularly on the islands of Rarotonga and Aitutaki. Improved infrastructure is needed to allow existing and future growth to be environmentally sustainable. The key tourism industry, which accounted for 50% of GDP in 2006, is particularly vulnerable to the risks posed by inadequate and ageing infrastructure as well as to those related to the weather and climate change.

3. The population of Cook Islands has been in decline for many years. Free access to the New Zealand job market and to its health, education and social security systems is available to Cook Islanders and there is estimated to be three times as many Cook Islanders overseas as in Cook Islands. Population decline is a major development challenge. More employment opportunities, improved social services, and basic infrastructure are required to effectively address the problem of emigration.

4. A country partnership strategy (CPS) for Cook Islands is being prepared and is tentatively scheduled for Board endorsement in November 2007. The strategic focus proposed for the CPS 2008–2012 and that adopted for this business plan for 2007-2009 is (i) supporting private-sector-led environmentally sustainable economic growth through improved public infrastructure and (ii) improving public sector service delivery. This is consistent with and refines the CSPU 2004–2006 strategy and supports the implementation of the National Sustainable Development Plan (NSDP)² with particular emphasis on the achievement of two of its eight strategic goals: (i) an innovative and well managed private-sector-led economy; and (ii) strengthened and affordable basic infrastructure, transport and utilities to support national development. This is fully consistent with ADB's Pacific Strategy 2005–2009,³ and supports the Cook Islands' continued economic and social development.

¹ ADB. 2003. *Country Strategy and Program Update (2004-2006): Cook Islands*. Manila.

² Government of Cook Islands. 2007. *National Sustainable Development Plan (2007-2010)*: Rarotonga.

³ ADB. 2004. *Responding to the Priorities of the Poor: A Pacific Strategy for the Asian Development Bank 2005-2009*. Manila.

II. INDICATIVE LENDING AND NONLENDING PROGRAMS

A. Lending Program

5. Cook Islands is currently a Group B1 country and is eligible for Asian Development Fund (ADF) with limited access to ADB's ordinary capital resources (OCR). The country-specific ADF lending allocations have been derived on the basis of the results of the 2005 country performance assessment (CPA) exercise, after applying the performance-based allocation (PBA) formula. ADF allocations for Cook Islands for 2007–2008 have been set at \$3.42 million. An additional \$2.00 million has been allocated from unused allocations from other Pacific developing member countries (PDMCs). After adjusting for the negative balance of \$0.34 million for 2005-2006, the total ADF allocation is estimated at \$5.12 million. The ADF allocation for 2007-2008 of \$5.12 million is assumed for the purpose of planning a loan which will be approved in 2008 and disbursed in 2009–2012. To identify the appropriate level of OCR access, debt sustainability will be assessed as part of the thematic assessments supporting the CPS within the context of the Pacific Island Economic Report for the Cook Islands. An indicative assistance pipeline for lending products for 2007–2009 is in Table 1.

6. An infrastructure development project has been included in the lending program. The project will address priority infrastructure development in the (i) water supply, solid waste and sanitation; (ii) transport; and (iii) energy sectors and will incorporate measures for “climate proofing”.⁴

B. Nonlending Program

7. The indicative annual nonlending program for Cook Islands is \$300,000 for 2007–2009. Technical assistance (TA) for Strengthening Disaster Management and Mitigation⁵ completed an infrastructure master plan, providing a general framework to guide infrastructure development projects. The 2007 nonlending program includes a project preparatory TA for the proposed infrastructure development project. This will prepare a prioritized feasibility study and a least-cost and harmonized infrastructure development financing plan. In 2008, the nonlending program includes an advisory TA project to support project implementation, public finance management and capacity building. An indicative assistance pipeline for nonlending products for 2007–2009 is in Table 2.

8. Drawing on the biennial nonlending allocation for 2006-2007, the project preparatory TA for the infrastructure development project has been proposed for Japan Special Fund (JSF) funding at \$500,000. Additional technical assistance, focused on capacity building and institutional reform, will be processed as an associated TA project for the proposed infrastructure development project. This technical assistance is designed to enhance the efficiency and sustainability of the proposed infrastructure investments and the delivery of infrastructure services. The TA project will take place in 2008 and will cost an estimated \$300,000. Additional information on the proposed nonlending assistance for 2007 is in Table 3.

⁴ Vulnerability of infrastructure to severe climatic conditions and increased intensity of severe climatic events arising from projected climate changes will be taken account of in design of physical component.

⁵ ADB. 2005. *Strengthening Disaster Management and Mitigation*. Manila.

III. SUMMARY OF CHANGES TO LENDING AND NONLENDING PROGRAMS

9. The years covered by this business plan do not overlap with those covered by the CSPU 2004–2006. The proposed lending and nonlending program is consistent with the ongoing discussions with the Government during the preparation of a CPS for Cook Islands. In connection with the acknowledged weather-related risks to the economy, infrastructure development and climate proofing recommendations⁶ were identified under a more comprehensive approach with the support of the TA on project Strengthening Disaster Management and Mitigation (footnote 5). Earlier loans for energy and water and sanitation sectors are being replaced by the broader infrastructure development project.

IV. INDICATIVE INTERNAL RESOURCE REQUIREMENTS

10. It is estimated that 39 person-weeks of professional staff and national officer time will be required for the processing and administration of the lending program and 28 person-weeks of professional staff and national officer time will be required for the processing of the nonlending program.

V. RESULTS-BASED MONITORING

11. The CSPU 2004-2006 was not results-based and no road maps were incorporated. A results-based CPS, which is currently under preparation, will support the Government's NSDP with a focus on the development and rehabilitation of the priority infrastructure required to reinforce environmentally sustainable economic development. A results-based framework to be agreed with the Government during the CPS formulation will be monitored against performance indicators and will maximize harmonization and coordination with development partners, including the New Zealand International Development Agency, AusAID, and the European Union.

⁶ ADB. 2002. *Climate Change Adaptation Program for the Pacific*. Manila.

Table 1: Indicative Assistance Pipeline for Lending Products, 2007–2009

Sector Project/Program Name	Targeting Classification	Thematic Priority	Division	Year of Project Preparatory Assistance	Total	Cost (\$ million)			
						ADB			Co- financing
						OCR	ADF	Total	
2008									
Transport and Communication, Social Infrastructure									
Infrastructure Development Project	General Intervention	Sustainable Economic Growth	SPSO	2007	15.0	5.1		TBD	TBD

ADB = Asian Development Bank, ADF = Asian Development Fund, Gov't = government, OCR = ordinary capital resources
Source: Asian Development Bank staff estimates.

Table 2: Indicative Assistance Pipeline for Nonlending Products and Services, 2007–2009

Sector Assistance Name	Responsible Division	Assistance Type	Source	Sources of Funding				Total (\$'000)
				ADB		Others		
				Amount (\$'000)	Source	Amount (\$'000)	Source	
2007								
Transport and Communications, Social Infrastructure								
Infrastructure Development Project	SPSO	PP	JSF	500.0	Gov't	125.0		625.0
2008								
Transport and Communications, Social Infrastructure								
Infrastructure Services Delivery Improvement	SPSO	ID	ADB	300.0	Gov't	75.0		375.0
Total				800.0		200.0		1000.0

ADB = Asian Development Bank, ID = institutional development, JSF = Japan special fund, PP = project/program preparatory technical assistance
Source: Asian Development Bank staff estimates.

Table 3: Summary Information on Proposed Indicative Lending and Nonlending Products and Services for 2007

Lending Products

There are no new lending products envisaged for 2007.

Nonlending Products

Project name	Description
<p>Infrastructure Development Project</p>	<p>Goal The goal is to support the environmentally sustainable economic development of the Cook Islands through improved infrastructure and delivery of infrastructure related public services.</p> <p>Major Components The project preparatory technical assistance (PPTA) will prepare a detailed feasibility study in accordance with ADB's guidelines and international standards for due diligence documentation for the preparation of an infrastructure development project loan. It will also review the performance of government agencies in delivering infrastructure services. The loan is expected to be implemented over 4 years from 2009 to 2012. The feasibility study will identify infrastructure development that will support the environmentally sustainable economic development of the Cook Islands and the development of its key industries, incorporating environmental proofing to reduce weather-related vulnerabilities and risks to the environment and by extension to the economy. In addition to the engineering, financial, economic, and poverty aspects of project preparation, the feasibility study will assess the environmental, social, and resettlement issues in accordance with ADB guidelines and will promote maximum harmonization among development partners, with the objective of preparing a least-cost financing plan for priority infrastructure development.</p> <p>Expected Outputs and Outcomes The output will be full justification and documentation for loan processing. The PPTA will provide the Government with a thorough feasibility assessment of proposed components of the first five years time slice of its 20-year Infrastructure master plan.</p>

Source: Asian Development Bank.