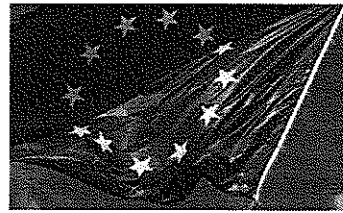


COOK ISLANDS



EUROPEAN COMMISSION

JOINT ANNUAL REPORT 2008

Executive summary with main conclusions and recommendations of the review

The Cook Islands is well on its way to achieving the MDG's by 2015. The Cook Islands economy is based on tourism (approx 50%), offshore financial services (<8%), pearl farming, fishing, and agriculture.

Indications are that there has been some slowing in economic growth due to the worldwide economic downturn. Forecasting has become every difficult.

Crown revenue is down -3.3% year on year, to 31 May 2009, with the VAT component down -1%.

The impact of a decline on 'long-haul' visitors has been partially offset by an increase in 'short-haul' visitors from New Zealand and Australia. The latter has probably also been assisted by the political unrest in Fiji and travel advisory's (against travel to Fiji) issued by the New Zealand and Australian governments. At the same time the Cook Islands government took steps to maintain a direct air-link to Los Angeles, (through a risk sharing agreement with Air New Zealand), designed to mitigate further softening of the valuable northern hemisphere market.

The Cook Islands continues to be generally well governed with little or no underlying political or social unrest. A General Election must be held in 2010.

The Cook Islands continues to enjoy an excellent relationship with the European Community as evidenced by the successful implementation of EDF9 A envelope for Outer Islands development (€ 2.0 million plus 0.5 million following the MTR) and the B envelope (for the mitigation of natural disasters) which is in the process of being implemented (Pukapuka Cyclone Management Centre) and due for completion in 2010 (€ 0.6 million plus 0.4 million following ETR).

The 10th EDF Country Strategy Paper and National Indicative Programme envisages an initial allocation of 3.0 million under the A-envelope and 0.3 million for the B-envelope. It has been agreed to allocate 85 percent of the A-envelope or 2.55 million to the focal area of water and sanitation. The remaining 15 percent or 0.45 million will be used to establish a Technical Cooperation Facility (TCF). The implementation of the 10th EDF has started with the signature of the Financing Agreement for the TCF in September 2008.

1. The country performance

1.1. Update on the political situation and political governance

The Cook Islands is politically stable and reasonably well governed with no underlying political or social unrest.

1.2. Update on the economic situation and economic governance

Despite visitor numbers remaining steady, crown revenue has declined by -3.3% year on year to 30 May and is -3.3% less than budget.

Value Added Tax (VAT)

VAT receipts for the twelve months to 30 June 2009 show a 0.6 increase over the previous twelve months, with June being particularly strong. Overall though this reflects a reversal on previous trends and indicates a slowing of economic growth.

Visitor Numbers

Visitor numbers to the Cook Islands have remained relatively constant year on year, albeit with an increase in underlying volatility. Forward projections for Q4 2009 suggest a softening of the tourism sector.

Figures for May and June are much improved, with arrival statistics for June 2009 showing a +11.6% increase (on June 2008) and YTD to 30 June 2009 showing a +1% increase.

The global downturn has likely been the main cause of a decrease of 'long-haul' visitors from the Northern Hemisphere, but at the same time has probably encouraged a commensurate increase in 'short-haul' visitors from New Zealand and Australia.

Most major markets had a positive impact during the month of June 2009 compared to June 2008. Australia had a +19% increase, New Zealand an 8% increase, Europe/UK an +11.2% increase and USA a +36.9% increase. Canada had a -24% decrease.

However, New Zealand and Australia were the only major markets with an increase in the Annualized or YTD with New Zealand having a +6% increase and Australia an +11% increase.

Economic Growth

The Cook Islands economy suffered from a slowdown in 2008. Real GDP decreased during 2008 by -1.2%. Revised figures for 2007 saw that year's real GDP grow by 9.5%, much larger than the 1.3% reported previously. This follows a growth of only 0.7% in 2006. With such a large increase in 2007, a correction was to be expected in 2008. While current preliminary figures from Statistics place the contraction in 2008 at -1.2%, it may be in the range of -2% to -3%.

Whether the economy will rebound in 2009 will depend upon many external factors as the Cook Islands relies heavily on tourism.

There are no factors on the horizon to suggest that the economy will significantly pick up until the global economic crisis has abated and other large economies return to modest growth. This is not expected to occur until late 2010 or early 2011.

In recognition of the fact that tourism remains the main economic driver, Government has allocated additional funding support for tourism marketing initiatives, including a risk sharing agreement with Air New Zealand to maintain at least one direct flight per week from Rarotonga to Los Angeles. The New Zealand Government has recently agreed to provide up to \$1million towards the \$2million - \$4million annual costs associated with maintaining this vital northern hemisphere link.

Effective Foreign Affairs

Government has restructured its foreign affairs offices in Hawaii (closure) and Auckland (down-sizing) and has channeled funds toward strengthening human resources in Rarotonga towards trade and a more efficient immigration service within the Ministry of Foreign Affairs & Immigration.

The Cook Islands continues to demonstrate a strong commitment to regional economic development. It has signed the Pacific Islands Countries Trade Agreement (PICTA) and the Pacific Agreement on Closer Economic Cooperation (PACER). It is presently negotiating

with other Forum Island Countries (FIC's) the extension of PICTA to trade in services. Along with other FIC's, it has had a number of informal discussions with Australia and New Zealand regarding PACER Plus¹. These regional negotiations provide impetus for further tariff reform.

The Cook Islands is also part of the core group of Pacific ACP Trade Ministers who take the lead in the Economic Partnership Agreement (EPA) negotiations. The Cook Islands, along with other Pacific ACP states (PACPs) remain committed to the EPA negotiations which is anticipated will strengthen the PACPs economic and political relationship with the EU and more importantly, create economic opportunities for Cook Islanders today and into the future.

Throughout the EPA negotiations, PACPs have highlighted the importance of the following issues: fisheries, agriculture, tourism, investment, trade facilitation and promotion, as well as trade in goods and services. While improved market offers (for example in fisheries) has been important to PACPs, equally important is the ability to take advantage of any improved market access. The Cook Islands has indicated its intention to table its market access offers at the next negotiating session with the EU.

1.3. Update on the poverty and social situation

In general, key MDGs achievements on the main island of Rarotonga tend to paint the national performance as overly positive when clearly the Outer Islands experiences suggested otherwise. Communities in the Outer Islands and similar pockets of communities on Rarotonga, mainly outer island migrants, remain vulnerable and experience hardships due to lack of opportunities for employment and access to basic social services.

The Cook Islands have already achieved several MDG targets. They are:

- Universal primary education enrolment for boys and girls;
- Elimination of gender disparity in primary and secondary education;
- Low and decreasing child and maternity mortality rates; and
- Access to safe drinking water.

1.4. Update on the environmental situation

Preservation of the environment remains a critical area for the Cook Islands, especially as a clean, pristine and healthy environment is essential to the Cook Islands as a tourism destination. Significant work has been undertaken over the past three years through a NZAID funded marine resources strengthening programme. The European Union has agreed to the focus for EDF 10 as being 'water and sanitation' and this programme has commenced with a PE in place under the TCF allowing for community consultation and survey work to be carried out, together with Technical Assistance to help narrow the options for intervention utilizing the A-envelope.

2. Overview of past and on-going co-operation

Reporting on the financial performance of EDF resources

The first stage of EDF10 was completed with the Cook Islands Country Strategy Paper (CSP) and National Indicative Programme (NIP) for the Cook Islands 2008 – 2013 signed in Tonga in October 2007. It was agreed at this point that Water and Sanitation be the single focal sector in line with the decision of the Cabinet, 8 May 2007, CM (07) 256.

¹ PACER Plus is the term being used to refer to the yet to be negotiated new trading arrangements between Forum Island Countries and Australia and New Zealand.

No contracts have occurred under 10th EDF TCF, but preparation for a PE has started to finance necessary preparatory studies and TA for the 10th EDF focal sector intervention in water and sanitation.

The following table gives an overview of the initial planning of the 10th EDF national indicative programme (NIP) in the approved country strategy paper (CSP) 2008-2013 with the actual situation as per 31 December 2008:

Indicative allocation 10th EDF (M€)	Commitments planned in 2008 * (M€) (add in brackets planned share of SBS)	Commitments realised in 2008 (M€) (add in brackets effective share of SBS)	Realised/ planned (%) (add in brackets realised/ planned SBS)	Disbursements realised in 2008 (M€)
Focal area I <title> **	2.55	2.55	0	0
Non focal areas	0.45	0.45	0.45	0
- TCF	0.45	0.45	0.45	0
Total A-envelope	3.0		0	
Total B-envelope	0.3		0	
Total 10th EDF NIP	3.3		0	

10th EDF Governance Commitments:

Implementation of OECD standards for transparency and effective exchange of information for tax purposes has progressed with a Tax Information Exchange Agreement (TIEA) now signed with New Zealand and others being progressed for example with Australia.

Development of a comprehensive legislative framework for environmental management commenced with the ADB TA 4273-COO Legal and Institutional Strengthening of Environmental Management 2005 to assist in developing an integrated system of regulations, by-laws, and laws that together will provide the institutional mechanisms for the effective and coordinated implementation of the Environment Act (2003).

The TA provided substantial outputs and assisted the Government in preparing an integrated system of environmental legislation (laws, bylaws, and regulations) and the institutional mechanisms for the effective and coordinated implementation of the Environment Act (2003). The TA also served as capacity building for the National Environment Service through on-the-job training in preparing environmental legislations and trained them to implement and enforce them. The laws, bylaw, and regulations prepared under the TA have been submitted to the Crown Law Office for approval, which then being submitted to the Cabinet for endorsement.

The draft Employment Relations Bill 2009 has been completed and is expected to be enacted by end of 2009. The draft will receive wide consultation over the coming months and whether this Bill will apply to the Public Servants is yet to be determined.

9th EDF

The 9th EDF ODP has ended its operational implementation in August 2007. The Audit Report noted that the ODP is expected to result in the rehabilitation of outer islands and health centers/clinics, in their improved equipment and maintenance and in the provision of adequate housing for education and health staff. It notes that for the period ended 1 August 2007, the activities outlined in the AWP were implemented with the Ministry of Education, CIANGO, Ministry of health and the HRD Department achieving 100%, 96% and 99% budget utilisation rate respectively. The overall budget utilisation rate for the 2006/07 financial year was 99.5%.

Preparations for the final evaluation of the 9th EDF ODP that will include an analysis of the project's relevance, impact, efficiency, effectiveness as well as factors affecting sustainability are taking shape. Of the five pre-determined evaluation criteria set by the European Commission, the ODP evaluation shall focus most intensely on *Efficiency* and *Sustainability* of ODP-funded budgetary support, but also give account of the other three criteria.

9th EDF B-envelope:

The Technical Assistance (TA) Contract to the National Authorising Officer/Ministry for Foreign Affairs and Immigration was signed on the 7 July 2008. The purpose of this contract is to reinforce and strengthen permanent national capabilities by facilitating the speedy implementation of EU development programs and projects in an effective and efficient manner.

The Financing Agreement for the B envelop was signed on 18 October 2007 where the EU undertakes to finance a maximum of Euro 1million. The overall objective of the project is to build up the Cook Islands resilience to natural disasters and to strengthen disaster management capacities. The purpose of this contract is to design a purpose built Cyclone Shelter for Pukapuka, the most vulnerable northern group island, in the shape of a multi-purpose sports facility for the island school. This contract will also provide for on-site supervision of the construction works in Pukapuka. The Call for tenders for the Design and Supervision Contract for Envelop B was issued in December 2008 by the Ministry of Foreign Affairs and Immigration in collaboration with the Project Management Committee for the Project. The tender was awarded to Kramer group (Vanuatu) Limited with a contract being signed on 16th June 2009.

➤ Other cooperation

The European Investment Bank

Emphasis has been laid by EIB upon making funds available as widely as possible in the Pacific region through lines of credit to local financial institutions.

In the Cook Islands the EIB considers to provide for a line of credit to the Bank of the Cook Islands under the second Pacific Islands Financing Facility (PIFF). A window for micro-finance will make a significant contribution by giving borrowers access to the small scale financing they need to start and maintain income generating businesses.

EC - Regional Cooperation

The regional allocation under the 9th EDF amounted to € 39 million after three mid term reviews and includes three focal sectors "Economic Integration and Trade", "Human Resources Development", "Fisheries" and a non-focal sector for extension of the 8th EDF programmes to the 6 new ACP countries. The 9th EDF Pacific Regional Indicative Programme funded and extended a number of existing projects to the six new Pacific ACP countries, including Cook Islands. These consisted of:

- Pacific ACP Regional Economic Integration Programme (PACREIP)
- Development of Sustainable Agriculture in the Pacific (DSAP)
- Pacific Regional and OCT Fisheries Programme (PROCFISH)
- Plant Protection Programme (PPP)
- Pacific Regional Initiatives for the Development of (basic) Education (PRIDE)
- Reducing Vulnerability in PACP States – SOPAC

- Development of Fisheries in the Pacific (DEVFISH)
- Pacific Environmental Information Network (PEIN)

A number of those regional projects continued implementation throughout 2008.

➤ **Policy coherence for development**

As the 9th EDF ODP focussed on living conditions in outer islands with the objective to raise standards in social service delivery, the programme touched upon the broader areas of employment and decent work. Migration to the main island and further to New Zealand and Australia puts a strain on scarce human resources, in particular in social service delivery. However, migration to European countries is not an issue for the Cook Islands.

Climate change is an important cross-cutting issue, in particular for the Pacific region and major regional initiatives are being considered in the context of the RIP. In the design of the cyclone shelter that will be constructed under the 9th EDF 'Building resilience to natural disaster' project, special attention will be paid to fittings standards to resist climate change related effects such as tidal waves and frequent cyclones. Equally, in the identification and design of interventions under the 10th EDF, some specific issues should be borne in mind with regard to reinforcing adaptation efforts when addressing water and sanitation, for example the possible need for watershed management, and alternative production systems in agricultural activities (eg agro-forestry). Prudent management of the Cook islands fishery is considered vital, with a strengthening programme of the Ministry of Marine resources funded by NZAID, as well as a number of programmes funded under the RIP.

➤ **Dialogue in country with the national Parliaments, local authorities and NSAs**

Dialogue with the NAO and other national authorities proceeds constructively, focusing both on political and sectoral issues (water and sanitation, climate change, fisheries) and development cooperation matters.

Under the 9th EDF funded ODP, the 15% allocation (€ 0.3 million) for NSA implemented activities concerned education/training and health, for the benefit of outer island communities, and was complementary to the main Outer Island Development Programme. NSA activities were managed by the Cook Islands Association of Non-Governmental Organisations (CIANGO).

During the initial identification mission for projects and programmes under the 10th EDF, consultations were conducted with a broad range of stakeholders in the water and sanitation sector, including NSAs and local authorities. It is expected that a final decision on the scope of the intervention in the sanitation area under the 10th EDF is endorsed by Cabinet early 2009.

➤ **Aid effectiveness**

Total aid contributions by donor partners are budgeted at \$29.7 million for 2007-08 at the time of the Supplementary Budget in November 2007. This is an increase of 76.0% over the original budget for 2007-08 mainly due to a general grant fund pledge by the Peoples Republic of China. The use of these funds is yet to be formally earmarked and will need to be considered jointly between the Cook Islands Government and the Peoples Republic of China. Since this time there has been no additional funds pledged over and above the Supplementary Budget figures for 2008-09 and as such aid contributions are expected to fall to \$21.1 million in 2008-09.

The EC Delegation in Suva is in regular dialogue with the Government of the Cook Islands and other donors through visits by EC officials and meetings with leaders at international fora.

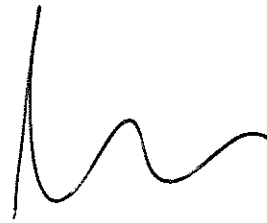
Signatures:

The National Authorizing Officer

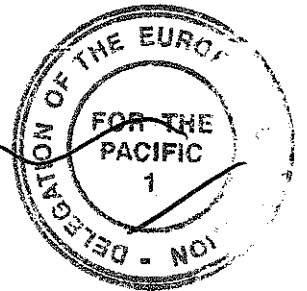
The Head of Delegation



Sir Terepai Maate, KBE, MD
Deputy Prime Minister
Minister for Foreign Affairs and Immigration
National Authorizing Officer
Government of the Cook Islands



Wiepke Van Der Goot
Head of Delegation
EC Delegation for the Pacific



04 NOV 2009