

COOK ISLANDS

Country Operations Business Plan 2015–2017

STRATEGIC ANALYSIS

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ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
CITC	Cook Islands Telecommunications Company
CPS	Country Program Strategy
COLA	Cost of Living Adjustment
DCD	Development Coordination Division
DCO	Development Coordinating Officer
DSA	Debt Sustainability Analysis
EU	European Union
FRR	Fiscal Responsibility Ratios
GDP	Gross Domestic Product
HIES	Household Expenditure and Income survey
ICT	Information, Communication and Technology
JFPR	Japan Fund for Poverty Reduction
JNAP	Joint National Action Plan for Disaster Risk Management and Climate Change Adaptation
IMF	International Monetary Fund
MDG	Millennium Development Goal
MFEM	Ministry of Finance and Economic Management
NESAF	National Environmental Strategic Action Plan
NSDC	National Sustainable Development Committee
NSDP	National Strategic Development Plan
NZD	New Zealand dollar
NZDP	New Zealand Development Program
PFTAC	Pacific Finance Technical Assistance Center
ODA	Official Development Assistance
OPM	Office of the Prime Minister
PCR	Project Completion Report
PEFA	Public Expenditure and Finance Analysis
PEM TA	Pacific Economic Management Technical Assistance
PRC	Peoples' Republic of China
PSC	Public Service Commission
PSDI	Private Sector Development Institute
SOE	State owned enterprise
TAU	Te Aponga Uira
UNDP	United Nations Development Program
USD	Unites States dollar

I. DEVELOPMENT TRENDS AND ISSUES

A. Country Background

1. The Cook Islands lie between the Kingdom of Tonga to the west, Kiribati to the North and French Polynesia to the east. There are 15 islands in the Group with a total land area of 240 square kilometers. There are two main groups: the north consisting of seven atolls and the south consisting of eight volcanic islands. Cook Islands has a total population of 15,000 and most live on the largest island Rarotonga. Many of the smaller islands are sparsely populated.

2. On several strategic fronts, the Cook Islands differ from most small island nations of the Pacific. Through a constitutional arrangement, Cook Islanders are citizens of New Zealand, allowing free movement to New Zealand and Australia. This mobility impacts almost all the social and economic sectors in the Cook Islands. As a result, the resident population continues to decline, from 15,324 residents in 2006 to 13,100 in 2013. The total labor force participation rate is over 70% (2011).¹ The reservation price of labor is linked to that in New Zealand. In addition, the level of wellbeing is high. Per capita income of the Cook Islands is \$23,000, the highest in the region. With the direct and indirect support of New Zealand, the country enjoys high standards of health care and education. The Cook Islands is one of the few nations in the Pacific that offers a wide range of welfare support to children, infirmed persons and old age. Furthermore, with strong trade and travel links with New Zealand, the country adopts the New Zealand Dollar (NZD) as its domestic currency avoiding the need to protect the exchange rate. Net remittances are estimated to be negative. Standard and Poors has rated the sovereign debt of the Cook Islands at B+ and stable.² Although there has been a sharp rise in nonperforming loans in the last three years, the banking system which is dominated by two branches of foreign owned banks, remains sound.

3. Progress towards the Millennium Development Goals (MDG): The progress to achieving the MDGs is satisfactory in the Cook Islands. The country has already achieved 3 of the 8 MDGs which are poverty eradication, reducing child mortality and improving maternal health. The country is well on track to achieving the other remaining five MDGs by 2015. In addition, the country has added its own MDG 9 of improving governance.

4. Poverty as defined in the MDG is absent in the Cook Islands. This target of people whose income is less than \$1 a day has been achieved. A more appropriate measure of poverty is in terms of access to basic services, opportunity to participate in socio-economic life, and adequate resources including cash for basic needs. There is free access to job markets and welfare systems in New Zealand. The issue is more over disparity of income between the main island Rarotonga and the outer islands.

5. Cook Islands has achieved gender parity in primary and secondary education. Furthermore, based on historical data and current trends, it is likely that Cook Islands have also achieved gender parity in tertiary education. Representation of women in parliament remains low mainly due to cultural reasons. The Cook Islands Government has had a national gender policy in place since 1995 which has been recently updated, with the inclusion of a *Strategic Plan of Action (2011-2016)*. The current national policy and strategic action plan effectively identifies and addresses areas to improve gender equality and empowerment.

¹ Government of Cook Islands. Source <<http://www.mfem.gov.ck>>

² Standard and Poors Rating Service. January 2013.

6. The importance of the environment to the Cook Islands, which is surrounded by nearly two million square kilometers of ocean, is well recognized and fully supported by development partners. There are signs of degradation of the environment with segmentation and substandard septic tank system that may be seeping sewage into the lagoon. Government has recently completed a review of the *National Environment Strategic Action Framework (NESAF)* through wide community consultations. These consultations have identified marine resources, bio diversity, soil degradation, provision of water tanks and waste disposal as key areas of attention. The *Joint National Action Plan for Disaster Risk Management and Climate Change Adaption (JNAP)* provides a roadmap for the implementation of the Cook Islands National Sustainable Development Plan (NSDP), 2011–2015. It identifies 4 strategic areas: governance; monitoring; disaster management and risk reduction; and climate change adaptation. The Cook Islands have targeted 50% power generation from renewable energy sources by 2015, and 100% by 2020.

7. Economic Growth and Prospects: After a few years of economic decline largely due to the adverse impact of the global economic crisis, the Cook Islands has rebounded to positive growth on the back of strong tourism performance. Gross domestic product (GDP) is estimated to have grown by over 5% in FY2012 and 4.9% in FY2013. Growth is seen to moderate to 2.2% in FY2014 given a more modest tourism performance and a decline in infrastructure spending. In FY2015, growth is projected to accelerate to 2.5% assuming tourism reverts to long-term trends. Inflation is now seen to decline to 1.5% in FY2014 before rising to 2.5% in FY2015 with a stronger growth outlook.³

8. Tourism is the mainstay of the Cook Island economy accounting for over 60% of GDP.⁴ The potential for broadening the economic base in the next five years is limited. Agriculture and marine resources offer some long term potential but in the next five years, their share of the economy is expected to remain at current levels or even decline. Support for the tourism industry through the budget and donor assistance is sizeable estimated at around 18% of GDP.

9. Fiscal Management and Debt: The fiscal responsibility ratios that were developed with the assistance of ADB⁵ and approved by Cabinet in 2010 provide the overall framework of the national budget. The country continues to exceed the maximum threshold on wages and salaries and in more recent years, the overall budget deficit has been above its benchmark of 2% of GDP. The cost of underwriting the airline routes to Los Angeles and Sydney has risen sharply in recent years to 11% of total budget expenditure.⁶ The pressure for higher wages is mounting. The recently completed job sizing in the Ministry of Education is estimated to cost over \$2 million and the demand for a similar exercise by other ministries is rising. Demands for cost of living adjustment have been raised. Higher wages as a solution to depopulation is gathering momentum. Tax reforms were introduced in 2014. These include an increase in the tax free threshold from NZ\$10,000 to NZ\$11,000; significant reduction in income tax rates aimed predominantly at low income earners; removal of the withholding tax on interest on savings; increasing the Value Added Tax rate from 12.5% to 15%; measures to improve the

³ ADB. 2014. *Pacific Economic Monitor*. July issue. Manila.

⁴ The estimate of the contribution of tourism to the economy varies from 60% to 80%.

⁵ The ratios were developed by the ADB's Pacific Economic Management Technical Assistance (PEM TA) in 2009 and endorsed by Cabinet in 2010.

⁶ To grow the tourism sector through the provision of regular service, government has been underwriting Air New Zealand flights to Rarotonga, Cook Islands from Los Angeles and Sydney since 2007. Government has signed a new agreement for 2014-2018 and is expecting an increase from 22,000 to 30,000 of visitors from Sydney annually.

administration of taxation, and increasing the minimum wage by NZ\$1 (20%) to NZ\$6/hr. Local pensions were also increased by 25% and other welfare payments by 10%.⁷

10. Government debt is currently at 22% of GDP, well below the government's own threshold of 35% and the 40% of GDP that the International Monetary Fund considers a sustainable level of foreign debt for small developing countries. While debt remains moderate by international standards, the high rate of increase in debt to fund budget shortfalls can quickly push debt towards its benchmark of 35% of GDP. This will seriously crowd out the fiscal space needed to support economic growth through infrastructure development. The government, with support from ADB, recently conducted a macroeconomic assessment of the Cook Islands including a debt sustainability analysis (DSA).⁸ The broad conclusion of the DSA is that debt levels, even under extreme shock will remain moderate by international standards in the medium term. The country must however avoid the repetition of the fiscal crisis of the late 1990s when debt rose to well over 100% of GDP. Every effort must be made to keep the overall budget deficit within its threshold of 2% of GDP. The process to raise new debt must be stringently followed and remain transparent.

11. **Political economy:** Elections are held every four years in the Cook Islands and the next one takes place on 9 July 2014. The restoration of economic growth and the high level of investment in infrastructure have generated positive sentiments amongst the private sector. From a strategic viewpoint, the 2014 elections put on hold important and urgent policy issues which could compound the risks to fiscal stability. There is broad political support for the underwriting of the airline routes, which has been renewed and will now expire in 2018. The government undertook a package of tax and social welfare reforms in early 2014. The continuity of major projects particularly renewable energy post elections is uncertain; however, this risk is considered low given the immense benefits of the projects to the lives of the communities in the Cook Islands especially the outer islands.

12. **Development Challenges:** The biggest long term strategic issue facing the Cook Islands is the reduction in population, resembling an average annual rate of growth of -0.5 per cent, averaging about 322 people leaving year. The decline of the population was most noticeable in the Outer Islands where the population was almost 14 per cent less in 2011 than in 2006.⁹ Depopulation impacts all policies either directly as in the number of civil servants and indirectly as in the potential development of outer islands. Depopulation is very likely to continue. From a strategic viewpoint, there is a need to articulate a realistic long term vision on population supported by a set of strategies which should include the assessment of opportunity costs. The Office of the Prime Minister (OPM) has indicated that it would commission a study on this issue which can be used as a platform to formulate broad strategies.

13. The Cook Islands are particularly vulnerable to the changing economic conditions in New Zealand and Australia. Resource endowments are small. They are vulnerable to natural disasters particularly cyclones. The risks to the environment of pollution and climate change are high.

14. The economic base is small. Tourism will determine the country's future economic growth. There are clear signs though that the industry is reaching its existing room capacity. Additional investment in new accommodation particularly in Rarotonga is essential if tourism is

⁷ Government of Cook Islands. Source <<http://www.mfem.gov.ck>>

⁸ Lightfoot C, Narube S, Lotoele M: February 2013.

⁹ Government of Cook Islands. Source <<http://www.mfem.gov.ck>>

to continue to be the engine of growth in the foreseeable future. Environment degradation and climate change are risks to the tourism sector. Building adaptive capacity and strengthening efforts in sanitation, water and water to environmental integrity are essential to productive sectors, not only tourism, but also agriculture and marine resources. The establishment of marine parks and a shark sanctuary are notable achievements.

15. Infrastructure continues to be a major challenge to the country given its wide area of geographical dispersion. The current state of infrastructure inhibits private sector investment particularly in tourism. With the assistance of development partners, the government in recent years has raised the level of investment in urban infrastructure. The development of the Avatiu port on Rarotonga has been completed with funding from the ADB. The laying of axillary water pipes around Rarotonga has commenced.¹⁰ The WATSAN program has to date completed the installation of over 100 new septic systems. Infrastructure development has also been extended to the Outer Islands, including—Mauke Water, Northern Islands Waters Project, upgrade of the Mitiaro and Mauke harbours and completion of cyclone shelters in Pukapuka and Manihiki. However, the pipeline of infrastructure projects is not long. A new infrastructure master plan, currently being developed with assistance from the Pacific Region Infrastructure Facility,¹¹ will assist in identifying future projects and correct the shortcomings of the current plan which lacks integration with all the essential components of infrastructure. In undertaking new infrastructure programs, due attention must be given to the maintenance of the investment both in the design and the provision of additional resources needed to fund recurrent costs. ADB is supporting the development of an asset management framework and system across government and SOEs to ensure a more efficient and effective management and control of assets.

16. The development of the outer islands is understandably a key challenge for the country. Reforms have been initiated to decentralize the decision making to the outer islands administrative authorities. With ADB support, outer islands governance was strengthened through the approval of the Pa Enea Act (Island Government Act) in 2013 and revision of the Island Government (Electoral) Regulations. Decentralization of authority and decision making to the outer island councils was strengthened through contracting instructions for the recruitment of mayors and capacity building programs undertaken for island council members and administrators.

17. Poor implementation of agreed policies can hinder economic development. The establishment of the Policy and Planning division in the Office of the Prime Minister (OPM) has consolidated the economic and sector planning activities of government. The monitoring of the *National Strategic Development Plan* (NSDP) has improved. Closer coordination with the Budget and Development Coordination divisions of MFEM is essential to prepare a pipeline of projects that matches the priorities of the NSDP against the availability of resources. The inclusion of the Climate Change and the Renewable Energy Divisions in the OPM has lifted the profiles of these two key sectors and facilitated planning and coordination.

B. Highlights of Previous ADB Country Strategy

18. ADB's Country Partnership Strategy (CPS) 2008–2012 and the 3-year rolling country operations business plans (COBP) guided its partnership with the Cook Islands. Both these

¹⁰ The Te Mato Vai (water partnership) is the first ever multimational agreement between the Cook Islands, New Zealand and the People's Republic of China, to improve water supply in Rarotonga.

¹¹ PRIF is a multi-partner mechanism for provision of infrastructure investments to 12 Pacific Island countries including Cook Islands.

documents are closely aligned with the aims of the Cook Islands National Sustainable Development Plan (NSDP), 2011-2015 especially in promoting economic development, environment integrity, infrastructure and good governance. The CPS and the COBP identified sound public sector management, building economic growth, supporting private sector development and institutional strengthening as ADB's core areas of focus. These strategies were aimed to consolidate previous reforms program by improving economic planning capacity, reinforcing the rationalization of state-owned enterprises (SOEs) and supporting further private sector growth, especially in the tourism sector, through improved public infrastructure.

ADB has made satisfactory progress in developing infrastructure in the Cook Islands. The economic recovery support program, approved in October 2009, assisted the government to fund the water project in Rarotonga, while a loan has financed the upgrading of the Avatiu port which has been successfully completed on time and within budget. A regional grant-financed project, funded through the Japan Fund for Poverty Reduction, is supporting the provision of social protection to the vulnerable. Project components include provision of care services to the elderly as well as reviewing social welfare system. The government has confirmed its interest in investment projects in renewable energy, including energy efficiency and information communications and technology (ICT).

19. Through technical assistance, ADB continues to support public finance management, improvements in the governance of the SOEs and undertaking a feasibility study on the provision of telecommunications submarine cable. The country has also benefited from technical support from the Pacific Infrastructure Advisory Center, Private Sector Development Institute (PSDI) and the Pacific Economic Management Technical Assistance (PEM TA).

20. The Project Completion Reports (PCR) have rated most the ADB projects in the Cook Islands since the late 1990s as satisfactory with only one rated partially successful and one unsatisfactory.

II. THE COUNTRY STRATEGIC PRIORITIES

A. Developing the ADB Country Strategic Priorities

21. **National Strategic Development Plan:** The first NSDP for the Cook Islands was approved by government in 2007. In 2011, after nationwide consultations, the country adopted a new 5 year NSDP (2011-2015). The national vision of the NSDP is "*To enjoy the highest quality of life consistent with the aspirations of our people in harmony with our culture and environment*".

22. The eight priority areas in the NSDP are: (i) economic development; (ii) infrastructure; (iii) energy; (iv) social development; (v) resilience; (vi) ecological sustainability; (vii) governance; and (viii) law and order. The progress towards the targets in the NSDP is monitored annually by the OPM. The implementation of the NSDP goals in energy, social development, resilience, ecological sustainability and law and order has been evaluated by the OPM as satisfactory. The targets that are lagging behind in their implementation are governance followed by infrastructure and economic development.

23. **Strategy 2020 and the Pacific Approach:** The Cook Islands is not a member of the International Monetary Fund (IMF) and the World Bank Group. ADB therefore plays a pivotal role in delivering the development objectives of the NSDP. ADB's engagement with its Pacific Islands member countries (PDMCs) is guided by the *Pacific Approach, 2010–2014* which was approved in November 2009. It categorizes the Cook Islands as Group A with some capacity for

self-sustained growth.¹² The *Pacific Approach* highlights the importance of capacity building and country led assistance to the PDMCs. It emphasizes long term engagement in the development of the economic sectors, infrastructure development and the strengthening of field officers.

24. The *Pacific Approach* is aligned with the goals and targets of the NSDP. Specifically, the *Pacific Approach* and the NSDP share the same goals of inclusive economic growth, infrastructure, energy, environment and governance. ADB is assisting the country through project loans, policy-based lending programs and technical assistance. The priority sectors supported through ADB assistance are: a) public sector management; b) infrastructure development in sea ports, water and telecommunications; and c) energy. In line with the *Pacific Approach*, ADB has worked in partnership with other development partners. The ADB has strengthened its partnership with the Cook Islands by establishing a development coordination office in country in 2012.

25. In light of the high standards of education and health care in the Cook Islands, the demand for support in the key social sectors of health, education and direct poverty alleviation are not strong. These sectors are well catered for by bilateral development partners especially New Zealand. The ADB has a comparative advantage in infrastructure development and this is expected to remain its core area of assistance.

26. The government would also like ADB to play a role in dismantling the barriers to the achievement of the targets under the NSDP. As recognized in the *Pacific Approach*, the primary challenge to the successful implementation of the NSDP is the lack of technical skills and weak institutional arrangements. The provision of well-focused short and long term technical assistance will remain an integral part of the ADB support for the Cook Islands aimed at building capacity and strengthening institutions.

27. Within the eight broad areas of the NSDP, priorities are expected to change during the period of the Plan. The annual priorities are captured in the allocation of financial resources in the national budget. In the next three years, the government has identified four priorities: i) water and sanitation; ii) renewable energy; iii) governance; and iv) development of information, communications and technology (ICT).

28. **Public Sector Management:** There is an ongoing need for ADB to stay engaged in promoting economic and social development in the Cook Islands through non lending modalities. Fiscal discipline is central to improving the quality of public sector management and the country will continue to rely on external assistance in the development of fiscal policies, strengthening of budget management tools and improving processes such as procurement. With an aging population, the weight of the welfare payments in the national budget is increasing and this is expected to continue. A review of the welfare payments have been initiated by the Ministry of Internal Affairs. The review is limited to clarifying some of the implementation issues of the Act. With the assistance of development partners, further work is needed to clearly establish long term strategies to deliver welfare support on a sustainable basis.

Reforms in the public sector¹³ require deepening to raise performance, productivity and evaluation. In this regard, the review of current policies on the size of the civil service and

¹² Group A (Some capacity for self-sustained growth): SAM, FIJ, TON, COO, VAN; Group B (Resource based growth): SOL, TIM, PNG; Group C (Difficult to create/sustain growth): FSM, NAU, KIR, RMI, PAL, TUV.

deployment of resources is necessary. ADB through country and the private sector development initiative (PSDI) and regional technical assistance has helped initiate state-owned enterprises (SOEs) reforms. Further reforms are being contemplated by the government to improve the governance of SOEs. The government has indicated that it will require assistance in continuing the work on the management of physical assets. ADB is supporting the implementation of public service reforms and outer island administration as recommended by a functional review conducted in November 2011. The government is implementing a plan to bring the auditing of government financial accounts up to date. This will need to be sustained. The major challenge is the skills available in the Ministries to compile the accounts in accordance with the financial regulations. Government requires support for training in the ministries to maintain an up to date audit in future.

29. ADB's assistance to help the Cook Islands proactively manage the fiscal risks is required. These should focus on macroeconomic and fiscal policy advice, development of fiscal analytic skills and tools and setting a sustainable foundation for future welfare payments.

30. **Infrastructure:** Like many Pacific Island countries, the development and upgrading of Infrastructure is clearly a major challenge facing the Cook Islands. The existing infrastructure master plan is not adequately integrated with other arms of the State which implement their own infrastructure projects. This leads to poor coordination and fragmented implementation. The role of the regulator has not been clearly defined. Intuitional capacity to implement the infrastructure program is seriously lacking. Cost recoveries in infrastructure are nonexistent. The resources allocated for recurrent spending on infrastructure is insufficient. Sewerage relies on individual septic tanks that may be contributing to lagoon pollution placing the country's primary industry at risk. The government has requested assistance in developing a new infrastructure master plan.

31. The reticulation of water supply around Rarotonga will see an inaugural tripartite partnership between the PRC, New Zealand and the government through ADB budget support. It will be a model on the partnership in a major infrastructure. The lessons learnt from this tripartite arrangement would be useful for future broad based partnership in the region.

32. The government has started to implement reforms in the telecommunication sector aimed at improving service delivery and efficiency. The government intends to introduce legislation as early as May 2013 that will deregulate the telecommunications industry. According to government, the new law will end the legislated monopoly of the sole provider, the Cook Islands Telecommunication Corporation (CITC). Transition issues to the deregulated platform are complex and will need to be sequenced and managed proactively. The CITC currently uses satellite in it communications with the rest of the world. The World Bank is assisting countries like Tonga to construct submarine fiber optic cable to satisfy the growing demand for better connectivity. The Cook Islands is not a member of the World Bank which may reduce its access to funding for a submarine cable connection. ADB could help fill this void. The ADB is assisting the country explore the viability of the submarine cable..

33. **Energy:** Energy in the Cook Islands is provided by a fully government owned monopoly, the Te Aponga Uira (TAU). The TAU reports to its Board which comprises private sector representatives. TAU predominantly relies on diesel generators but is increasingly moving to solar photovoltaic (PV) and wind. Electricity is supplied to the whole of Rarotonga from the

¹³ Relating to public administration, public expenditure and fiscal management, decentralization, and reforms of state-owned enterprises.

Avatiu Valley Power Station. The Cook Islands realizes the risks to the economy and the environment in relying on a single energy source which uses imported diesel fuel.

34. The government is committed to increasing the contribution of renewable energy to 50% of the total demand in the Cook Islands by 2015 and 100% by 2020. Although it is widely recognized that the targets are ambitious they are being used as a rallying point by government to implement its program. Government has established the Cook Islands Renewable Energy Chart Implementation Plan (CIRECIP) 2012-2020, which sets a target of supplying electricity from renewable energy on all inhabited islands by 2020, estimated to cost NZ\$260 million depending on the technology that will be selected and the upgrading that will be required to the existing infrastructure.¹⁴ Given the size and scope of the project, development partner coordination is necessary for effective implementation. ADB, New Zealand, and the European Commission are coordinating closely to support implementation of the CIRECIP. New Zealand started solar photovoltaic power system development on the Northern group islands in 2012 and on Rarotonga in 2014. ADB's proposed project will construct new solar photovoltaic power plants on up to six islands of the Southern Group and provide institutional strengthening support to implement the CIRECIP.¹⁵

35. **ICT:** Improved information and communication connectivity through advances in mobile telephony and ICTs is connecting Cook Islands closer with the rest of the world. Government has started to implement reforms in the telecommunication sector aimed at improving service delivery and efficiency. The government was intending to introduce legislation that will deregulate the telecommunications industry, which will end the legislated monopoly of the sole provider, the Cook Islands Telecommunication Corporation. The Private Sector Development Initiative helped review the draft Telecommunications and Commerce Bills, and presented options for implementing liberalization. Broadband internet capacity is expected to improve in 2014 with the recent launch of 03B satellite and 3G mobile service network. ADB also explored the viability of a submarine cable in 2013, and government remains interested in pursuing this option at some stage. Digicel's NZ\$23m purchase of Telecom New Zealand 60% shares in Telecom Cook Islands was finalized end May 2014.

36. **Other Development Partners:** New Zealand is the major development partner in the Cook Islands contributing around \$12 million each year. It also manages the contribution from AusAid of about \$2.6 million. New Zealand expects to maintain this level of funding in the foreseeable future and may diversify its assistance to include budget support. More recently, the Peoples' Republic of China (PRC) has increased its presence in the country by the construction of office buildings and sport complexes. The reticulation of water supply around Rarotonga will see an inaugural tripartite partnership between the PRC, New Zealand and the government. It will be a model of partnership in a major infrastructure project between the large development partners in the country. The lessons learnt from this arrangement would be useful for future broad based partnership in the region. The European Union intends to assist the Cook Islands in the climate change management program. The United Nations Development Program and the Pacific Islands Forum Secretariat provide assistance to the country in environment management. New Zealand is heavily focused on education and the United Nations agencies on health.

¹⁴ The Government of the Cook Islands. 2012. *The Cook Islands Renewable Energy Chart Implementation Plan*, Avarua, Rarotonga.

¹⁵ ADB. 2014. *Proposed Loan and Administration of Grant. Cook Islands Renewable Energy Sector Project*. . Estimated to cost \$24.27 million, the government has requested a loan and a grant totaling \$18.44 million to help finance the project. Financing will comprise (i) a loan of \$11.19 million from ADB's ordinary capital resources, and (ii) a grant of EUR 5.30 million from the EC (administered by ADB). Counterpart funding is \$5.83 million.

B. Implementation Issues

37. **Ownership:** As identified in *the Pacific Approach*, ownership is critical to the success of assistance to the Pacific. While lessons have been learnt, securing and maintaining a high level of ownership continues to be a challenge. Ownership can be best addressed at the evaluation and design stage of the program. It needs to be sharply defined and understood by the country and development partners. Integrating the assistance into the country objectives under the NSDP is important in securing political commitment. Presenting reports in a clear and simple way will promote greater understanding and buy-in. A formal agreement can assist anchor commitments at the official level. Greater community ownership is also desirable. All major projects should include a communication strategy to disseminate information to all stakeholders including the wider communities and the private sector.

38. **Capacity:** Implementation capacity in the Cook Islands is severely limited. Technical skills are scarce. Turnover of managerial staff is high. This lack of capacity remains the overriding concerns of the project design and their sequencing. Retention of administrative skills is a challenge as young people move on to New Zealand and Australia. Consideration will have to be given to outsourcing these skills wherever necessary. The capacity building both at technical and management levels will continue to be the top priority of government and development partners.

39. **Development Partner Coordination:** With the small number of development partners, coordination is assessed as adequate. All donor funded projects are discussed and approved by a high level National Sustainable Development Committee (NSDC). The Development Coordination Division (DCD) of MFEM (previously the Aid Management Division) is responsible for aid coordination. Most of the donor flows are directed through the DCD although some are still going directly to the line ministries. There is a roundtable meeting of donors every year and there have been good improvements in its contents and coverage. The effectiveness of Aid in the Cook Islands is high and its governance is assessed as satisfactory. Given the small number of development partners and the close alignment of assistance with the NSDP, there is little value seen in developing a joint donor policy matrix.

40. **Development Coordination Office:** In line with the *Pacific Approach*, an ADB Development Coordinating Office (DCO) was established in August 2012 in the Cook Islands. Like the experiences in other PDMCs, the DCO will provide a closer link between the ADB and the country. Since the Cook Islands is not a member of the World Bank, the DCO is entirely devoted to the ADB partnership. The DCOs in the Pacific however needs to be clear of their independent status from government. These DCOs can play a larger role in the approach and the design of country assistance. They know the people and are familiar with the country's dynamics. With their local knowledge, ADB can use DCOs more in designing its approach to the country and securing commitment and ownership.

41. **Lessons from Previous Program:** In the design of assistance programs, development partners must realistically assess the capacity of local counterparts to implement the program and incorporate strategies to address this challenge. The number of projects that are implemented must be controlled at the annual budget negotiations to avoid bunching. A manpower plan should be an essential part of project design. The new infrastructure master plan will assist in managing the pipeline of projects.

42. Poor project management is a common cause of failure of development assistance programs. The choice of project management by government is therefore critical and should be

undertaken transparently. As demonstrated in the Avatiu port development project, some degree of flexibility during the implementation of the project will contribute to securing success.

43. The poor performance of TA consultants is a common factor for poor implementation of projects. The selection of TAs must accord more weight to the ability of the TA to deliver in the context of the country. The Pacific is more sensitive to its culture than other regions. Prior demonstrated experience in the country and the region should be a regular requirement in the selection of TA consultants. The government can also have a say in the selection of TAs. A clear TOR which is shared with government would also help the effectiveness of the TA.

44. ADB must continue to be sensitive to the country's context in designing its approach to Pacific Island governments. The papers and reports prepared for the government must be simple and easier to understand. ADB must screen its recommendations to ensure that they are realistic.

45. **Risks:** As a small island country, the Cook Islands faces many risks. The greatest challenge to implementation of development strategies in the Cook Islands is the lack of technical skills in all sectors of the economy. This is seriously exacerbated by the ease of movement of skilled workers to New Zealand. The cost of capacity building is therefore extremely high. Under the circumstances, the government with the assistance of development partners has very little choice but to keep up its efforts to build capacity. In critical areas, and the government will continue to look at importing skills.

46. The increasing number of foreign workers in the Cook Islands is materially changing the makeup of the labour market and the population mix. Cook Islanders are mostly engaged as civil servants while foreign workers are concentrated in the private sector. Civil servants make up about 40% of total employment. The number of work permits is nearly the same as the number of public servants. The changing mix of the population of the Cook Islands has social and economic impacts which are yet to be identified.

47. The lack of political will is another risk to the successful delivery of development assistance. The elections in late 2014 may put the implementation of the current programs and priorities at risk. However, this is somewhat mitigated by the adoption of the NSDP by consultation in the communities. The close alignment of programs to the goals of the NSDP will generate broad community support. To further consolidate continuity, legislation could be considered to bridge the NSDP between general elections.

48. Unexpected developments during the implementation of assistance programs also present risks to their success. The Cook Islands is vulnerable to adverse external shocks and natural disasters like tropical cyclones. The timely and coordinated implementation of its disaster management plan is critical. The maintenance and buildup of a disaster management fund would help mobilize resources quickly to shorten the recovery time during a disaster. Furthermore, safeguarding economic and financial stability will cushion the impact of adverse external development on the country. Adequate flexibility in the delivery of the assistance must also be built into the design of programs.

49. **Fiduciary Risks to Policy-based Lending:** The Cook Islands received policy-based lending program from ADB as a response to the economic crisis. Government prefers the flexibility that such a lending facility provides. In the next three years, government has a pipeline of infrastructure projects that it plans to implement in Rarotonga and the outer island including sea and airports. The government appreciates the other benefits of policy based lending such

as the fast disbursing and lesser technical conditions. However, there are also risks that policy based lending carries. These include the delay in government taking tough decisions to control spending, lack of delivery of policy actions once the loan is disbursed and different interpretations on how conditions are fulfilled by government.

UPDATED COUNTRY PARTNESHIP STRATEGY RESULTS FRAMEWORK
(Board endorsement of the Pacific Approach, 2010–2014: 2009; COBP 2015–2017: August 2014)

Country Development Goals				Changes from Last COBP This is the national vision of the Te Kaveinga Nui, 2011-2015, which underpins all 8 national development goals
Sustainable development based on the attainment of a high quality of life consistent with people's aspirations, and in harmony with the Cook Island culture and environment, through the development of: Goal 1: A vibrant Cook Islands economy Goal 2: Infrastructure for economic growth and sustainable livelihoods Goal 3: Energy security Goal 7: Good governance				
Sectors Selected by ADB				Changes from Last COBP
Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Strategic Priorities	
1. Public Sector Management (Strategy 2020 Core Area: Other, Driver of Change: Governance and Private Sector Development)				
Goal 1: Sustainable economic growth achieved through the diversification of the economic base and private sector-led growth. Goal 7: Effective system of government based on principles of good governance, well-functioning public sector and efficient use of public resources	<ul style="list-style-type: none"> Real GDP growth rate averages 2.5% by 2015 Current value (2012): 4.40% 2011 baseline: 0.98 Improved PEFA rating to 'A' for budget credibility Current value (2013): B+ 2011 baseline: C Net debt-to-GDP ratio not exceeding 35% by 2015 Current value (2014): 19.6% 2013 baseline: 20.5% 	<p>Macroeconomic assessment conducted</p> <p>Liberalization options of the telecommunications sector (PSDI supported)</p> <p>Strengthened capacity to manage for inclusive economic growth and improved public financial management systems (PEM regional TA)</p> <p>Support to establishing the water utility authority and strengthening public service effectiveness</p> <p>Pilot study on budgets and expenditure for infrastructure capital works and recurrent costs for maintenance of economic infrastructure (PRIF TA)</p>	<p>\$500,000 for 2015-2017, 2% of total COBP envelope, of which:</p> <p>ESG – 0%</p> <p>GEM – 0%</p> <p>PSD – 100%</p> <p>RCI – 0%</p>	The public sector management TA in 2014 is moved to 2015 and will now focus on both public sector management and ICT related technical support.

Government Sector Objectives	Sector Outcomes that ADB Contributes to and Indicators	ADB Areas of Intervention	ADB Indicative Resource Allocation in the Next Pipeline and Thematic Priorities	Changes from Last COBP
2. Transport and Information and Communication Technology (Strategy 2020 core area 1: Infrastructure and Private Sector Development)				
<p>Goal 2: Increased productivity of environmentally sound infrastructure to sustain economic growth, improved livelihoods and environmental resilience</p>	<ul style="list-style-type: none"> • Telephone connections increased in the medium term Current value (2012): 4.90% 2011 baseline: 5.10% • Cellular subscribers increased Current value (2012): 4.90% 2011 baseline: 5.10% • Internet usage increased Current value (2012): 4.90% 2011 baseline: 5.10% • Telecommunications Bill amended and passed in Parliament by 2015 • Asset management framework developed for all of government and SOEs and asset management information system procured and operational by 2015 	<p>Improved ICT infrastructure to improve connectivity, decrease service costs, and boost new business initiatives</p> <p>Telecommunication Bill enacted to ensure introduction of competition and improved services in the communication sector (PSDI TA)</p> <p>Improved infrastructure services delivery through efficient, profitable and professional management of assets</p> <p>Medium-term infrastructure plan completed (PRIF TA)</p>	<p>\$35.0 million for 2015-2017, 98% of total COBP envelope, of which:</p> <p>ESG – 50%</p> <p>GEM – 0%</p> <p>PSD – 50%</p> <p>RCI – 0%</p>	<p>Once the PRIF supported 5-10 year infrastructure plan is completed by end 2014, the focus will turn to delivery support and capacity building via local counterparts. The National Infrastructure Investment Plan (NIIP) has a team supporting from PRIF. The processes are integrated, so the end product will be a 5-10 year infrastructure investment plan as well as the process feeding the 3 year budget.</p> <p>Asset management is managed by the Government of the Cook Islands with TA support from ADB in 2014.</p>
3. Energy (Strategy 2020 core area 1: Infrastructure)				
<p>Goal 3: Economic and social development and environmental integrity enhanced through improved energy security</p>	<ul style="list-style-type: none"> • Diesel imports for power generation reduced by 3.35 million liters by 2015 2012 baseline: 6.7 million litres • Power supplied from renewable sources sufficient to meet the needs of 2,050 households by 2015 2012 baseline: 1,025 households • National spending as % of GDP on fossil fuels for energy declined Current value (2012): 4.90% 2011 baseline: 5.10% 	<p>Support the government's policy to increase power generation from renewable sources, and enhance institutional capacity to implement CIRECIP target: 100% electricity from renewable energy on all inhabited islands by 2020.</p>	<p>\$11.8 million, 92.2% of total COBP 2014-2016 envelope, and additional cofinancing of \$7.26m, of which:</p> <p>ESG – 100%</p> <p>GEM – 0%</p> <p>PSD – 50%</p> <p>RCI – 0%</p>	<p>The 2014 Renewable Energy project was originally valued at \$20 million, including an ADB contribution of \$11.80 million OCR loan. The project is revalued at \$24.28 million including an ADB \$11.19 million (OCR) loan, European Union \$7.26 million (grant) and government counterpart funding of \$5.83 million. The project will be presented for ADB board approval in Q4 2014.</p>

Source: Cook Islands National Millennium Development Goals Report 2010; Regional MDGs Tracking Report 2012, Pacific Islands Forum Secretariat

Table 2: Country Economic Indicators

Amounts in NZD

Item	2009/10	2010/11	2011/12	2012/13e	2013/14e
A. Income and Growth					
Nominal GDP (\$m)	351.1	361.4	387.5	418.1	436.3
Percentage change (%)	3.5	2.9	7.2	7.9	4.4
Real GDP (at constant 2006 prices, \$m)	269.3	271.5	285.9	299.9	304.0
Percentage change (%)	-1.7	0.8	5.3	4.9	1.4
B. Savings and Investment					
Gross domestic investment	...	...	...	...	...
Gross domestic savings	...	...	...	...	...
Commercial Building Approvals (\$m)	3.3	1.9	2.9	3.0	3.1
Residential Building Approvals (\$m)	8.5	9.5	7.8	7.8	8.0
Public Works (\$m) include Dev Partners	50.3	39.3	57.2	61.1	59.1
C. Inflation (annual % change)					
Consumer Price Index (base Dec. 2006=100)	11.8	120.7	124.3	128.0	131.8
Percentage change (%)	0.1	2.1	3.0	3.0	3.0
D. Productive Sector					
Visitor Arrivals	99.0	108.4	116.1	127.4	132.3
Est. Visitor Expenditure (\$m)	154.6	174.3	192.3	214.9	228.8
Pearl Exports (\$m)	1.7	1.6	0.6	0.5	0.5
Fish Exports (\$m)	2.7	3.1	3.1	2.6	2.7
E. Financial Sector					
Net Government Credit Position (\$m)	88.7	75.3	88.3	71.1	77.6
Private and Public Enterprise Deposits (\$m)	221.6	192.0	204.2	214.5	223.0
Private and Public Enterprise Deposits (\$m)	288.7	281.9	299.9	314.9	327.5
F. External Sector					
Merchandise Trade Balance (\$m)	-102.0	-107.7	-102.7	-109.5	-114.3
Services Trade Balance (\$m)	253.4	251.9	274.6	292.9	307.3
Exchange Rate (USD/NZD daily average)	0.72	0.76	0.80	0.81	0.81
G. External Payment Indicators					
Gross Official Reserves, (including gold, \$ million in month of current year's imports of goods))	--	--	--	--	--
External Debt Service (% of total revenue less grants)	--	--	3.5	4.0	4.6
Total Gross External Debt (% of GDP)	22.6	29.4	22.8	17.1	16.6

... = data not available, GDP = gross domestic product.

Source: Government of Cooks Island, Ministry of Finance and Economic Management; New Zealand Reserve Bank Statistics; ADB Asian Development Outlook 2013; Pacific Economic Monitor 2013

Table 3: Country Poverty and Social Indicators

Item	Baseline	Midpoint	Latest Year
A. Population Indicators			
Total Population	...	...	17,794(2011)
Resident Population	...	...	14,974(2011)
Male	...	...	7,490(2011)
Female	...	...	7,484(2011)
Population Density (No. of people, km ²)	...	...	63(2011)
Rarotonga	...	...	195(2011)
Urban Population-Rarotonga	...	...	13,095(2011)
B. Social Indicators			
Life Expectancy at birth	70(1990)	72(2000)	77(2011)
Under 5 mortality (per 1,000 live births)	...	26.1(1996-02)	7.0(2008-10)
Infant mortality (per 1,000 live births)	16.1(1990-94)	13.9(1998-02)	10.8(2006-10)
Maternal mortality (per 100,000 live births)	39.2(1900-94)	0.0(1998-02)	0.0(2006-10)
Skilled birth attendance (%)	70.0(1988)	98.0(2001)	100.0(2008)
Net enrolment ratio in primary education (%)	...	92.0(2001)	98.0(2011e)
Literacy rates of 15-24 years old (%)	...	99.0(2001)	99.0(2009e)
Gender Parity index in primary education	98.0(1990)	89.0(2003)	102.0(2011)
Gender Parity index in secondary education	112.0(1990)	94.0(2003)	116.0(2011)
Gender Parity index in tertiary education	86.0(1990)	100.0(2003)	...
Women in the non-agricultural sector (%)	38.0(1991)	46.0(2001)	55.0(2006)
Seats held by women in parliament (%)	6.0(1991)	8.0(2001)	4.2(2011)
Contraceptive prevalence rate (%)	...	47.2(2001)	46.1(2005)
HIV prevalence of 15-24 years old	0.0(1991)	0.0(2001)	...
C. Poverty Indicators			
Basic Needs Poverty (%)	...	...	28.4(2006)
Poverty Gap Ration (%)	...	...	8.5(2006)
Poorest quintile in national consumption	...	...	9.0(2006)
Employment to population ratio (%)	...	...	62.9(2008)
Employed living below \$1 (PPP) per day (%)	...	...	N/A
Food Poverty (%)	...	...	2.0(2006)
Labour force participation rate	...	69.0(2001)	70.2(2006)
Rarotonga	...	76.1(2001)	76.2(2006)
Southern Group	...	53.8(2001)	56.7(2006)
Northern Group	...	60.1(2001)	59.5(2006)
Unemployment rate	...	13.1(2001)	8.9(2006)
Rarotonga	...	6.7(2001)	5.9(2006)
Southern Group	...	26.8(2001)	16.5(2006)
Northern Group	...	34.6(2001)	24.3(2006)
...

... = data not available, GDP = gross domestic product.

Sources: Cook Islands National Millennium Development Goals Report 2010; Regional MDGs Tracking Report 2012, Pacific Islands Forum Secretariat; WHO <http://apps.who.int>

Table 4: Country Environment Indicators

Indicator	Baseline	Latest Year
A. Energy Efficiency of Emissions		
CO2 emissions, total ('000 metric tons)	22.0(1990)	70.0(2010)
CO2 emissions, per capita (metric tons)	1.2(1990)	3.6(2008)
Use of ODS (ODP metric tons)	0.1(1991)	0.0(2009)
B. Water Pollution: Water and Sanitation		
Population using improved drinking water sources (%)	100(1990)	100(2011)
Rarotonga	99(1990)	98(2010)
Outer Islands	97(1990)	...
Population using improved sanitation facilities (%)	100(1990)	95(2011)
Rarotonga	100(1990)	100(2010)
Outer Islands	91(1990)	100(2010)
C. Land Use and Deforestation		
Forest area (% of total land area)	62.5(1990)	66.7(2010)
Average annual deforestation (km ²)	...	...
Average annual deforestation (% change)	...	...
Arable land (% of total land)	...	...
Permanent cropland (% of total land)	...	...
D. Biodiversity and Protected Areas		
Terrestrial and Marine protected areas (%)	0.0(1990)	0.1(2010)
Mammals (number of threatened species)	...	...
Birds (number of threatened species)	...	...
Higher plants (number of threatened species)	...	...
Reptiles (number of threatened species)	...	...
Amphibians (number of threatened species)	...	...
E. Urban Areas		
Urban population living in slums (%)	0.0(2001)	0.0(2008)
Wastewater treated (%)		
Solid waste generated per capita (kg/day)		

... = data not available

Sources: Cook Islands National Millennium Development Goals Report 2010; Regional MDGs Tracking Report 2012, Pacific Islands Forum Secretariat; WHO <http://apps.who.int>

Table 5: Country and Portfolio Indicators
Table 5a: Portfolio Amounts and Ratings (Sovereign projects, as of 31 December 2013)

I. Active Loans

Sector	Loan No./Project No	Title	Net Project Amount		Total		RATING					
			\$ million	%	No.	%	On Track		Potential Problem		Actual Problem	
							No.	%	No.	%	No.	%
Transport & ICT	0249, 2472, 2473, 2739/40287013 *	Avatiu Port Development Project	20.934	100.0%	1	100.0%	1	100.0%	-	-	-	-
		Total	20.934	100.0%	1	100.0%	1	100.0%	-	-	-	-

II. Closed Loans

Sector	Loan No.	Title	Net Loan Amount		Total		PCR		
			\$ million	%	No.	%	Rating	Circulation	No
Multisector Finance	461 567	Multiproject Loan Cook Islands Development Bank Project	1.000 1.500	2.7% 4.0%	1 1	7.1% 7.1%	Not Rated Not Rated	1987 1989	102-87 273-89
Multisector	849	Second Multiproject	2.801	7.4%	1	7.1%	Partially Successful	1996	190-96
Transport & ICT	1031	Outer Islands Telecommunications Project	5.034	13.4%	1	7.1%	Generally Successful	1995	94-95
Finance	1155	Second Cook Islands Development Bank Project	1.333	3.5%	1	7.1%	Generally Successful	1997	115-97
Transport & ICT	1171	Emergency Telecommunications Rehabilitation	0.404	1.1%	1	7.1%	Not Rated	1993	275-93
Agriculture & Natural Resources	1309	Pearl Industry Development Project	0.481	1.3%	1	7.1%	Unsatisfactory	1999	337-99
Education	1317	Education Development Project	2.529	6.7%	1	7.1%	Successful	2001	209-01
Finance	1380	Third Cook Islands Development Bank Project	2.104	5.6%	1	7.1%	Successful	2003	265-03
Public Sector Management	1466	Economic Restructuring Program	4.831	12.8%	1	7.1%	Generally Successful	1999	3-99
Multisector	1588	Cyclone Emergency Rehabilitation Project	0.636	1.7%	1	7.1%	Generally Successful	2000	211-00
Water & Other Municipal Infra. & Svcs	1832	Waste Management Project	2.456	6.5%	1	7.1%	Successful	2005	353-05
Multisector	2174	Cyclone Emergency Assistance	2.498	6.6%	1	7.1%	Successful	2010	187-10
Multisector	2565	Economic Recovery Support Program-	10.000	26.6%	1	7.1%	-	-	-

		Subprogram 1							
		TOTAL	37.607	100.0%	14	100.0%			

Table 5b: Disbursements and Net Transfers of Resources
(sovereign loans, as of 31 December 2013)

Disbursements and Transfers	OCR	ADF	Total
Disbursements^a			
Total Funds Available for Withdrawal (\$ million)	19.07	7.05	26.12
Disbursed amount (\$ million, cumulative)	18.83	6.78	25.62
Percentage disbursed (disbursed amount/total available)	98.74	96.30	98.08
Disbursements (\$ million, 2013)	6.03	0.57	6.60
Disbursement ratio (%) ^b	95.92	68.74	92.74
Net Transfer of Resources (\$million)			
2009	-	(1.24)	(1.24)
2010	9.98	(0.41)	9.57
2011	5.53	2.39	7.92
2012	7.07	0.87	7.94
2013	4.87	(0.61)	4.26

- = nil, ADF = Asian Development Fund, OCR = ordinary capital resources.

^a Includes active and effective loans. Also includes closed loans during 2013.

^b Ratio of total disbursement during the year over the undisbursed net loan balance at the beginning for the year less cancellations during the year. Effective loans during the year are added to the beginning balance of undisbursed loans.

Sources: LFIS,
MFR

**Table 5c: Project Success Rates
(1996–2013)**

Project name	Approval date	Sector	Source of Latest rating	Latest rating	PCR year	PVR year	PPER Year
Cyclone Emergency	30-Jun-05	Multisector	PVR	Successful	2010	2010	
Waste Management Project	17-Jul-01	Water and Other Municipal Infrastructure and Services	PCR	Successful	2005		
Third Cook Islands Development Bank	26-Sep-95	Finance	PCR	Successful	2003		
Education Development Project	22-Sep-94	Education	PPER	Successful	2001		2004
Cyclone Emergency Rehabilitation Project	08-Dec-97	Multisector	PCR	Generally successful	2000		
Pearl Industry Development Project	30-Aug-94	Agriculture and Natural Resources	PCR	Unsuccessful	1999		
Economic Restructuring Program	26-Sep-96	Public Sector Management	PPER	Successful	1999		2002
Second Cook Islands Development Bank	14-Jan-92	Finance	PPER	Less than successful	1997		1998
Second Multiproject	27-Oct-87	Multisector	PCR	Less than successful	1996		
Outer Islands Telecommunications Project	20-Sep-90	Transport and ICT	PCR	Generally successful	1995		
Cook Islands Development Bank Project	25-Mar-82	Finance	PPER	Less than successful	1989		1990

Source: IED

Table 5d: Portfolio Implementation Status
(sovereign loans, as of 31 December 2013)

I. Active Loans

Sector	Loan No.	Fund	Title	Net Loan Amount (\$m)		Cumulative Disbursement (\$m)		Approval Date	Effectivity Date	Closing Date		
				OCR	ADF	OCR	ADF			Original	Revised	Actual
Transport & ICT	2472	OCR	Avatiu Port Development Project	8.420	-	8.420	-	20-Nov-08	10-Sep-09	31-Dec-12	31-Dec-13	14-Apr-14
Transport & ICT	2473	ADF	Avatiu Port Development Project	-	7.037	-	6.784	20-Nov-08	10-Sep-09	31-Dec-12	31-Dec-13	14-Apr-14
Transport & ICT	2739	OCR	Avatiu Port Development Project	4.455	-	4.428	-	24-Mar-11	22-May-12	31-Dec-12	31-Dec-13	14-Apr-14
Multisector	2946	OCR	Economic Recovery Support Program-Subprogram 2	5.983	-	5.983	-	22-Nov-12	22-Oct-13	31-Dec-12	31-Dec-13	24-Jan-14
			TOTAL	18.858	7.037	18.831	6.784					

II. Closed Loans

Sector	Loan No.	Fund	Title	Net Loan Amount (\$m)		Cumulative Disbursement (\$m)		Approval Date	Effectivity Date	Closing Date		
				OCR	ADF	OCR	ADF			Original	Revised	Actual
Multisector	461	ADF	Multiproject Loan	-	1.000	-	1.000	21-Aug-80	6-Nov-80	3-Jun-83	31-Dec-83	8-Dec-83
Finance	567	ADF	Cook Islands Development Bank Project	-	1.500	-	1.500	25-Mar-82	24-Nov-82	23-Nov-85	31-Dec-87	8-Jan-88
Multisector	849	ADF	Second Multiproject	-	2.801	-	2.801	27-Oct-87	11-Mar-88	30-Jun-91	30-Jun-94	29-Sep-95
Transport & ICT	1031	ADF	Outer Islands Telecommunications Project	-	5.034	-	5.034	20-Sep-90	23-Jan-91	30-Sep-93	30-Sep-94	28-Sep-94
Finance	1155	ADF	Second Cook Islands Development Bank Project	-	1.333	-	1.333	14-Jan-92	25-Jun-92	25-Jun-96	25-Jun-96	2-Oct-95

II. Closed Loans

Sector	Loan No.	Fund	Title	Net Loan Amount (\$m)		Cumulative Disbursement (\$m)		Approval Date	Effectivity Date	Closing Date		
Transport & ICT	1171	ADF	Emergency Telecommunications Rehabilitation	-	0.404	-	0.404	16-Jul-92	3-Aug-92	31-Dec-92	30-Jun-93	21-Jul-93
Agriculture & Natural Resources	1309	ADF	Pearl Industry Development Project	-	0.481	-	0.481	30-Aug-94	19-Dec-94	30-Apr-98	31-Dec-98	12-Jul-99
Education	1317	ADF	Education Development Project	-	2.529	-	2.529	22-Sep-94	28-Feb-95	31-Jul-00	31-Oct-00	18-Dec-00
Finance	1380	ADF	Third Cook Islands Development Bank Project	-	2.104	-	2.104	26-Sep-95	22-Jan-96	22-Jan-00	31-Dec-01	19-Feb-02
Public Sector Management	1466	ADF	Economic Restructuring Program	-	4.831	-	4.831	26-Sep-96	26-Sep-96	31-Dec-97	31-Dec-97	18-Mar-98
Multisector	1588	ADF	Cyclone Emergency Rehabilitation Project	-	0.636	-	0.636	8-Dec-97	6-Jan-98	30-Jun-99	30-Jun-99	16-Jun-00
Water & Other Municipal Infra. & Svcs	1832	ADF	Waste Management Project	-	2.456	-	2.456	17-Jul-01	25-Oct-01	28-Feb-04	28-Feb-05	20-Sep-05
Multisector	2174	ADF	Cyclone Emergency Assistance	-	2.498	-	2.498	30-Jun-05	14-Jul-05	31-Oct-07	30-Jun-09	13-May-10
Multisector	2565	OCR	Economic Recovery Support Program-Subprogram 1	10.000	-	10.000	-	13-Oct-09	26-Mar-10	31-Mar-10	31-Mar-10	31-Mar-10
			TOTAL	10.000	27.607	10.000	27.607					

ADF = Asian Development Fund; OCR = Ordinary Capital Resources
Source: LFIS/GFIS

Table 6: Development Coordination Matrix

Sectors and Themes	Current ADB Strategic Focus	Other Development Partners' Strategies and/or Main Activities			
		Multilateral Institutions and the UN System		Bilateral	
Sector					
Public Sector Management	Budget and technical support for policy reforms linked to Public Financial Management Roadmap; Strengthening public sector financial management; Economic planning capacity Improving the governance and performance of SOEs	EU	Budget and technical support for policy reforms linked to Public Financial Management Roadmap	AusAID, NZ	Budget and technical support for policy reforms linked to Public Financial Management Roadmap
Transport	Avatiu Port rehabilitation, infrastructure services delivery	...	...	NZ, AusAID	Reconstruction of harbours on Mauke and Mitiaro to reduce the risk of disaster due to cyclones and other extreme weather events. Alternative port at Arorangi.
Water	Improve access to water by all communities, reliable and clean water supply	EU	Improve access to water by all communities, reliable and clean water supply; increase waste water treatment and sewer collection capacity to control lagoon pollution	NZ, AusAID, PRC	Improve access to water by all communities, reliable and clean water supply; support for the improvement of water quality in Muri lagoon in Rarotonga,
Social Protection	Direct support to vulnerable groups (elderly, disabled)	...	...	...	...
Energy	Potential support to Renewable Energy Program, Promoting energy efficiency	EU	Potential support to Renewable Energy Program	NZ, Japan	Potential support to Renewable Energy Program

Education	...	UNSECAP	Digitization of the audio visual collections of the national archives; Participation in advanced training in educational planning	AusAID, NZ	Improvements in educational quality at all levels, increased enrolment rates and providing teacher aides with formal qualifications, improvements in education quality.
Information and Communication Technology	Feasibility study on the submarine fiber optic cable. Deregulation of the telecommunication industry.	...	...	...	...
Industry and Trade	....	EU	Regional integration and trade-related issues including the implementation of the Economic Partnership Agreement	...	...
Themes					
Capacity Development	More responsive and cost-effective scope, structure, and size of selected public service sectors; Changes to the Cook Islands outer islands administration and effective public policy manual. Building capacity in policy development, economic analysis and projection.	UNDP	Build capacity at local government level to effectively plan and manage resources	NZ and AusAID	Provision of technical assistance fund. Training in procurement, scholarship awards and the procurement of capital equipment
Governance	Governance framework supporting infrastructure management and development, Rigorous planning and investment criteria for vetting infrastructure proposals, Asset management, Institutional adjustments and reforms for ensuring sector sustainability through regulatory reviews of tariff regimes and private sector participation. The Cook Islands have added governance as its ninth	EU	Provision of advisory services and technical studies. Systems improvement in MFEM.	NZ and AusAID, PRC, Korea	Hosting of regional meetings. Provision of cars Web tax lodgment system, accounting software for Aid management

	MDGs.				
Environment Sustainability and Climate Change	Strengthening community resilience to climate change and promoting public awareness	EU, UNDP, GEF, SPREP	Climate change management program; integration of both DRR and CCA in national, island and community policies, plans and work programmes. Improve coordination.	AusAID, NZ	assistance with the reconstruction of public infrastructure and housing on the island of Aitutaki following
Private Sector Development	Strengthening policy environment, regulatory oversight and improving infrastructure including water, ports and the development of ICT	...	...	...	...

ADB = Asian Development Bank, AusAID = Australian Agency for International Development, EU = European Union, UNDP = United Nations Development Programme, UNESCAP = United Nations Economic and Social Commission for Asian and the Pacific
Source: Development partner websites and communications.

Table 7: Risk Assessment and Management Plan**Table 7a: Country Risks**

Risk	Assessment without mitigation	Mitigating plans or measures	Assessment with mitigation
Continuing reduction in population	High	Raise economic growth to increase job opportunities and incomes. Diversify the economy. No reduction in the number of civil servants.	High
Lack of skills and institutional capacity	High	Import essential skills. Strengthen capacity building in project design. Include a manpower plan in the design of project. Control the number of projects to suit the capacity to implement them. Keep recommendations realistic.	Medium
Poor implementation of agreed policies and actions	High	Avoid bunching of projects. Set realistic plans. Avoid complicated solutions. Be aware of capacity constraints. Strong prioritization and screening process. Implement an objective performance evaluation system	Medium
Lack of statistics	High	Institutional strengthening in statistics division. Assistance on national accounts. Provision of TAs. Collect more banking statistics to compile basic balance of payments indicators.	Medium
Occurrence of natural disasters	High	Climate proofing. Improve coordination of disaster management actions. Establish trust fund for the initial for recovery and rehabilitation.	High
Lack of fiscal stability arising from the inability to control wages, the cost of the underwrite of flights and higher welfare payments	Medium	An evidence based review of the underwriting of flights to be made well before it expires in 2014 to lessen the load on the budget. Review of welfare payments to take into account affordability. Better management of wage increase.	Medium
Poor policy development and inadequate rigor in policy analysis	High	Secure TA for specific issues. Continue training. Encourage public policy dialogue. Establish new tools of economic and budget analysis	Medium
Economic slowdown in New Zealand and Australia	Medium	Safeguard fiscal stability in the immediate term. Build up resiliency over time.	Low
Change in government commitment after the 2014 elections may prevent continuity of projects	Medium	Link the projects clearly to the NSDP. Disseminate information on major projects to all stakeholders including the communities and private sector. Include a communication strategy on all major projects.	Medium
Lack of medium term planning	High	Close monitoring of the implementation of the NSDP and sector plans	Medium

which would lead to low investment and poor coordination		like the climate change and renewable energy. Develop a new infrastructure master plan.	
Poor environment management	Medium	Implementation of climate change mitigation and disaster management plan. Review of NESAF. Implementation of sanitation pilot project. Decide and implement preferred waste management option. Reduction of reliance on diesel fuel from renewable energy.	Low
Graduation of the country which may lead to the reduction in development partners support	Low	Improve coordination and information flows. Strengthen annual roundtable discussions.	Low
Lack of alternative power supply in the event that the single generating station in Rarotonga is unable to operate for some time	Medium	Implementation of renewable energy to provide 50 % of the power requirement by 2015 and 100 % by 2020. Use of generators.	Low
Poor choice of technology for telecommunications	Medium	Rigorous assessment of the O3B technology which is a new technology with no prior experience in implementation. Aim for submarine cable in the medium term.	Medium
Lack of donor funding for the renewable energy and water project	Low	Early discussions with donors. The estimate of the CIRECIP on renewable energy may significantly change depending on the chosen technology.	Low
Rapid accumulation of debt	Low	Rigorously and transparently analyze debt financing. Follow procedures in debt evaluation. Address the major risks of the underwriting of flights. Wages and welfare payments.	Low
Higher debt servicing arising from adverse exchange rate movements	High	Convert existing debt to NZD. Negotiate new debt in NZD. Establish debt reserves. Develop a medium term debt strategy.	High
Low level of ownership of development projects by the government	High	Close alignment of projects to the NSDP. Public dissemination of information. Formal commitment agreement. Communication plan to be included in the project design.	Medium
Poor project management which would result in unsuccessful and costly project implementation	High	Transparent procedures of selection of project management. Closer monitoring of performances. Flexibility where appropriate in implementation. Communication strategy.	Medium

Table 7b: Risks to Policy Based Lending

Risk	Assessment Without mitigation	Mitigation measures	Assessment with mitigation
Take the pressure off governments to take the tough decisions on controlling spending. Budget support may prolong the need for action and exacerbate the problems that the country faces.	High	Policy actions that are required should be front loaded and included as trigger points for the release of the grant	Medium
Government may not deliver the policy actions after the grant is disbursed. There is little leverage by ADB on government after the grant has been released. In a tight financial situation, countries may simply agree to conditions which they know they cannot fulfill.	Medium	The ADB must make a realistic assessment of what can be done and at the same time provide technical assistance wherever necessary to implement the conditions. Releasing the grant in more than one tranche should be explored where appropriate.	Low
There is a risk that the country can use the grant for operational purposes like wage increase.	High	This can be avoided by better evaluation of the financing need of the country where the sources of funds for these operational expenditures are clearly identified.	Medium
The interpretation of how the conditions should be fulfilled can be disputed after the loan has been signed.	High	Clarity of the interpretation of what would fulfill those conditions must be included in the design	Medium
Countries often underestimate the difficulty of fulfilling the conditions of the policy based lending. More often the senior management of the Ministries is too busy to fully take part in the design of these conditions. Instead, they delegate to junior officers who may lack the depth to fully grasp the difficulty of implementing the conditions.	High	ADB must effectively engage senior country officials in the design of the conditions for the loan. A formal commitment could be signed for this purpose. Use the DCOs in the design of the project and in securing ownership.	Medium
Poor projections impose risks to the achievements of the objectives of the program.	High	The program could provide technical assistance to help improve these projections.	Medium
Policy based lending is still misunderstood by government.	Medium	More efforts should be made to explain the rationale and the operation of the assistance.	Low

Table 8: Country Cost-Sharing Arrangements and Eligible Expenditure Financing Parameters, 2015 - 2017

Item	Parameter	Remarks/Explanation
Country Cost-Sharing Ceiling^b for Loans (2015–2017)	Up to 99%	Individual projects may be accorded ADB financing of up to 99% of total project costs to provide maximum flexibility for the government to finance its development agenda. Actual cost-sharing for individual projects will be based on project-specific considerations: higher financing percentages may be provided for non-income earning projects that address binding constraints to inclusive growth; and lower financing percentages may be provided for income-earning projects to encourage local ownership. ADB will continue to seek cofinancing opportunities with other development partners.
Country Cost-sharing Ceiling^b for TA and Other Grants (2015–2017)	Up to 99%	TA and other grant projects may be accorded ADB financing for up to 99% of project costs. A higher percentage of financing may be provided for projects with strong evidence of ownership and commitment that addressing binding constraints to inclusive growth. Under TA programs, the counterpart government agency would normally be expected to provide in-kind facilities to support the work of TA consultants.
Country Cost-sharing Ceiling^b for Specific Sectors	None	No sector-specific variations are proposed.
Limits on Recurrent Cost Financing^c	None	While no country limit has been set for recurrent cost financing, such financing is not expected to be significant. The government is encouraged to strengthen arrangements that ensure the fiscal and operational sustainability of projects once ADB funding ceases. ADB funding would, to the extent possible, be integrated into the budget to mitigate fiscal sustainability risks.
Taxes and Duties	None	Local taxes and duties are considered reasonable. No taxes and duties are targeted specifically at ADB projects. Tax and duty arrangements set out in ADB's charter are complied with. ADB may finance taxes and duties associated with project expenditures, provided they do not constitute an excessively high share of project costs.

Notes:

- ^a ADB's policy on cost-sharing is governed by: ADB. (2005). *Cost Sharing and Eligibility of Expenditures for Asian Development Bank Financing: A New Approach*. Manila.
- ^b Country cost-sharing ceilings are financing parameters that indicate the maximum share of costs ADB will finance with respect to an aggregate portfolio of projects in a developing member country (DMC), over the country partnership strategy period for that DMC.
- ^c Under ADB's policy, recurrent costs of the borrower are eligible for ADB financing. These costs must be regularly or periodically incurred, and may include salaries and operating costs. However, only recurrent costs incurred during the implementation phase of projects will be eligible, and only up to an amount that would be in line with sound banking principles.