

**COOK ISLANDS – EUROPEAN COMMUNITY**

**COUNTRY STRATEGY PAPER**  
**AND**  
**NATIONAL INDICATIVE PROGRAMME**  
**for the period 2002 - 2007**

## GENERAL PROVISIONS

The Government of the Cook Islands and the European Commission hereby agree as follows:

- 1) The Government of the Cook Islands (represented by *<name and title>*), and the European Commission, (represented by *<name and title>*,) hereinafter referred to as the Parties, held discussions in the Cook Islands from .....to ..... with a view to determining the general orientations for co-operation for the period 2002 – 2007.

During these discussions, the Country strategy paper including an indicative programme of Community Aid in favour of the Cook Islands were drawn up in accordance with the provisions of Articles 2 and 4 of Annex IV to the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000. These discussions complete the programming process in the Cook Islands.

The Country Strategy Paper and the Indicative Programme are annexed to the present document.

- 2) As regards the indicative programmable financial resources which the Community envisages to make available to the Cook Islands for the period 2002-2007, an amount of **€ 2.0 million** is foreseen for the allocation referred to in Article 3.2 (a) of Annex IV of the ACP-EC Partnership Agreement (A-allocation) and of **€ 0.6 million** for the allocation referred to in Article 3.2 (b) (B allocation). These allocations are not entitlements and may be revised by the Community, following the completion of the mid-term and end-of term reviews, in accordance with Article 5.7 of annex IV of the ACP-EC Partnership Agreement.
- 3) The A-allocation is destined to cover macroeconomic support, sectoral policies, programmes and projects in support of the focal or non-focal areas of Community assistance. The Indicative Programme under chapter VI concerns the resources of the A-allocation. It also takes into consideration financing from which the Cook Islands benefit or could benefit under other community resources. It does not pre-empt financing decisions by the Commission.
- 4) The B-allocation is destined to cover unforeseen needs such as emergency assistance where such support cannot be financed from the EU budget, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings. The B-allocation shall be triggered according to specific mechanisms and procedures and does therefore not yet make part of the Indicative Programme.
- 5) Pending the entry into force of the Financial Protocol of the ACP-EC Partnership Agreement and within the framework of the present Country Strategy Paper and Indicative Programme, financing decisions for projects and programmes can be taken by the Commission at the request of the Government of the Cook Islands,

within the limits of the A- and B-allocations referred to in this document. The respective projects and programmes shall be implemented according to the rules and procedures of the eighth European Development Fund until the entry into force of the Financial Protocol for the ninth EDF.

- 6) The European Investment Bank may contribute to the implementation of the present Country Strategy Paper by operations financed from the Investment Facility and/or its own resources, in accordance with Articles 3 (a) and 4 of the Financial Protocol of the ACP-EC Partnership Agreement.
- 7) In accordance with Article 5(4) of Annex IV to the ACP-EC Partnership Agreement, the National Authorising Officer and the Head of Delegation shall annually undertake an operational review of the Indicative programme and undertake a mid-term review and an end-of-term review of the Country Strategy Paper and the Indicative Programme in the light of current needs and performance.

The mid-term review shall be undertaken within two years, and the end-of-term review shall be undertaken within four years from the date of signature of the Country Strategy Paper and the National Indicative Programme. Following the completion of the mid- and end-of-term reviews, the Community may revise the resource allocation in the light of current needs and performance.

- 8) The agreement of the two parties on this Country Strategy Paper and the National Indicative Programme, subject to the ratification and entry into force of the ACP-EC Partnership Agreement, will be regarded as definitive within eight weeks of the date of the signature, unless either party communicate the contrary before the end of this period.

#### Signatures

For the Government of the Cook Islands

For the Commission

.....

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Date:

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## EXECUTIVE SUMMARY

The purpose of the Country Strategy Paper (CSP) is to provide, on the basis of an analysis of the political, economic and social situation of the country, a response strategy for EC support under the 9<sup>th</sup> EDF.

The Cook Islands is located at approximately 3,500 km north-east of New Zealand. The country consists of two groups of islands - 13 inhabited and two uninhabited - extending over 2 million km<sup>2</sup> of ocean. The North Cook Islands are atolls, the South Cook Islands are volcanic and comparatively fertile. The country has a land area of 237 km<sup>2</sup> and an Exclusive Economic Zone of 1,830,000 km<sup>2</sup>. The GDP per capita in 1999 was € 3,282.

The Cook Islands is a self-governing country “in free association” with New Zealand. The country has an estimated population of 14,600 people, more than half of whom live on the main island of Rarotonga in the southern group. Cook Islanders hold New Zealand citizenship. Over the years, a large number of people have migrated to New Zealand and Australia. More ethnic Cook Islanders live in New Zealand than in the home islands.

Tourism is the main driver of economic growth and accounts for almost half of GDP. Cook Islands’ major exploitable resources are associated with the country’s ocean, reef and lagoon areas. The main development in the marine resources sector has been the rapid expansion of (black) pearl production. Pearl exports exceed 90% of total exports, with Japan, Australia and Europe being the main markets. For the time being, the Cook Islands remains on the OECD Financial Action Task Force money laundering list.

The Cook Islands faces key development challenges, such as the emigration of skilled workers to New Zealand and Australia and government deficits. Of central importance is the need to ensure an equitable distribution of the nation’s resources and to provide equal opportunities for all Cook Islanders to participate in the modern economy. The relatively high income per capita reflects the high proportion of expatriate residents, the tourism economy based in Rarotonga and until recently a large public sector. It masks the largely subsistence lifestyle of most of the outer island population. Although the main islands are relatively prosperous, the development of the outer islands is lagging behind. There is an urgent need to address and rectify these disparities. To this end, the improvement of social services in the outer islands is crucial in addressing the relative poverty in these areas and contributing to the future growth prospects of the country.

Consistent with these objectives, the Government of the Cook Islands is targeting outer island social development as the focal sector, absorbing 85% of the A-allocation of € 2.0 million. The remaining 15% of the A-allocation will be made available to non-state actors.

The B-allocation amounts to € 0.6 million.

## **1. EC-COOPERATION OBJECTIVES**

In accordance with Article 177 of the Treaty Establishing the European Community, community policy in the sphere of development co-operation shall foster:

- the sustainable economic and social development of the developing countries, and more particularly the most disadvantaged among them;
- the smooth and gradual integration of the developing countries into the world economy;
- the campaign against poverty in the developing countries.

These objectives have been confirmed and reinforced in Article 1 of the ACP-EC Partnership Agreement, signed in Cotonou on 23 June 2000, which puts main emphasis on the objective of reducing and eventually eradicating poverty. Co-operation between the Community and the Cook Islands shall pursue these objectives, taking into account fundamental principles laid down in Article 2 of the Agreement – especially the principle of encouragement of the development strategies by the countries and populations concerned – and essential and fundamental elements as defined in Article 9.

In their Statement on the European Community's Development Policy of 10 November 2000, the Council of the European Union and the European Commission determined a limited number of areas selected on the basis of their contribution towards reducing poverty and for which Community action provides added value: link between trade and development; support for regional integration and co-operation; support for macro-economic policies; transport; food security and sustainable rural development; institutional capacity-building, particularly in the area of good governance and the rule of law. The Statement also specifies that in line with the macro-economic framework, the Community must also continue its support in the social sectors (health and education), particularly with a view to ensuring equitable access to social services.

The Treaty establishing the European Community foresees that the Community and the Member States shall co-ordinate their policies on development co-operation and shall consult each other on their aid programmes, including in international organisations and during international conferences. Efforts must be made to ensure that Community development policy objectives are taken into account in the formulation and implementation of other policies affecting the developing countries. Furthermore, as laid down in Article 20 of the Agreement, systematic account shall be taken in mainstreaming into all areas of co-operation the following thematic or cross-cutting themes: gender issues, environmental issues and institutional development and capacity building.

The above objectives and principles and the national policy agenda presented in the next chapter constitute the starting point for the formulation of the present Country Strategy Paper, in accordance with the principle of national ownership of development strategies.

## 2. THE NATIONAL POLICY AGENDA

### 2.1 National Policy Framework and development strategy

#### 2.1.1 Government Policy Statement

The Cook Islands “national vision” is identified in the government’s budget policy statements and the Principles for Strategic Development, which highlight health, education and outer island development as priorities.

The government’s philosophy is expressed in the principle of “working together with the people in building a better nation”. This overarching goal embraces the ideals of co-operation, partnership, community, democracy, and asserts that people are the country’s greatest resource. The guiding economic policy framework can be summarized as follows:

- **Social cohesion:** to create equal opportunities and benefits for all Cook Islanders by:
  - 1) ensuring equal access to health, education, infrastructure and welfare, and the reduction of national disparities,
  - 2) ensuring that all stakeholders (including non-state actors) are involved in the budgetary process, policy development and the legislative agenda.
- **Economic sustainability:** to create a positive macroeconomic environment in which both the public and private sectors participate in a balanced and thriving economy. This is to be achieved through managing resources prudently, adding to the debt reserve fund, and facilitating private sector development via an appropriate regulatory framework.
- **Good governance:** the Government follows the Pacific Island Forum Secretariat’s Principles of Accountability, adopted from the International Monetary Fund’s Code of Best Practices. Cost-effectiveness in the delivery of goods and services is paramount, as is the development of a customer-focused workforce providing a high-quality open, transparent and accountable service to the public.
- **Infrastructure development:** investing in infrastructure to bring about greater integration and participation of the outer islands in the national economy. Building on the stock of the nation’s key – airports, roads, and utilities provision.
- **Sister Islands development:** ongoing support for the devolution process, delegating greater authority and responsibility to the island councils and developing their capacity.
- **Environmental management:** monitoring, protecting and caring (in the context of development) for critical environmental and natural resource factors of land and bio-diversity, oceans and fragile island ecosystems, freshwater resources, and atmosphere and climate change.

### 2.2 Meeting national policy objectives

#### 2.2.1 Public expenditure and revenue

In 1996, the Government of the Cook Islands, in collaboration with the Asian Development Bank, formulated an Economic Reform Programme (ERP) aimed at attaining sustainable economic growth and development, improving public sector management and promoting good governance.

The promotion of responsible fiscal management is currently a paramount objective of the macro-economic policy framework. The Government has implemented many of the reforms required for the prudential fiscal and financial management identified in the Economic Reform Programme. In the early 1990’s, government expenditure accounted

for two-thirds of GDP with the public sector providing nearly half of employment. Following a major downsizing of the public sector in the mid-1990's, the share of government expenditure in GDP is now about 40 percent, with employment in the public service declining to approximately one third of formal sector employment.

While the bulk of the fiscal recovery is due to expenditure cuts, the Government has made significant progress in increasing public revenue. Tax reforms were introduced to raise tax revenue and widen the revenue base. The Government has also adopted a policy of annual savings to build reserves for debt servicing. Over time the reserve funds will be invested overseas to reduce the currency risks associated with the Cook Islands foreign currency denominated debt.

### **3. ANALYSIS OF POLITICAL, ECONOMIC AND SOCIAL SITUATION**

The Cook Islands is located at approximately 3,500 km north-east of New Zealand in the South Pacific Ocean. The country consists of two groups of islands extending over 2 million km<sup>2</sup> of ocean. The North Cook Islands are atolls, the South Cook Islands are volcanic and comparatively fertile. The country has a land area of 237 km<sup>2</sup> and an Exclusive Economic Zone of 1,830,000 km<sup>2</sup>. The population is estimated at 14,600, more than half of them live on the main island of Rarotonga in the southern group. The GDP per capita in 1999 was € 3,282.

While the indigenous language is Cook Islands Maori, the language of trade, commerce and education is English. The official currency is the New Zealand dollar.

There is no separate Cook Islands citizenship and Cook Islanders are citizens of New Zealand and as such hold New Zealand passports and have free access to New Zealand. Over the years, a large number of islanders have migrated to New Zealand and Australia. More ethnic Cook Islanders live in New Zealand than in the home islands.

#### **3.1 Political situation**

The Cook Islands was administered as a dependent territory of New Zealand from 1901 until 1965 when, by an act of self-determination under United Nations auspices, the Cook Islands became a self-governing parliamentary democracy "in free association" with New Zealand. Under the free association relationship, the Cook Islands Government possesses full executive and legislative powers, while New Zealand, in recognition of constraints posed by size and isolation, retained responsibilities for Cook Islands' foreign affairs and defence. These responsibilities confer no rights of control to the New Zealand Government and can only be acted on at the request of, and on behalf of, the Government of the Cook Islands. Recently the Cook Islands has sought and achieved an increasing autonomy with respect to finance, security and foreign affairs. However, the fact that the Cook Islands remains on the FATF list for money laundering is a case for concern.

The Head of State is Queen Elizabeth II, represented in Cook Islands by an appointed Queen's Representative. The executive is comprised of the Prime Minister and a cabinet of seven ministers. The unicameral parliament has 25 elected members and an appointed speaker. Since 1999, the Cook Islands has had four coalition governments, which is indicative of strong political rivalries which inhibit consistency in economic



and financial policies. At present there are three political parties. General elections take place every five years and were last held in February 2002. The former Deputy Prime Minister Dr. Robert Woonton then became the Head of Government.

The legal system is based on that of Great Britain and New Zealand.

In addition to the national government, the outer islands operate local government under statutory powers devolved by parliament to local councils.

Traditional leaders (Ariki), though not elected, maintain considerable influence and control over large areas of communal land in traditional ownership.

### **3.2 Economic situation**

The Cook Islands suffers from common development constraints associated with geographical isolation and dispersion of small population centres amongst numerous islands. Domestic markets are small, export markets are distant, transport costs high, natural resources are limited and the environment is fragile. The country is vulnerable to external shocks, cyclones and changing sectoral trends. The infrastructure is inadequate and there is a lack of professional and managerial skills.

A buoyant tourism sector sustained high levels of economic growth during the 1980s and early 1990s, when real GDP grew by 6% per year. Over the years the Cook Islands has reduced its dependence on foreign aid and remittances. The GDP per capita (€ 3,282 in 1999) is high compared to others in the region. This, however, reflects the high proportion of expatriate residents, the tourism economy based in Rarotonga and until recently a large public sector. It masks the largely subsistence lifestyle of most of the outer island population.

In the mid-nineties the Cook Islands experienced its most serious economic crisis since self-government in 1965. During the boom years of the late 1980s/early 1990s, the country maintained a bloated public service and accumulated a large foreign debt. A downturn in tourism - the main industry - due to a reduction in international airline services, adverse publicity as a result of nuclear testing in the Pacific, and an outbreak of dengue fever exacerbated the economic decline.

High levels of public expenditure (particularly as regards the government payroll), financial mismanagement and public investment in highly speculative ventures culminated in a serious liquidity crisis in the banking sector and mounting domestic and external debt.

As the magnitude of the economic crisis became apparent during 1996, a wide-ranging programme designed to address basic structural weaknesses in the economy was put in place. The programme included public sector reform, the sale of state assets, stimulation of private sector led growth and strengthening of financial and economic management. The Government also overhauled the country's tax regime. The reforms have led to more prudent economic management which was reflected in reduced government expenditure.

Public sector downsizing was a key element in the reforms. The number of ministries was reduced by more than half, with a corresponding reduction in public servants. Excess labour was partly absorbed by an expanding private sector in Rarotonga, and the labour demands of the developing pearl industry. The size of the subsistence sector also

expanded. Nevertheless, between 1996 and 2000, a quarter of the population migrated to New Zealand (and Australia).

The economic difficulties in 1996/97 were compounded by a high level of public debt. An outflow of capital has contributed to a shortage of credit and hampered business development. The debt restructuring package which was agreed in 1998 lifted a huge burden from the economy which, from mid-1999 onwards, moved into a recovery phase, with annual growth rates of about 3 percent due to a strong revival of the tourism sector. Although foreign debt is still substantial at NZ\$ 117 million, the Cook Islands has adopted a policy of annual savings to build reserves for debt servicing.

The Cook Islands is heavily dependent upon imports from New Zealand and trade between the two countries is firmly in New Zealand's favour. New Zealand provides most of Cook Islands' import needs (food and beverages, construction materials and machinery). Mineral fuels are imported from Australia and Fiji.

### ***3.2.1 Tourism***

Tourism is the main driver of economic growth and accounts for almost half of GDP. Record numbers of tourists (of more than 80,000 arrivals in 2000, nearly 75,000 had been visitors) have stimulated growth in construction and services, particularly in Rarotonga and Aitutaki. New Zealand and Europe are the main sources of tourists. However, the loss of international air services in late 2001 due to the terrorists attacks on the U.S. diminished medium-term growth prospects. The impact on the environment of ever increasing numbers of tourists (particularly as regards waste disposal) is a cause for concern.

### ***3.2.2 Agriculture***

The agricultural and fisheries sector combined account for approximately 22 percent of national output and income. The vast bulk of this output is household subsistence production. The development of agriculture is hampered by the traditional land tenure system and by 'absentee' landowners. Agriculture production is largely subsistence based and livestock rearing, especially pigs and poultry, is prevalent. The main subsistence crops are taro, cassava and coconuts, the main commercial crops are fruits and vegetables and the major export crop is pawpaw. Overall agriculture exports have maintained the levels of the 1980s.

The Government's National Agriculture Strategic Plan is aimed at enhancing agricultural development, specifically for improved food security (food comprises 27% of imports) and for outer island development.

### ***3.2.3 Fisheries***

The offshore fisheries industry is of limited importance to the economy, despite the size of the EEZ (1.8 million km<sup>2</sup>). The Cook Islands is a signatory to the multilateral Tuna Treaty which permits 30 U.S. purse seine vessels to fish in Cook Islands' waters. These vessels however rarely, if ever, fish in the area. The Cook Islands operates five long-line fishing vessels.

There are very little commercial inshore fisheries. Most reef and lagoon fishing on the outer islands is undertaken by part-time fishers and/or for subsistence purposes.

The pearl industry, especially black pearl production, is central to the economic prosperity of the Cook Islands. Black pearls are currently the main export commodity, with Japan, Australia and Europe being the main markets. In 2000/01, black pearl exports accounted for more than 90 percent of total export earnings and generated more than NZ\$18 million. Black pearl farming is an important source of income for the outer island population and offers further growth prospects. New developments in the seeding, cleaning and harvesting of pearls could increase current stocking levels.

#### ***3.2.4 The Financial Services Sector***

The offshore finance industry plays a major role in the economy, contributing about 10% of total government earnings through wages, VAT, company tax, house rentals and revenue. The offshore finance sector has been subject to scrutiny by the OECD. Through extensive negotiations and dialogue with members of the OECD Secretariat, the Cook Islands committed to the OECD harmful tax initiative. This commitment relates to increased transparency and effective exchange of information in respect of civil and criminal tax matters by 31 December 2005. The pledge prevented the Cook Islands from being listed as an uncooperative tax haven.

In June 2000, the Financial Action Task Force (FATF) placed Cook Islands on the list of non-cooperative countries and territories. The country has since enacted the Money Laundering Prevention Act 2000 (in consultation with the FATF). Regulations provide for customer identification requirements, and the establishment of a Financial Intelligence Unit by the Money Laundering Authority meets most of the requirements of the FATF.

Technical assistance in public financial management, tax administration and policy, as well as banking regulation and supervision, will be addressed at the regional level under the 9<sup>th</sup> EDF Regional Indicative Programme.

#### ***3.2.5 Manufacturing***

Mining and manufacturing account for only 7 percent of GDP. There is some potential in the mining sector and a pre-feasibility study is being carried out by SOPAC to assess the potential for deep-sea nodule mining (Cook Islands has one of the world's largest resources).

### **3.3 Social situation**

The Cook Islands' GDP per capita (€ 3,282 in 1999) is high when compared to others in the region. The country scores relatively highly (0.82) on the UNDP Human Development Index. This reflects Cook Islanders' high life expectancy of about 70 years, low infant mortality rate and nearly universal rates of adult literacy.

There are few signs of absolute poverty in the Cook Islands, but this may be in part due to the informal support network that exists within extended families in Polynesian society. However, there are marked income and social disparities between Rarotonga, which is the principal island, and some outer islands that have not benefited from the growth in tourism or from development of the black pearl industry. The UNDP Human Poverty Index - based on life expectancy, adult literacy and access to basic amenities - estimates that 6.1 percent of Cook Islanders live in poverty.

## SOCIAL INDICATORS

|   | 1994   | 2000   |
|---|--------|--------|
| <b>POPULATION INDICATORS</b>                                    |        |        |
| Total population  | 18,600 | 14,600 |
| Annual population growth rate (% change)                        |        | -7.50  |
| <b>SOCIAL INDICATORS</b>  |        |        |
| Total fertility rate (births per woman)                         |        |        |
| Maternal mortality rate (per 100,000 live births)               | 3.5    | 3.7    |
| Infant mortality rate (below 1 year; per 1,000 live births)     | 26     | 20.7   |
| Life expectancy at birth (years)                                |        | 71.5   |
| <b>Adult literacy (%)</b>                                       |        |        |
| Adult literacy (%)  |        | 99     |
| <b>Primary school enrollment (% of school age population)</b>   |        |        |
| Primary school enrollment (% of school age population)          |        | 99     |
| <b>Secondary school enrollment (% of school age population)</b> |        |        |
| Secondary school enrollment (% of school age population)        |        | 99     |
| <b>Population with access to safe water (%)</b>                 |        |        |
| Population with access to safe water (%)                        |        | 99     |
| <b>Population with access to sanitation (%)</b>                 |        |        |
| Population with access to sanitation (%)                        |        | 96     |
| <b>Human Development Index (UNDP).</b>                          |        |        |
| Human Development Index (UNDP).                                 |        | 0.82   |
| <b>Human Development Ranking</b>                                |        |        |
| Human Development Ranking                                       |        | 62     |
| <b>Human Poverty Index</b>                                      |        |        |
| Human Poverty Index   |        | 6.1    |

Women in the Cook Islands have traditionally enjoyed a high social status and play an important part in the economy, particularly as traditional leaders (Ariki) and heads of non-governmental organizations. Women have guaranteed access to a full range of health services and have equal opportunities in education. Women's participation in the workforce has increased over the years (they comprise 42% of the paid workforce) and women figure prominently in private businesses and informal trade. They are however underrepresented in Parliament.

### ***3.3.1 Education and Health***

The Cook Islands, in particular the main island of Rarotonga, has relatively high levels of education, sanitation and public health services.

The school system comprises 34 schools (most of them government schools), 14 of which are on Rarotonga. Education is compulsory between the ages of 5-15. The Government provides free access to education for all students living on permanently inhabited islands. Education is principally financed from budget appropriations and donor funding. The budget for 2001/02 accounted for 11.2% of total appropriations. NZODA and AusAID provide study awards (scholarships) to enable Cook Islands residents to follow secondary and tertiary courses in New Zealand, Australia and/or elsewhere in the Pacific region.

Historically, the Government has assumed a leading role in health service delivery and all citizens enjoy free access to health care. Disparities exist between Rarotonga and the outer islands, especially in the remoter northern group, and apart from poorer access to qualified staff, the quality of health care service in many of the outer islands is rudimentary to non-existent. There is an urgent need to develop infrastructure, staffing, equipment and the provision of medical supplies on the outer islands. The budget in 2000/2001 of the Ministry of Health amounted to 12% of total appropriations.

### ***3.3.2 Water and Sanitation***

There is no problem of water supply. In Rarotonga water is obtained from the water catchments of the mountainous interior of the island. In the volcanic southern group of islands, the main sources of drinking water are freshwater lenses and roof catchments providing the southern islands with an assured supply of good-quality drinking water. In the northern group, the main source of drinking water is from rainwater catchments. The groundwater resource is fragile and prone to contamination from human waste and salt intrusion.

### ***3.3.3 Environment***

There are several resource and environmental issues affecting sustainable development in the Cook Islands, including an array of issues from climate and sea-level variability, environmental degradation and pollution, coastal erosion, water quality and sanitation. Sewage disposal is a problem. Most households have septic tanks, but this system is not suitable for hotels and motels handling large numbers of tourists. On the atolls, pollution of the shallow water table causes a high incidence of gastro-intestinal diseases.

The Government is committed to promoting better environmental management by extending environmental monitoring and regulation to the outer islands.

### ***3.3.4 Energy***

The Cook Islands generates its electricity predominantly from imported fossil fuels. However, in many villages on the outer islands lighting is provided by solar power energy. The use of this technology is gaining widespread acceptance. Natural resources such as firewood and coconut husk still remain a major source of energy for cooking on the outer islands, and to a lesser extent on Rarotonga where the use of liquid petroleum gas (LPG) has become more common.

Recent resource assessments for wind and ocean energy by SOPAC (South Pacific Applied Geo-science Commission) have confirmed that there are opportunities for the development of these technologies.

### ***3.3.5 Outer Island Development***

More than half of the population (about 60 percent) resides on the main island of Rarotonga. The remaining 40 percent of the people are widely dispersed over the 12 inhabited outer islands. The downsizing of the public sector has resulted in a major migration from many of the outer islands, as the majority of the workforce had been employed by the public service. This has severely affected the maintenance of social infrastructure like clinics and schools, which are now in a very poor state. Many outer islands lack basic necessities and amenities and there is an urgent need to upgrade the

social services' providers to improve the social and economic environment of the outer island population.

The Government is committed to bringing the benefits of development to the outer islands and to *“work with each island to ensure that they have the human resource capability to effectively and successfully embrace the devolved functions of public service governance in their respective islands”*.

The outer islands operate local government under statutory powers devolved by parliament to local councils. Significant responsibilities have been devolved from central government to island councils and local government administrators.

Although progress towards empowering the outer islands in the areas of management, responsibility and authority is ongoing, many core functions allocated to the islands have reverted to the central Ministries in Rarotonga. In the health sector, clinical services have largely reverted to the Ministry of Health in all but three islands. In the education sector, the core function of staffing has reverted to the centrally administered Ministry of Education, although the Island Secretary and the outer islands retain some control over maintenance budgets.

### **3.4 Medium-term challenges**

The Government faces many challenges for the future, not the least of which are the timely debt repayment, the completion of the ERP as regards institutional strengthening, and the promotion of macroeconomic stability, sustainable and equitable growth and development opportunities. Of central importance is the need to ensure a fair distribution of the nation's resources and to provide equal opportunities for all Cook Islanders to participate in the modern economy.

The major challenges facing the Cook Islands are to stabilise the population, especially on the outer islands, and to promote economic growth through diversification (by emphasising fisheries and agriculture) and private sector development. Government's operational strategy is directed at economic and governance reforms, sound economic and public sector management, infrastructure and outer island development. It includes improved governance by clarifying the roles of island councils and island administrations, developing suitable institutional capacities and business procedures for the outer islands, enhancing transparency in public sector operations and institutionalizing performance-based management of the public sector.

## **4. OVERVIEW OF PAST AND ON-GOING COOPERATION**

### **4.1 EC Co-operation**

The Cook Islands is a new ACP Member State in the Pacific and has no record of previous co-operation with the European Union.

### **4.2 Bilateral assistance**

New Zealand is the main source of financial assistance to the Cook Islands.

The total 2001/02 bilateral NZODA allocation for the Cook Islands is NZ\$6.24 million. New Zealand no longer contributes to the recurrent costs of Cook Islands' budget.

Outer island development is the generic focus throughout the NZODA programme, in particular the upgrading of outer island transport related infrastructure, but also the provision of technical assistance and training to outer island councils and local government.

Australia provides assistance to the Cook Islands through its AusAID Programme. Given Cook Islands' special relationship with New Zealand, Australia's role is that of a supporting donor. Australia's bilateral aid to Cook Islands totalled Aus\$1.4 million in 1999-2000 and about Aus\$1.5 million in 2000-01.

AusAID assistance focuses on education and training, and on improving access to quality water and reliable electricity on the outer islands.

#### **4.3. Multilateral assistance**

The Asian Development Bank has, together with New Zealand, played a key role in strengthening economic and financial management in the Cook Islands. It has financed loan projects for policy reforms associated with the Economic Reform Programme and for ADB-financed projects. Cumulative Bank lending as of January 2001 was approximately US\$24.6 million.

The United Nations Development Programme (UNDP) provides technical assistance and grants for capacity building on the outer islands and for environmental protection measures.

### **5. THE EC RESPONSE STRATEGY**

#### **5.1 Objectives of future co-operation**

The response strategy takes into consideration the basic principles of EC's Development Policy, as well as the results of the preceding analysis of the political, economic and social situation in the Cook Islands, the longer-term development goals and Government's own priorities. In particular the lack of development and incidence of poverty in the outer islands is a crucial factor in determining the EC response. Past experiences of other donor activities are also included in the strategy. The future co-operation between the Cook Islands and the EC in the context of the Cotonou Agreement has been designed to contribute in particular:

- to ensure that EC funded projects have a positive impact on living conditions of all beneficiaries on the outer islands, without a distinction according to social, ethnic, political, religious or gender criteria;
- to ensure that the operations can be sustained in order to guarantee a long-lasting flow of benefits to the target groups and to the country as a whole;
- to ensure that the projects and programmes funded under the present Agreement are in areas where the EC is perceived to have a comparative advantage, compared to other donor organisations;
- to ensure that gender, environment, institutional development and capacity building are fully taken into account during implementation.

## **5.2 Areas of future co-operation**

Consistent with the objectives of economic and social development and the need to ensure a fair distribution of the nation's resources by providing equal opportunities for all Cook Islanders to participate in the modern economy, the Government, in consultation with civil society, has identified Outer Island Development, with specific emphasis on social services' delivery, as the area of concentration under the 9<sup>th</sup> EDF National Indicative Programme.

The improvement of social services' delivery on the outer islands is crucial to the equitable distribution of wealth and future growth prospects. Through the implementation of projects aimed at improving the delivery of social services on the outer islands, the Government seeks to address national disparities, increase the overall welfare of the outer island population and enhance economic growth and development.

Target operations for the improvement of social services' delivery on the outer islands include:

- structural improvements of hospitals/clinics and schools;
- provision of standard quality accommodation for resident and visiting health and education staff;
- provision of health and education equipment and supplies;
- improvements of water provision and sanitation.

### **5.2.1 The Health Sector**

Problems in this sector which need to be addressed concern inadequate infrastructure, a lack of medical equipment and a shortage of qualified/specialised personnel (e.g. dentists and medical consultants) because of limited accommodation for resident and visiting clinical and medical personnel. It is proposed that part of the A-allocation be used to construct and/or upgrade clinical infrastructure on the outer islands, including staff quarters, to upgrade and/or purchase essential medical equipment and supplies.

Operations that have been identified for support include:

- structural improvements to hospitals/clinics on Manihiki, Mitiaro and Mauke;
- extensions to existing infrastructure, to open dental clinics on Mitiaro and Pukapuka;
- refurbishment of clinics on all islands, including renewal of roofs (and related rain water catchment possibilities) and the provision of essential medical equipment;
- provision of standard accommodation for resident and visiting nurses/doctors.

### **5.2.2 The Education Sector**

Problems in this sector refer mainly to those outer islands facing difficulty in recruiting qualified teachers, upgrading the skills of teachers, and being confronted with a lack of adequate accommodation for teachers and teaching/learning aids, including computers, photocopiers, etc. Most schools are facing falling school rolls (due to outmigration) that threaten their educational and economic viability. There is also a need to review educational infrastructure provision and, in case of overcapacity, merge schools.

To this end, it is proposed that part of the A-allocation will be used for:



- improved infrastructure of schools, including renovation of buildings and/or the merging of schools in areas with an overcapacity. Some schools have a need for specialist rooms for technical-vocational subjects, e.g. home economics, wood work, computers, etc. to meet school and community needs for marine studies, craft, etc.;
- supply of school furniture and teaching/learning aids and equipment;
- provision of standard quality accommodation for recruited teachers.

Moreover, the Ministry of Education has identified distance education technologies as one of the teaching modes to overcome the constraints to education provision to the outer islands. Many Cook Islands students already pursue distance education courses, e.g. through the New Zealand Correspondence School, and access to email greatly improves communication between schools and students. The Government intends to extend email services and internet coverage to all schools in the Cook Islands in order to improve access to 'traditional' distance education materials and open up the information highway for all outer island schools. The benefits of this technology will extend beyond the education sector, as swift connection to the outer world is vital in cases of emergency and facilitates business operations in remote areas. It is therefore proposed that part of the A-allocation be used for the construction of school computer labs and the purchase of the necessary equipment for the use of students and the community. The idea is that the school should become a learning centre for the island.

85 percent of the A-allocation of € 2.0 million will be utilised for the improvement of social services' delivery in the outer islands.

### **5.2.3 Supporting Non-State Actors**

NGOs and Community Based Organisations (CBOs) are particularly active in the areas of women in development, gender issues, youth and sports, education and health, environmental protection/conservation, support to vulnerable groups, and participation in disaster relief efforts. They also provide an effective way of communication between traditional leaders, communities and the government, both in Rarotonga and the outer Islands.

The Cook Islands Association of Non-Governmental Organizations (CIANGO) is an umbrella body for NGO/NSA activity in the Cook Islands. CIANGO was established more than 15 years ago and has now 68 affiliated organisations. For 2001/2002 CIANGO's operations are partly funded by the government. CIANGO provides an effective communication channel between NGOs, government and donor agencies.

15 percent of the A-allocation of €2.0 million will be made available for NSA specific operations and capacity building.

### **5.3 Coherence and Complementarity**

As a small country, the Cook Islands will not participate in the PRSP process. Coherence between development cooperation policy and other EC policies (trade, fisheries, agriculture, environment) relevant for the Cook Islands will be assessed on a continuing basis. In this context NIP resources may be used to complement resources from the RIP, budget lines and trade-specific operations, in support of Cook Islands'

efforts (Government departments and Non State Actors) to prepare for the establishment of a coherent trade policy framework, with emphasis on preparing for the EPA, and assistance for capacity-building for carrying out negotiations in a regional and multilateral context and in implementing the accompanying trade policy and structural reforms.

In fisheries, the EC will ensure coherence between its commercial interests in harvesting tuna from the Pacific, and the developmental imperatives of equitable returns, promotion of onshore fish processing and coastal fisheries, transparency in providing accurate information on fishing effort and catch, and strict adherence to the principles of resource conservation and sustainability. Fisheries matters will be addressed by means of the EC regional programme with its support to the regional agencies of the Forum Fisheries Agency and the Secretariat of the Pacific Community.

Coherence with cross-cutting issues referring to gender mainstreaming, environmental considerations and principles of good governance will be observed in all future projects.

The programme is complementary to government's own efforts to ensure a fair distribution of the nation's resources by providing equal opportunities for all Cook Islanders and to improve the living conditions of the outer island population.

The programme will be coordinated with sector programmes of other donors, in particular of New Zealand and Australia, which are complementary to the focal sector chosen.

The operations of the EIB under the Investment Facility have yet to be defined.

## **6. PRESENTATION OF THE INDICATIVE PROGRAMME**

### **6.1 Introduction**

Within the general framework of the present Country Strategy Paper (see part A) and according to the provisions of Article 4, Annex IV of the Cotonou Agreement, the Parties have agreed on the main priorities for their co-operation (see chapter 5) and on the sector(s) on which the support of the Community will be concentrated. A detailed Indicative Programme, including a set of tables on commitment and disbursement forecasts, as well as a preliminary chronogramme of the different activities envisaged under the Programme within the project cycle, is presented hereunder.

A repartition of funds between the focal sector, macro-economic support and other programmes or instruments can be modified in the context of operational performance or ad hoc reviews.

### **6.2 Financial Instruments**

The EC Country Strategy for the Cook Islands will be financed through different instruments with the following indicative allocations:

- a) **9<sup>th</sup> EDF A-allocation of € 2.0 million** will cover long-term development operations within the framework of the Support Strategy;
- b) **9<sup>th</sup> EDF B-allocation of € 0.6 million** will be mobilised to provide additional support when this becomes necessary as a result of unforeseen needs, such as emergency assistance.

Specific actions could be financed via EC budget lines administered by the Commission, especially in the areas of decentralised co-operation and NGO co-financing. Budget line funding is subject to specific rules and regulations and depends on the availability of funds.

The Cook Islands will also benefit from the 9<sup>th</sup> EDF Regional Indicative Programme and from trade specific operations, according to needs and availability of funds. More details will be discussed in the framework of the 9<sup>th</sup> EDF regional programming for the Pacific Island States.

### **6.3 Area of concentration : Outer Island Development**

Within the general framework of the present Country Strategy Paper, the Parties have agreed on the main priorities for their co-operation and the sector(s) on which the support of the Community will be concentrated. It is based on the A-allocation.

Amounts mentioned in this chapter indicate the global repartition of funds within the focal sector. This repartition can be modified in the context of operational performance or ad-hoc reviews.

The A-envelope shall be allocated as follows:

- a) Support to Outer Island Development will absorb 85% of the allocation, i.e. **€ 1.7 million**. It will include the improvement of social services' delivery in the health and education sectors of the outer islands.
- b) For activities implemented by and capacity building of Non-State Actors 15% of the allocation, i.e. **€ 0.3 million**, will be earmarked.

The major policy measures to be taken by the Government as a contribution to the implementation of the response strategy will be to maintain the share of the national budget for outer island development, facilitate regular dialogue with donors and permit non-state actors to act as project carriers in situations where local government services are inadequate, and encourage community and non-state actors participation.

#### **6.4 Macro-economic support**

The Indicative Programme does not foresee macro-economic support. However, in the light of current needs, it may be decided to reallocate funds from other headings in the Indicative Programme to this type of support. Such a decision may be taken by specific agreement between the Chief Authorising Officer and the National Authorising Officer or in the context of an operational, performance or ad-hoc review.

#### **6.5 Intervention logic and timetables**

Details of the intervention framework, an activity chronogramme and tentative forecasts of commitments and disbursements over the next years are presented hereunder.

**INTERVENTION FRAMEWORK FOCAL SECTOR**

dates by 2003/2004/2005

| <b>FOCAL SECTOR</b>   | <b>Performance Indicators</b>   | <b>Sources Of Verification</b>   | <b>Assumptions</b>  |
|---|---|--|---|
| <p><b>Long-term national sector targets.</b><br/>Improvement of social services delivery in the Outer Islands of the Cook Islands.</p>  | <p>Structural improvements to hospitals /clinics and schools in the outer islands.<br/>Provision of a standard quality accommodation for resident and visiting health and education staff in the outer islands.<br/>Provision of health and education equipment and supplies for the outer islands by the year.<br/>Improvements in water and sanitation in the outer islands.</p>  | <p>Statistical data from the Ministry of Health and the Ministry of Education.</p>   | <p>National government and Island Councils cooperate to achieve goals and objectives.</p>   |
| <p><b>Intervention objectives.</b><br/>-Government (and Island Councils) committed to undertaking the MOH's and MOE's proposed programme for construction and/or upgrading of social infrastructure in the outer islands.<br/>-Government to develop and implement a work programme for upgrading/ refurbishment of social infrastructure in the outer islands.<br/>-Identification and use of cost-effective and appropriate equipment and materials for upgrading social infrastructure in the outer islands.<br/>-To minimise the potential environmental impacts of projects and programmes in the social sectors through the adoption of environmental guidelines and regulations at the project</p> | <p>Work programme and timetable prepared for upgrading infrastructure in the outer islands of the Cook Islands.<br/><br/>Identification of least cost option for the provision of infrastructure.<br/><br/>Environmental guidelines prepared for outer island development – these guidelines arising from the national environment policy of the Government of the Cook Islands.<br/><br/>A needs assessment of the schools provision on the outer islands. Areas of excess capacity identified.<br/><br/>All of the outer islands have access to</p> | <p>Cook Islands Ministry of Education and Ministry of Health.<br/>Outer islands Secretary and Island Councils.<br/>Other donors reports.<br/>NSAs reports.<br/>Project monitoring reports.</p> | <p>Continuing government support for outer islands development.<br/><br/>Community groups fully involved and represented in discussions on outer islands development.</p> |

|   |  |  |  |
|---|--|--|--|
| <p>design stage.</p> <ul style="list-style-type: none"> <li>-Government proceeds with plans to extend email and internet coverage to all schools.</li> <li>-Government ensures that demand for resources provided is sustainable in the long-term and that adequate capacity exists, incl. In the outer islands, for the appropriate use, servicing and maintenance of all equipment, supplies and infrastructure provided under the programme.</li> <li>-Government organises centralised bulk purchasing of expensive equipment and supplies provided under the programme, tendering for which follows the Cook Islands government official tender rules, under the responsibility of the relevant central Ministry in Rarotonga.</li> <li>-Government and Island Councils consult the NSAs in all relevant times of programme preparation and implementation.</li> </ul> | <p>email and internet services.</p> <p>Centralised bulk purchasing for expensive equipment and supplies organised</p> <p>Efficient consultation mechanism with NSAs set in place</p> |  |  |
|---|--|--|--|

## 6.7

## CHRONOGRAMME OF ACTIVITIES

| Title  | 2003                                   |    |                    |                     | 2004                     |                |                |    |
|--|--|----|--------------------|---------------------|--------------------------|----------------|----------------|----|
|  | Q1                                     | Q2 | Q3                 | Q4                  | Q1                       | Q2             | Q3             | Q4 |
| Area of concentration:<br>Outer Island Development | Project identification and programming |    | Financing Proposal | Financing agreement | Tenders and mobilisation |                | Implementation |    |
| Support to NSAs                                    | Project identification and programming |    |                    | Financing Programme | Financing agreement      | Implementation |                |    |

## 6.8

## INDICATIVE TIMETABLE FOR COMMITMENTS AND DISBURSEMENTS

| Title  | Amount<br>€ | 2002 |    | 2003 |                  | 2004           |                | 2005           |                | 2006           |    |
|--|-------------|------|----|------|------------------|----------------|----------------|----------------|----------------|----------------|----|
|  |             | S1   | S2 | S1   | S2               | S1             | S2             | S1             | S2             | S1             | S2 |
| Area of concentration:<br>Outer Island Development | Comm.       |      |    |      | 1,700,000        |                |                |                |                |                |    |
|  | Disb.       |      |    |      |                  |                | 425,000        | 425,000        | 425,000        | 425,000        |    |
| Support to NSAs:                                   | Comm        |      |    |      |                  | 300,000        |                |                |                |                |    |
|  | Disb.       |      |    |      |                  |                | 75,000         | 75,000         | 75,000         | 75,000         |    |
| <b>Total Comm.<br/>Disbursements</b>               |             |      |    |      | <b>1,700,000</b> | <b>300,000</b> | <b>500,000</b> | <b>500,000</b> | <b>500,000</b> | <b>500,000</b> |    |

## 6.9

## COUNTRY DONOR MATRIX

| COOK ISLANDS NATIONAL DEVELOPMENT STRATEGY OR CDF/PRSP                                      |   |  |   |   |
|---|---|--|---|---|
| Country Matrix  | Economic Development  | Social Development   | Productivity Sector   | Thematic/crosscutting Issues<br>Treaties and Agreements.  |
| <u>Government of the Cook Islands Budget (2001/2)</u><br>Capital Expenditure by Department. | Development Investment Board NZ\$24,000<br>Foreign Affairs NZ\$200,020.<br>Internal Affairs NZ\$53,600<br>Outer Islands NZ\$2.58 millions.<br>MFEM, NZ\$72,000.<br>Office of the Prime Minister, NZ\$23,000.<br>Parliament NZ\$39,000.<br>Ombudsman NZ\$26,500.<br>Head of State NZ\$26,500.<br>Public Service Commission NZ\$37,000.<br>Ministry of Works, NZ\$1.4 millions.<br>Ministerial Support, NZ\$20,000.<br>Internal Affairs and Ministry of Works NZ\$12,900. | PERCA NZ\$5,100.<br>Crown Law NZ\$13,697.<br>Culture NZ\$32,500.<br>Education NZ\$89,150.<br>Environment NZ\$25,700.<br>Justice NZ\$8,000<br>Health NZ\$303,500.<br>Police NZ\$105,500<br>Human Resource Devel. NZ\$57,900.<br>Health NZ\$21,000.<br>Minster of Outer Islands, NZ\$10,000.<br>Education, Culture, Development and PSC, NZ\$27,645. | Agriculture: NZ\$155,000.<br>Marine Resources: NZ\$72,000.<br>Offshore: NZ\$19,000. | Secretariat of the Pacific Community (SPC).<br>South Pacific Forum Secretariat.<br>Pacific Islands Development Programme (PIDP).<br>South Pacific Regional Environment Programme (SPREP).<br>University of the South Pacific (USP).<br>Tourism Council of the South Pacific (TCSP).<br>Oceania Customs Organisation (OCO).<br>United Nations Education, Scientific and Cultural Organisation (UNESCO).<br>World Health Organisation (WHO).<br>Food and Agricultural Organisation (FAO).<br>Forum Fisheries Agency (FFA).<br>South Pacific Chief Police Conference (SPCPC).<br>Pacific Immigration Directors Conference (PIDC).<br>Asia Caribbean Pacific State Member to the European Union (ACP-EU). |



|   |  |  |  |   |
|---|--|--|--|---|
|   |  |  |  | Economic and Social Commission for Asia and the Pacific (ESCAP).<br>South Pacific Applied Geoscience Commission (SOPAC).<br>Pacific Island Development Fund (PIPD).<br>Commonwealth Secretariat<br>Asian Development Bank (ADB).<br>Signatories to PICTA and PACER, (2001). |
| <u>Private Sector</u><br>Sectoral Composition and Value of Approved Invest-ments 2000/1 |  |  | Agriculture<br>NZ\$747,702<br>Finance: NZ\$145,000.<br>Manufacturing:<br>NZ\$108,000.<br>Marine: NZ\$4 millions.<br>Technology:<br>NZ\$4.2 millions.<br>Tourism: NZ\$678,791 |   |
| Non-State Actors<br>CIANGO  |  |  |  |   |
| <u>Major Donor Activity</u><br>New Zealand: Forward Aid Programme 2001/2003             | Secretary of Finance, (MFEM) (NZ\$70,000), Public Sector Technical Assistance (NZ\$250,000), Outer islands Capacity Building, (NZ\$150,000), | Legal Assistance Cook Islands Crown Law Office.<br>Education Sector Support Proposal, NZ\$1.18m.<br>Special Education Project.<br>Provision of, in-country training (NZ\$150,000),<br>Short-term training Attach, (NZ\$200,000),<br>Apprenticeships scheme (NZ\$80,000), |  |   |

|  |  |  |  |  |
|--|--|--|--|--|
|  |  | <p>Hospitality and Tourism Training Centre (NZ\$150,000),</p> <p>One long-term New Zealand Study Award, up to eleven Pacific Regional Awards,</p> <p>HRD Department Capacity Development (NZ\$100,000).</p> <p>Private Sector Management Training (NZ\$65,000).</p> <p>Outer islands infrastructure NZ\$1.2 millions</p> <p>Technical adviser Office of the Minister for Island Development. OMIA. NZ\$110,000.</p> <p>Refurbishment of outer islands health clinics NZ\$250,000</p> <p>Funding for medical specialist visits of NZ\$150,000.</p> <p>Punanga Tauturu receive NZ\$146,000 and NZ\$54,000 for gender development</p> <p>Other programmes include:-</p> <p>The Cook Islands Met-Service (NZ\$20,000) and a new allocation of NZ\$200,000 is provided for a Strategy Support Fund.</p> |  |  |
|--|--|--|--|--|

|   |   |  |  |  |
|---|---|--|--|--|
|   |   |  |  |  |
| Australia                                       | <p>Technical support and grants provided to:-</p> <p>The Ministry of Finance and Economic Management(MFEM), NZ\$65,000,</p> <p>Outer islands development (NZ\$965,000),</p> <p>The Public Service Commission (NZ\$500,000)</p> <p>The Public Sector Expend-iture Review Committee and Audit, NZ\$50,000.</p>  |  |  |  |
| Asian Development Bank Forward Assistance Plan. | <p>Technical assistance and an Economic Sector Work Programme. TA provided for Capacity Building for Economic and Public Sector Management (US\$800,000),</p> <p>Capacity Building in Environmental Management (US\$350,000),</p> <p>Support for Government's initiatives in reducing income disparities between Rarotonga and the outer islands – empowering island councils (US\$550,000).</p> <p>In addition, a loan for Outer Islands Development is proposed for 2003 for the establishment of an outer islands trust fund (US\$3 millions).</p> |  |  |  |
| United Nations Development Programme (UNDP)     | Outer Islands Devolution Programme. US\$ 343,000  |  |  |  |

**APPENDIX 1**

**COOK ISLANDS DEBT SERVICING:**  
**APPROPRIATION AMENDEMENT 2001/2002**

|                              | MAIN LOANS       |                  |                      |                  | SUBSIDIARY LOANS |                |                  | Net              |
|------------------------------|------------------|------------------|----------------------|------------------|------------------|----------------|------------------|------------------|
|                              | Principal        | Interest Paid    | Interest Capitalised | Gross            | Principal        | Interest       | Gross            |                  |
| <b>Major Creditors</b>       |                  |                  |                      |                  |                  |                |                  |                  |
| France                       | 0                | 351,000          | 199,000              | 550,000          | 1,097,221        | 264,068        | 1,361,289        | (811,289)        |
| Italy                        | 0                | 582,900          | 562,550              | 1,145,450        |                  |                |                  | 1,145,450        |
| Republic of Nauru            | 1,382,287        | 312,380          |                      | 1,694,667        |                  |                |                  | 1,694,667        |
| New Zealand                  | 197,120          | 172,627          |                      | 369,747          |                  |                |                  | 369,747          |
| <b>Total Major Creditors</b> | <b>1,579,407</b> | <b>1,418,907</b> | <b>761,550</b>       | <b>3,759,864</b> | <b>1,097,221</b> | <b>264,068</b> | <b>1,361,289</b> | <b>2,398,575</b> |
|                              |                  |                  |                      |                  |                  |                |                  |                  |
| <b>Minor Creditors</b>       |                  |                  |                      |                  |                  |                |                  |                  |
| ADB                          | 484,923          | 463,333          |                      | 948,256          | 981,921          | 264,068        | 1,361,289        | (423,450)        |
| Banque Indosuez              | 106,513          | 51,691           |                      | 158,204          |                  |                |                  | 158,204          |
| National Bank                |                  | 0                |                      | 0                |                  |                |                  |                  |
| Bank of Cook Islands         | 240,000          | 305,000          |                      | 545,000          |                  |                |                  | 545,000          |
|                              |                  |                  |                      |                  |                  |                |                  |                  |
| <b>Total Minor Creditors</b> | <b>831,436</b>   | <b>820,024</b>   | <b>0</b>             | <b>1,651,460</b> | <b>981,921</b>   | <b>264,068</b> | <b>1,361,289</b> | <b>279,754</b>   |
|                              |                  |                  |                      |                  |                  |                |                  |                  |
| <b>Total Debt Servicing</b>  | <b>2,410,843</b> | <b>2,238,931</b> | <b>761,550</b>       | <b>5,411,324</b> | <b>2,079,142</b> | <b>653,853</b> | <b>2,732,995</b> | <b>2,678,329</b> |

Source:- Cook Islands Government Budget Estimates 2001/2002, Part I Appropriation Bill Appropriations and Commentary, August 2001

**APPENDIX 2**  
**COOK ISLANDS GOVERNMENT STATEMENT OF FISCAL**  
**RESPONSIBILITY 2001/2002**

**Operating Revenue and Expenditure Statement for the year ended 30 June 2002**

|   | AMENDMENT<br>2000/2001 | EST/ACT.<br>2000/2001 | BUDGET<br>2001/2002 |
|---|------------------------|-----------------------|---------------------|
| <b>Operating Revenue</b>                    | <b>NZ\$('000)</b>      | <b>(NZ\$'000)</b>     | <b>(NZ\$'000)</b>   |
| Crown Receipts                              | 52,232                 | 57,523                | 59,388              |
| Trading Revenue                             | 3,320                  | 3,320                 | 2,819               |
| Interest on Loans to Subsidiaries           | 740                    | 935                   | 654                 |
| Telecom Cook Islands Dividend               | 1,700                  | 1,700                 | 1,235               |
| Interest on Funds                           | 550                    | 600                   | 600                 |
| <b>Total Operating Revenue</b>              | <b>58,543</b>          | <b>64,078</b>         | <b>64,696</b>       |
| <b>Operating Expenditure</b>                |                        |                       |                     |
| Ministry Outputs                            | 42,065                 | 42,065                | 45,851              |
| 1999.2000 Surplus Carried Forward           | (633)                  | (633)                 | 0                   |
| Payments on Behalf of the Crown             | 11,106                 | 11,286                | 12,270              |
| Airport Authority                           | 550                    | 550                   | 750                 |
| Debt Servicing Interest                     | 1,929                  | 1,929                 | 2,239               |
| Building Maintenance                        | 350                    | 350                   | 750                 |
| Infrastructure Depreciation                 | 1,508                  | 1,508                 | 1,600               |
| Contingency                                 | 300                    | 120                   | 650                 |
| Former Deputy Prime Minister's Office       |                        |                       | 57                  |
| <b>Total Operating Expenditure</b>          | <b>57,175</b>          | <b>57,175</b>         | <b>64,167</b>       |
| <b>Fiscal Operating Surplus (Shortfall)</b> | <b>1,368</b>           | <b>6,903</b>          | <b>529</b>          |

Source: Cook Islands Government Budget Estimates 2001/2002, Part I Appropriation Bill  
Appropriations and Commentary, August 2001

### APPENDIX 3

## COOK ISLANDS GOVERNMENT STATEMENT OF FISCAL RESPONSIBILITY 2001/2002

### Non- Operating Revenue and Expenditure Statement for the year ended 30 June 2002 (NZS'000)

|  | AMENDMENT<br>2000/2001 | EST/ACT.<br>2000/2001 | BUDGET<br>2001/2002 |
|--|------------------------|-----------------------|---------------------|
| <b>Non-Operating Revenue</b>                                   |                        |                       |                     |
| Loan Repayments  | 1,700                  | 1,926                 | 2,079               |
| Interest on Loans Capitalised                                  | 1,026                  | 1,026                 | 762                 |
| Foreign Aid  | 11,954                 | 11,954                | 13,201              |
| Waste Management Project                                       | 853                    | 853                   | 625                 |
| Land Trust Moneys (unclaimed)                                  | 2,000                  | 2,000                 | 0                   |
| Transfer from Land Trust Reserve                               | 0                      | 0                     | 1,200               |
| Telecom Cook Islands Repayment of Share Capital                | 1,000                  | 1,000                 | 0                   |
| Dividends Cook Islands Invest Corp.                            | 55                     | 55                    | 0                   |
| Tax Arrears  | 200                    | 200                   | 0                   |
| <b>Total Non-Operating Revenue</b>                             | <b>18,788</b>          | <b>19,014</b>         | <b>17,867</b>       |
| <b>Non-Operating Expenditure</b>                               |                        |                       |                     |
| Loan Repayments  | 1,190                  | 1,190                 | 2,411               |
| Interest on Loans Capitalised                                  | 1,026                  | 1,026                 | 762                 |
| Outer Islands Grant Fund                                       | 236                    | 236                   | 250                 |
| Foreign Aid Projects   | 11,954                 | 11,954                | 13,201              |
| Contingency for Shipping                                       | 0                      | 0                     | 250                 |
| Capital – Cook Islands Invest Corp.                            | 433                    | 433                   | 306                 |
| Capital – Waste Management Project                             | 530                    | 530                   | 800                 |
| Capital Expenditure – Ministries                               | 4,676                  | 4,676                 | 5,461               |
| Capital Expenditure – Major Projects                           | 853                    | 853                   | 0                   |
| Contingency – Capital Expenditure                              | 300                    | 120                   | 0                   |
| Reserve Fund – Debt Repayment                                  | 2,000                  | 3,000                 | 2,079               |
| Reserve Fund – Land Trust                                      | 1,899                  | 1,899                 | 0                   |
| Land Trust Expenditure   | 0                      | 0                     | 900                 |
| <b>Total Non-Operating Expenditure</b>                         | <b>25,097</b>          | <b>25,917</b>         | <b>26,420</b>       |
| <b>Net Non-Operating Surplus (Shortfall)</b>                   | <b>(6,309)</b>         | <b>(6903)</b>         | <b>(8,533)</b>      |
| <b>Fiscal Operating Surplus (Shortfall) – carried forward.</b> | <b>1,368</b>           | <b>6,903</b>          | <b>529</b>          |
| <b>Net Surplus/Shortfall to be funded by</b>                   | <b>(4,941)</b>         | <b>0</b>              | <b>(8,024)</b>      |
| Depreciation   | 2,901                  | 2,902                 | 3,144               |
| Surplus Funds from Previous Year                               | 2,040                  | 2,040                 | 4,880               |
| <b>Net Surplus (Shortfall)</b>                                 | <b>0</b>               | <b>4,942</b>          | <b>8,024</b>        |
| <b>Carried Forward to 2001/2002</b>                            |                        | <b>4,880</b>          |                     |
| <b>Balance.</b>  |                        | <b>62</b>             |                     |

Source: Cook Islands Government Budget Estimates 2001/2002, Part I Appropriation Bill Appropriations and Commentary, August 2001

## APPENDIX 4

### COOK ISLANDS ANALYSIS OF MINISTRY APPROPRIATIONS BUDGET 2001/2002)

| MINISTRY                               | 2001/2002 BUDGET  |                  |                    |
|--|-------------------|------------------|--------------------|
|  | Gross Expenditure | Trading Revenue  | Net Appropriations |
| Agriculture                            | 1,040,482         | 125,000          | 915,482            |
| PERCA                                  | 637,018           | 45,000           | 592,018            |
| Crown Law                              | 353,670           | 8,000            | 345,670            |
| Culture                                | 704,977           | 40,500           | 664,477            |
| Development Investment Board           | 361,106           | -                | 361,106            |
| Education                              | 6,774,046         | 27,900           | 6,746,146          |
| Environment                            | 531,165           | 4,000            | 527,165            |
| Natural Heritage Trust                 | 70,179            | 20,000           | 50,179             |
| Foreign Affairs                        | 1,519,101         | -                | 1,519,101          |
| Justice                                | 1,441,638         | 355,686          | 1,085,952          |
| Health                                 | 6,636,709         | 155,350          | 6,481,359          |
| Internal Affairs                       | 1,312,475         | 60,600           | 1,251,875          |
| Marine Resources                       | 1,263,281         | 50,000           | 1,213,281          |
| Outer Islands                          | 8,615,026         | 1,483,618        | 7,131,408          |
| MFEM                                   | 1,982,603         | 223,000          | 1,759,603          |
| Prime Minister's Office                | 1,518,344         | -                | 1,518,344          |
| Offshore Financial Services            | 260,076           | -                | 260,076            |
| Parliament                             | 685,162           | 13,000           | 672,162            |
| Ombudsman                              | 152,296           | -                | 152,296            |
| Head of State                          | 172,122           | -                | 172,122            |
| Police                                 | 2,868,277         | 30,900           | 2,837,377          |
| Public Service Commission              | 359,258           | -                | 359,258            |
| Human Resource Development             | 275,088           | -                | 275,088            |
| Transport                              | 393,950           | -                | 393,950            |
| Tourism Corporation                    | 3,090,368         | -                | 3,090,368          |
| Ministry of Works                      | 1,603,806         | 176,000          | 1,427,806          |
|  |                   |                  |                    |
| <b>Ministerial Support</b>             |                   |                  |                    |
| Prime Minister                         | 350,000           | -                | 350,000            |
| Deputy Prime Minister                  | 250,000           | -                | 250,000            |
| Health                                 | 129,000           | -                | 129,000            |
| Outer Islands                          | 140,000           | -                | 140,000            |
| Education, PSC, HRD                    | 122,355           | -                | 122,355            |
| Internal Affairs and Ministry of Works | 137,100           | -                | 137,100            |
| Leader of Opposition                   | 100,000           | -                | 100,000            |
| <b>TOTAL</b>                           | <b>45,850,678</b> | <b>2,818,554</b> | <b>43,032,124</b>  |

Source:- Cook Islands Government Budget Estimates 2001/2002, Part I Appropriation Bill Appropriations and Commentary, August 2001

## APPENDIX 5

### COOK ISLANDS ECONOMIC INDICATORS AND FORECASTS

|  | FY00/01         | FY01/02          | FY02/03          |
|--|-----------------|------------------|------------------|
|  | Actual          | Projection       | Projection       |
| Nominal GDP (\$'000)                   | 174,306         | 181,943          | 191,601          |
| % Change                               | 6.5             | 4.4              | 5.3              |
| <b>Real GDP (\$'000)</b>               | <b>137,625</b>  | <b>142,103</b>   | <b>146,716</b>   |
| % Change                               | 6.2             | 3.3              | 3.2              |
| <b>Inflation</b>                       |                 |                  |                  |
| Index Numbers                          | 112.4           | 114.2            | 116.1            |
| CPI Inflation                          | 9.5             | 1.6              | 1.6              |
| Change (points)                        | 7.8             | (7.8)            | 0.0              |
| <b>Construction/Capital Investment</b> |                 |                  |                  |
| Business Construction (\$'000)         | 4,592           | 4,793            | 5,048            |
| Private Construction (\$'000)          | 4,359           | 4,550            | 4,791            |
| Public Capital Expenditure (\$'000)    | 8,407           | 8,775            | 9,241            |
| Total Construction/Cap Exp (\$'000)    | 17,358          | 18,118           | 19,080           |
| <b>Productive Sectors</b>              |                 |                  |                  |
| Tourism (nos)                          | 76,833          | 81,000           | 86,000           |
| Tourism Receipts (\$'000)              | 83,782          | 99,051           | 106,898          |
| % of GDP                               | 48.1            | 54.4             | 55.8             |
| Pearls (\$'000)                        | 19,181          | 20,022           | 21,085           |
| % of GDP                               | 11.0            | 11.0             | 11.0             |
| Commercial Agriculture                 | 1,848           | 1,929            | 2,032            |
| % of GDP                               | 1.1             | 1.1              | 1.1              |
| <b>Current Account Balance</b>         |                 |                  |                  |
|  | <b>5,512</b>    | <b>5,753</b>     | <b>6,059</b>     |
| % of GDP                               | 3.2             | 3.2              | 3.2              |
| <b>Trade Balance (\$'000)</b>          | <b>(99,200)</b> | <b>(103,500)</b> | <b>(109,000)</b> |

Source:- Cook Islands Government Budget Estimates 2001/2002, Part I Appropriation Bill  
Appropriations and Commentary, August 2001



## APPENDIX 6

### **COOK ISLANDS AID CONTRIBUTIONS BY MINISTRY 2000-2002**

|   | 2000/01<br>BUDGET | 2000/2001<br>ESTIMATE | 2001/2002<br>BUDGET |
|---|-------------------|-----------------------|---------------------|
| <b>New Zealand</b>                      |                   |                       |                     |
| Agriculture                             | 30,000            | 30,000                | 30,000              |
| Education                               | 1,092,000         | 1,112,790             | 740,000             |
| Environment                             | 300,000           | 300,000               | -                   |
| Health                                  | 320,000           | 322,300               | 100,000             |
| Internal Affairs                        | 134,000           | 174,000               | 142,000             |
| MFEM                                    | 445,000           | 445,000               | 290,000             |
| Office of the Minister of Outer Islands | 1,748,000         | 1,492,310             | 1,700,000           |
| Ministry of Works                       | -                 | 167,000               | 300,000             |
| Public Service Commission               | 1,480,000         | 1,416,400             | 300,000             |
| Human Resources Development             | -                 | -                     | 830,000             |
| Tourism                                 | 100,000           | 100,000               | 100,000             |
| Crown Law                               | 100,000           | 100,000               | 100,000             |
| MMR                                     | 100,000           | 131,500               | 100,000             |
| Meteorological Service                  | 60,000            | 60,000                | 20,000              |
| SBEC                                    | 140,000           | 140,700               | 140,000             |
| Private Sector                          | 151,000           | 208,000               | 105,000             |
| Unallocated                             | -                 | -                     | 1,203,000           |
| <b>Australia</b>                        |                   |                       |                     |
| MFEM                                    | 65,000            | 60,000                | 65,000              |
| Office of the Minister of Outer Islands | 965,000           | 965,000               | 965,000             |
| Public Service Commission               | 500,000           | 450,000               | 512,000             |
| PERCA                                   | 50,000            | 50,000                | 50,000              |
| <b>Britain</b>                          |                   |                       |                     |
| Education                               | -                 | -                     | 10,000              |
| Office of the Minister of Outer Islands | 20,000            | 20,000                | 30,000              |
| <b>ADB (Loan/TA)</b>                    |                   |                       |                     |
| <b>Loans:</b>                           |                   |                       |                     |
| CIDB/CISB                               | -                 | -                     | 500,000             |
| Ministry of Works (solid waste)         | -                 | -                     | 2,100,000           |
| Office of the Minister of Outer Islands | -                 | -                     | -                   |
| Education                               | -                 | -                     | -                   |
| <b>TA Grants</b>                        |                   |                       |                     |
| MFEM                                    | 560,000           | 560,000               | 250,000             |
| Office of the Minister of Outer Islands | 600,000           | 600,000               | 250,000             |
| Ministry of Works                       | 440,000           | 440,000               | -                   |
| Public Service Commission               | 200,000           | 200,000               | 250,000             |
| Environment                             | 100,000           | 100,000               | 250,000             |
| <b>Forum Fisheries</b>                  |                   |                       |                     |

|  |                   |                   |                   |
|--|-------------------|-------------------|-------------------|
| Marine Resources                       | 100,000           | 214,408           | 214,408           |
| Agriculture                            | 100,000           | 214,408           | 214,408           |
| <b>Forum Secretariat</b>               |                   |                   |                   |
| Office of the Min of Outer Islands     | 40,000            | -                 | 40,000            |
| Office of the Prime Minister           |                   | 11,660            |                   |
| PPSEAWA                                |                   | 3,990             |                   |
| <b>Canada</b>                          |                   |                   |                   |
| Private Sector                         | 50,000            | 50,000            | 50,000            |
| <b>UNDP</b>                            |                   |                   |                   |
| Office of the Min of Outer Islands     | 300,000           | 300,000           | 300,000           |
| Environment                            | 400,000           | 400,000           | 400,000           |
| MFEM (statistics)                      | 40,000            | 40,000            | 40,000            |
| Justice                                | 0                 | 0                 | -                 |
| <b>UNESCO</b>                          |                   |                   |                   |
| PPSEAWA                                | 0                 | 22,500            |                   |
| Health                                 | 0                 | 0                 | 20,000            |
| Education                              | 16,660            | 62,904            | 100,000           |
| Culture (archives/library)             | 0                 | 44,075            | 20,000            |
| <b>UNICEF</b>                          |                   |                   |                   |
| Foreign Affairs                        | 0                 | 0                 | -                 |
| <b>UNIFEM</b>                          |                   |                   |                   |
| Internal Affairs                       | 0                 | 0                 | -                 |
| <b>World Health Organisation (WHO)</b> |                   |                   |                   |
| Health                                 | 800,000           | 800,000           | 300,000           |
| <b>SPREP</b>                           |                   |                   |                   |
| Environment                            | 120,000           | 120,000           | 50,000            |
| <b>SPC</b>                             |                   |                   |                   |
| Internal Affairs                       | 25,000            | 25,000            | 20,000            |
| <b>TOTAL DEVELOPMENT ASSISTANCE</b>    | <b>11,961,660</b> | <b>11,953,945</b> | <b>13,200,816</b> |

Source:- Cook Islands Government Budget Estimates 2001/2002, Part I Appropriation Bill Appropriations and Commentary, August 2001