

## **EU aid policy towards the Pacific ACPs with special reference to Fiji and the Cook Islands**

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### **Introduction**

This Discussion Paper forms part of a series assessing a sample of the EU's Country Strategy papers (CSP). CSPs are an integral part of the 2000 reform of the European Commission's (EC) administration of the EU's development policy and are intended to provide an analysis of the political, social and economic situation of each country, an assessment of the EC's aid performance and an outline of the rationale for the EC's medium term aid programme. It is upon these CSPs that the National Indicative Programmes (NIP) for the African, Pacific and Caribbean (ACP) group of developing countries, funded through the European Development Fund (EDF) of the Cotonou Agreement, are based.

This particular paper focuses upon the Pacific group of the ACP and reviews the Regional Indicative Programme as well as two contrasting developing countries in the region – Fiji and the microstate of the Cook Islands.

### **The Pacific ACPs**

In 1975 Fiji, Tonga and Samoa had been signatories to the first Lomé Convention. With the adoption of the Cotonou Agreement in 2000 the number of Pacific members of the ACP group grew to 14. The PACP group is dominated by Fiji and Papua New Guinea, the latter accounting

for two-thirds of the total 7 million population. The average GDP per capita is € 1000, with five countries qualifying as low income developing countries – Kiribati, Samoa, Solomon Islands, Tuvalu and Vanuatu. Life expectancy is generally high, but there is considerable variation in the social indicators, with poor health facilities in some of the small or more fragmented island states.

As island economies the PACPs share a number of economic problems. Their isolation imposes high transport costs, which also inhibit the development of regional inter-island trade. At the same time their domestic markets are small, limiting competition and the ability of the private sector to exploit economies of scale. Similar problems are presented in the public sector, where there are high unit costs, but which have also tended to be disproportionately large employers. In the few areas where they are internationally competitive e.g. tourism and fishing, especially tuna, they are dependent upon foreign investment. At the same time they are relatively open economies, with their export sectors important relative to GDP and import duties an important source of government revenues. This makes them particularly vulnerable to external shocks generating income fluctuations. They are also faced with a shortage of skilled labour - although youth unemployment is a recurring problem (20% of the population is 15 - 24 years of age) - together with migration from outer islands to the urban centres and emigration to Australia and New Zealand. They are often therefore dependent upon migrant remittances and overseas assistance to sustain their finances.

During the 1990s the economic situation and political stability of several of the ACPs deteriorated, partly as a result of worsening terms of trade, rising external debt and the financial crisis in Asia. This took place in the context of the increasing ‘globalisation’ of their economies, with rising import consumption, increased migration and a move into services; particularly

tourism and offshore finance. They are also subject to increasing international pressure for harmonisation of the regulation of their offshore financial centres and to move towards increased trade liberalisation; the current EU-ACP trade negotiations being symptomatic of this changing environment. Since 1996 most PACPs have commenced significant economic reform programmes, especially focused upon enhancing their private sectors.

The total aid received by the PACPs between 1980 and 1992 equalled 27% of their GDPs. Of this Australia provided 42 %, New Zealand 16% and the European Development Fund (EDF) 13 %. Since 1975 EC aid to the PACPs has included €645 million (m) for the National Indicative Plans (NIP), €165 m for the Regional Indicative Plans (RIP), €90 m 'other instruments' and €34 m from the European Investment Bank. EDF9 has initially allocated €29m to the RIP.

Although intra PACP trade is only 2% of their total trade (1% 1995) the foundations have been laid for movement towards the establishment of a free trade area (FTA) through the ten member Pacific Island Countries Trade Agreement (PICTA). Implemented in 2002 it provides for trade liberalisation within eight years, although sensitive industries will continue to be protected until 2016. It sets rules of origin at 40% value added, and has established a Regional Trade Facilitation Forum. In addition the Melanesian Spearhead Group of Fiji, PNG, the Solomon Islands and Vanuatu are moving to establish a FTA by 2008, with the intension of moving to a full customs union. Complementing these PACP arrangements is the Pacific Area Closer Economic Relations Agreement (PACER), a non-reciprocal trade agreement between the Pacific Forum island countries and Australia and New Zealand. This requires renegotiations to move towards a FTA agreement eight years after PICTA comes into force or if the Pacific Forum island countries adopt an FTA with a third party.

In 2003 the EU15 exported goods to the value of € 210 m. to the PACPs and imported € 530 m. However the EU is a minor source of imports for individual PACPs, usually less than 2% of their total imports, and only Fiji (sugar) and Papua New Guinea (palm oil) have significant exports to the EU. For Fiji the Sugar Protocol is particularly important. In an average year € 50 m. of sugar is exported the EU, at EU guaranteed prices, involving 35%-40% of its total crop. It also enjoys preferential margins for textile and tuna exports. Although the five low income PACPs countries will continue to enjoy non-reciprocal access to the EU market under the 'Everything but Arms' arrangements, the remaining PACPs are having to renegotiate their EU trade concessions in a move to a reciprocal WTO-compatible trade regime under the new Economic Partnership Agreements (EPA). The adoption of an EPA with the EU will trigger a renegotiation of the PACER, which will be an important consideration. Finally the three US 'Compact' countries of the Federated States of Micronesia, Palau and the Marshall Islands, have specific preferential trade arrangements with the United States.

Despite the low levels of intra-PACP trade there are a number of well-established regional organisations. First amongst these is the Pacific Islands Forum (PIF) composed of the 14 PACPs and Australia and New Zealand. This provides policy advice and was responsible for drafting the Regional Strategy Paper, drawing upon technical assistance from other regional organisations. It is also the regional negotiating body for trade agreements. The Secretary-General of PIF is the Regional Authorising Officer and also chairs the Council of Regional Organisations in the Pacific (CROP) through which EC aid programmes are usually delivered. This has ensured that aid delivery is answerable locally through the PIF to PACP governments. The other regional organisations include the Pacific Community (providing advisory consultative services on land and marine resources and socio-economic issues), the Pacific Islands

Development Programme, the South Pacific Tourism Organisation, the South Pacific Regional Environment Programme and the Forum Fisheries Agency.

With its combined exclusive economic zone of 20 m. km<sup>2</sup> fisheries are particularly important to the PACP. In the Micronesian countries fishing licences generate 30 to 60% of total government revenues. But while tuna fishing was worth €2 billion in 2001 only 11% of the catch was by PACP vessels and only one-fifth was processed within the Pacific countries. Nonetheless, tuna related employment is estimated at between 6% and 8% of all wage employment and represents 10% of the combined GDP of the PACPs. The further development of this industry offers important economic opportunities for a number of the PACPs. In September 2000 the Convention For the Conservation and Management of Highly Migratory Fish Stocks in the Western Central Pacific Ocean (the 'Tuna Commission') was signed between the Pacific states and distant water fishing nations; the EC wishes to become a member. The Forum Fisheries Agency, established in 1979, provides technical support to the members' participation in the Tuna Commission and the development of the sustainable industry. It has received €21 m. of support from the EC since 1975.

### **Regional Assistance**

Under article 28 of the Cotonou Agreement the EC's regional assistance aims to foster the gradual integration of the ACP states into the world economy, accelerate economic co-operation and development both within and between the regions of the ACP, promote the free movement of persons, goods, services, labour and technology amongst ACP countries, accelerate diversification of their economies and promote inter and intra ACP trade. In 1997 the Pacific Forum (through CROP) adopted a Regional Strategy which, as well as the addressing the

management of aid, established criteria for regional action – activities offering opportunities to share human and financial resources to address trans-boundary issues, needs or common problems. However it was also recognised that such activities must complement national programmes and priorities.

Between 1975 and 2002 the PACP received € 165 m. for regional projects. Between 1975 and 1980 the focus was upon telecommunications and human resource development; 1980-1985 regional transport, energy, telecommunications, training and tourism; 1985-1990 transport, energy, tourism, agriculture fisheries; 1990-2000 addition of projects for sustainable development of the natural resources. Specific regionally funded projects have included support for the Oceanic and Reef Fisheries Monitoring Assessment Project (2001), Development and Sustainable Agricultural Programme (2002), the Forum Basic Education Action Plan and Technical and Vocational Education and Training and the South Pacific Tourism Organisation.

The EC's analysis of the PACPs situation (Regional Strategy Paper 2002) identified the need for governments' commitment to structural reform programmes - which will establish greater factor market flexibility - tariff reductions, public sector employment efficiencies and capacity building. The strategy will require the enhancement of human capital, the reorientation of regulations to meet international standards and the development of productive private sectors. Within this context the EC identified three areas where it could offer technical assistance - implementing reform measures to accompany regional trade integration, especially identifying alternative taxation sources to replace revenues from tariff reductions; developing supply-side capacities in the private sector; harmonising trade policies and facilitation measures. To fund this € 9 m. (31%) of the EDF9 regional assistance programme, covering the period 2002 -2007, was allocated to 'regional economic integration' projects – funding technical assistants in public

finance, banking regulation, statistical systems and support for trade related areas. The second focus for EDF 9 is human resource development, which was allocated €8 m (28%). This funding is to support the Pacific Forum's Basic Education Action Plan (2001) and complements the basic education/technical/vocational education and training priorities of the National Indicative Plans; more than half of the Country Strategy Papers (CSP) adopt technical and vocational education as a focal sector. The extension to the six new PACP states of eligibility for funding projects covered by EDF 8 absorbs another €7m (24%), while strengthening regional fisheries institutions is allocated €5 m.

Aid delivery has been found to be most effective through CROP rather than commercial organisations. Donor coordination, particularly with Australia and New Zealand, takes place both formally and informally, both in regard to individual country programmes and at the regional level. Australia and New Zealand are moving to harmonise procedures and policies and the EC will need to respond.

### *Regional Assessment*

The PIF is one of the strongest regional organisations across the developing world despite representing such a dispersed and heterogeneous membership. The strength of its local management systems has allowed its role to be enhanced. It is the only ACP programme utilising 'contributory agreements' which allow implementing agencies greater control over EDF funds, aid cash flow and simplify procedures. The PIF has also been requested to act as contracting authority for a sub-regional energy project for five of the six new PACP members. Thus the PIF is a prime example of the effective development partnerships that the Cotonou Agreement seeks

to foster. However the overall level of regional and national development aid remains a Brussels prerogative.

Although € 300 m. was originally set aside for EDF9 ‘top-up’ after the mid-term reviews (MTR), questions remain both in regard to the overall level of funding and the performance criteria that will be applied in the EC’s assessment. There is an expectation that the administrative criteria of the level of commitments and disbursements, as a crude proxy for activity and absorptive capacity, will be employed. In view of the time and resource constraints of the MTRs and the relatively short period of programme execution to assess, any more comprehensive evaluation of the NIPs and RIP is seen as unlikely. A degree of continuity in aid funding is thus anticipated. The RIPs review is scheduled to follow the individual NIP reviews in 2005, although the timescale may slip.

The PIF was responsible for drafting the RSP and associated RIP with its focus upon rural education. This focus is reflected in the NIPs since the PIF was instrumental in bringing together its members to express their collective priorities. By contrast the funding allocation for ‘regional integration’ was driven by the external demands of the forthcoming EPA negotiations. In terms of aid coordination the PIF is a member of the OECD’s Harmonisation Committee, while CROP organises meetings with those donors working in particular sectors. For example, the EC’s € 8 m. Pacific Regional Initiative for the Delivery of Basic Education has subsequently been joined by the New Zealand aid agency.

In the current EPA negotiations the PIF will have a central supportive role for the PACP governments although it will not be directly responsible for negotiations. It has already undertaken twelve preliminary studies. PIF will be placing the emphasis upon the development dimension of the EPA. For many PACPs trade in goods with the EU is of little or no importance,

but the introduction of tourism, financial services, fisheries and access to the Cotonou Investment Facility into the agenda will sustain their involvement. To reflect this divergence of interest the PIF is proposing an ‘umbrella’ master agreement to which all PACPs can subscribe, while subsidiary agreements, including covering the trade in goods, may be acceded to by individual states. The outcome of the EPA negotiations will be of profound significance in establishing the context for the individual PACP CSP and NIPs.

## **Fiji**

Fiji, with a population of 800,000 comprises five inhabited islands with an EEZ of 1.2 6 m km<sup>2</sup>. GDP per capita is €1,980 (2000) with 25% of households living below the poverty line (Fiji Poverty Report 1996), concentrated in the rural areas. In 1986 38.7% of the population were urbanised and by 1996 this had reached 46.4%. Paid employment grew 4.6% per annum between 1989 in 1998, however unemployment has remained at 15%.

In 1989 the government adopted an export-orientated policy. The establishment of a tax-free zone and PACER resulted in the rapid growth of garment exports since 1991, these now represent 31% of total exports (2001) and 16% of GDP. Traditional sugar exports, overwhelmingly to the EU, now represent 22% of total exports. Fisheries and minerals are also important to foreign exchange earnings, while tourism now contributes 18% to GDP and employs 15% of the labour force. Investment is running at 12% of GDP (cf. 20% average for LDCs), 45% of which is in the private sector. There is a current account deficit equal to 3.3% of GDP (2000) and a public sector deficit equal to 6% of GDP. Debt totals € 845 m., of which € 180.7 m. is external. The IMF has expressed some concern at the government’s ability to service the loans.

Government expenditure upon education increased by 25% between 2001/2 and represented 18% of total public expenditure (6% of GDP). The government had identified problems with the quality of educational provision in rural areas, which represents one third of all schools, and with the high drop-out rates from technical/vocational education. Similarly the government is concerned to improve access to basic health services and had doubled expenditure in this sector in the 1990s, reaching 8.4% of public expenditure in 2002. Similarly access to power supplies (60% overall) is limited principally in the rural areas. By contrast the 1997/98 droughts highlighted inadequacies in the urban areas water supplies where there are also problems of waste disposal.

The government had prepared a “New Strategic Development Plan” identifying a medium-term macroeconomic policy framework, necessary structural reforms and social sector priorities. The main objectives of long-term economic policy included diversification of the economy, the development of the private sector and infrastructure. Part of the reform policy was to include reductions in the size of public sector employment, reprioritising expenditures and the transfer of responsibilities the private sector.

The EC’s evaluation suggested that “overall macroeconomic management is considered reliable and sound, depending also on *political circumstances*.” (Country Strategy Paper, page 4) However the EC felt unable to undertaken assessment of the policy agenda in view of the political situation, limited timeframe and, at the time of writing, the absence of a finalised New Strategic Development Plan. The mid-term review would be expected to address this issue. The political situation, with instability arising from racial tensions, culminating in military coups in 1987 and 2000, had led to the EC selecting Fiji as a focus country for the European Initiatives for Democracy and Human Rights, running from the period 2002-2004.

### *Trade*

The EU accounted for only 5.2% of Fijian imports in 2001. By contrast the UK is the third largest destination for Fijian exports (18%) after Australia (27%) and the USA (26%). These exports are dominated by sugar (92% of the value of EU exports), generating a trade surplus of F\$ 104 m. Thus the EU'S Sugar Protocol (SP) is of considerable importance to Fiji.

The Sugar Protocol commits the EU to importing 165,348 tonnes of sugar from Fiji at EU internal guaranteed prices. In addition an Agreement on Special Preferential Sugar (SPS) provides for additional imports from the ACP and India based upon predicted shortfalls in the maximum supplying needs of the EU's sugarcane refineries. The price of SPS sugar is 85% of the guaranteed minimum price under the SP. Fiji has been allocated 30,000 tonnes (9.3%) under the SPS. The Sugar Protocol has a legal status independent of the Cotonou Agreement. The 'everything but arms' (EBA) trade agreement with low-income developing countries will provide for the phasing in of duty free access for sugar between 2006 and 2009. These quotas will be counted against SPS allocations, eroding Fiji's allocation. The future value of the Sugar Protocol will depend upon the EU guaranteed price and the impact of reduced EU export subsidies on world market prices, as is likely to be demanded by the WTO. The EU guaranteed price is likely to fall as a result of the impact of EBA imports, EU enlargement increasing domestic sugar beet supplies and the general pressure for CAP reform. The EC has already proposed a 35% reduction in the guaranteed sugar price from July 2005, although this is likely to be resisted by some Member States. There has also been a successful challenge by Australia, Thailand and Brazil in the WTO to the EU's export subsidy regime. However, unlike the previous challenge to the EU's banana regime, this ruling does not immediately affect the system

of preferential import quotas. For Fiji there is the possibility of establishing an internationally competitive sugar industry if structural reforms are successful. Under these conditions the inclusion of sugar in the EPA negotiations, which are taking place under Cotonou, would offer duty free access without quantitative restrictions comparable to the EBA.

An EPA would also safeguard preferences for existing fish exports and offer opportunities for their development. Trade facilitation provisions may be important in capacity building in this industry. Similarly, although garment exports to the EU are far less significant than sugar and the industry has shown some decline, an EPA would still offer a trade preference over exports from other developing countries under the General System of Preferences.

#### *Aid*

Since 1970 Fiji has received € 22 m. per annum in foreign aid, (20% in cash grants) equal to 3.5% of total government expenditure. The largest contributor has been Australia (33%), which has concentrated on assistance for institutional capacity building, health and education; the EU 26%; Japan 16% (infrastructure) and New Zealand 12% (health, education, poverty, gender). EU aid to Fiji has totalled € 217.4 m. (including EDF 9) of which € 102.5 m. was allocated under the NIPs.

EU aid to Fiji under Lomé I-III (EDF 4-6) concentrated upon infrastructure and rural development, trade and services; Lomé IV upon infrastructure and agricultural development, with 35% earmarked for projects outside of the focal area; mainly the private sector, trade and tourism. EDF 8 allocated funds to human resource development, especially the Lautoka Teachers College, and environmental projects. The CSP assessment suggested that the utilisation rate of

EDF funds have been relatively low, with long delays in payments. It concluded that programmes were often spread over too many small operations, which had limited impact, and that project monitoring indicators had not been well-defined for each programme to assist in reviews. It was hoped that ‘deconcentration’ of responsibility to the local Delegations would alleviate some of these problems, together with additional technical assistance provided to the NAO.

For EDF 9 financial support will total € 23.1 m., of which all but €325,000 will be allocated to the education sector; € 17.3 m. to the ‘formal’ sector and € 3.15 m. to technical and vocational education (TVE). As a later stage the CSP suggests that a move to more general budget support may be adopted if the current programme proves effectively administered. This is again an issue that may be considered at the mid-term review. Supporting educational development, especially in the rural areas, is seen as contributing to the EU’s primary development objective of poverty alleviation, as well as to a reduction in ethnic tension. As 95% of schools are run by non-governmental organisations there will also be a high involvement of non-state actors (NSA). More general consultations have also been formalised in the Fiji Forum of Non-State Actors.

The CSP indicated that no further specific education sector studies would be required as they could employ existing work carried out by other donors. The project result and monitoring indicators are listed in Tables 1 and 2. In view of the concerns expressed as to the weaknesses of the previously employed project monitoring indicators it is perhaps surprising that these indicators are not more detailed and quantifiable. Some of these indicators represent inputs not results, and the poverty impact is assumed rather than directly assessed. However the need to

avoid imposing additional administrative burdens upon the Fijian government in statistical monitoring must always be recognised.

It was anticipated that donors to the education sector would form a coordination group to include the EC, UNICEF and FAO, as well as Australia and New Zealand. Overall the UNDP has taken the role of lead coordinator in the annual aid consultations with the government. No particular reference is made to coordination with other EU member state donors, but only the UK (FJ\$ 300,000: 2000) and France (FJ\$ 500,000) provide foreign aid to the country and this is not allocated to the education sector. Although there are references to the ‘coherence’ of the NIP in its focus upon human resource development with the Regional Indicative Programme and the EIDHR, this is not correct use of the EU’s concept of ‘coherence’. ‘Coherence’ refers to the relationship of aid policy to other elements of EU policy towards Fiji, in particular the terms of trade. The absence of any discussion of the forthcoming EPA negotiations and the future of the Sugar Protocol, particularly given its importance for Fijian exports, is a little surprising. However this is a recurring problem for CSP’s, given their preparation by local Delegations who have a limited role in trade negotiations. Despite ‘deconcentration’ the Delegation will have a very limited supportive role in the forthcoming EPA negotiations, which will be undertaken by a Brussels based team. The CSP is also weak on cross cutting issues, merely referring to them in passing. This too is common to many CSP’s and suggests that Delegations have had difficulties assimilating cross cutting issues into projects and programmes.

### *Assessment*

The MTR of the CSP will be an interesting exercise. While it is too soon to evaluate in any meaningful way the effectiveness of many programmes, the political situation is one which has

become of crucial significance in EU-Fijian relations since the CSP was prepared. The military coup in 2000 led to the suspension of EC aid, and issues of human rights and rule of law came to the fore, with Fiji becoming a pilot for the European Initiative for Democracy and Human Rights. The unstable political situation may also have a profound influence upon the development of two of Fiji's three major industries – tourism and sugar. Post-coup, tourism to Fiji collapsed, only to recover as tourism was displaced from Bali after the terrorist incident. It will be vulnerable to any further political unrest. Similarly the structural reform of the sugar industry is related to the ongoing tension between the indigenous Fijian population, who communally own the land, and their Indo-Fijian small-scale tenant farmers. The refusal of the indigenous Fijians to renew land leases has led to a reduction in sugar production and a failure to fulfil EU quotas. As well as the issue of land ownership substantial investment will be required in the industry, together with incentives to improve the quality of sugar cane, if the industry is to be internationally competitive as the EU market opens up.

Finally, the future of the garment industry also remains in doubt. Although the SPARTEC agreement, giving access to the Australian market, has been renewed for a further seven years, Fiji is likely to face increasing competition from China and India with their substantially lower labour costs. In this context the MTRs assessment of progress with Fiji's National Strategic Plan will be of considerable importance.

**Table 1: Formal Education Sector**

Project result indicators :-

\*retention rates of students and teachers in rural areas, percentage of rural schools upgraded.

\*number of qualified teachers.

\*number of improved likely access services.

\*educational programmes provided by the media.

\*curriculum revision.

\*number of schools offering TVE.

Project monitoring indicators :-

\*short/medium term: number of schools upgraded, number of teachers supported through in-service training, number of educational programmes provided, number of library centres assisted, increasing budget for fee assistance, number of TVE offered in schools.

\*long-term: reduction in number of school dropouts, degree of satisfaction employers and tertiary education with quality of school leavers.

**Non-formal Education Sector**

\*Project result indicators-

Intake and training opportunities, completion rates, employment rates, number of 'non-state actors' involved in programmes.

\*Project monitoring indicators-

Number of training opportunities/training institutions/programme supported, employment rates one year after training.

## **The Cook Islands**

The Cook Islands consist of two groups of islands with a population of 13,400 (2001) with 60% of the population living on the main island Rarotonga. The GDP per capita was € 3,282 in 1999, however 6.1% live in poverty principally on the outer islands. The Exclusive Economic Zone (EEZ) covers 1.83 km<sup>2</sup>. Since 1965 they have been in 'free association' with New Zealand, to which 80,000 islanders have migrated, and in 2000 the Cook Islands acceded to the PACP group.

Tourism sustained high rates of growth from 1982-1994 (3.5% pa) but a decline in the mid 90s contributed to a serious economic crisis, with growth falling to 0.2% in 1998. The government had incurred substantial borrowings to fund a state-owned hotel with Italian 'partners'. In 2004 this was liquidated, uncompleted, at a considerable cost. A large public sector deficit, funding substantial public sector employment and financed by accumulated foreign and domestic debt, proved unsustainable and culminated in a banking crisis. In 1996 an Economic Restructuring Programme (ERP) was implemented with privatisation, the introduction of VAT, the strengthening of the financial and economic management and tax reform. Customs duties now provide 21% of total government revenue, compared with 44% from VAT. It is proposed to further reduce customs duties to a maximum of 10%, with offsetting increases in excise duties. Between 1996 and 1998 public sector employment was reduced by 57% and a quarter of the population emigrated. Debt restructuring in 1998 under the 'Manila Agreement' allowed the recovery programme to be sustained and growth increased to 4.5% in 2000/01. However foreign debt remains at NZ\$ 117 m. with France (NZ \$ 1.8 m.) and Italy (NZ\$ 1.1 m.) and Nauru (NZ\$ 1.7 m.) the main creditors.

The Cook Islands have a substantial visible trade deficit, principally with New Zealand, equalling 53% of GDP in 2000 (NZ\$ 91 m.). However, this is offset by the earnings from

tourism and the flow of remittances (overall surplus NZ\$ 8.1 m. 2000). Imports from the EU are only 0.33% of the total.

Tourism accounts for more than half of GDP with Europe providing 30% of the visitors. However there is concern as to the emergence of excess capacity, with falling occupancy rates, the environmental impact of waste disposal and the provision of adequate water supplies and energy. Subsistence agriculture and fisheries account for 22% of GDP. The government has prepared a National Agricultural Strategic Plan aimed at reducing dependence upon food imports (27% of the total), but development is constrained by the traditional land tenure system. The black pearl industry now accounts for 90% of the Cook Islands exports, supplying 10% of the world market; French Polynesia accounting for the remainder. However the development of the industry requires active management. The concentration of pearl farming in Marihiki led to overcrowding and the spread of disease amongst the oysters. Problems have also arisen with quality control and marketing, with a government sponsored marketing authority collapsing. The dumping of black pearls on the world market by French Polynesia also led to a collapse of prices and forced most of the small farmers out of the industry. A government management plan has also been frustrated by the fragmented nature of the industry and political interests, especially conflicts between the Island Council and the central government. There remains a dependence upon expensive foreign technicians, indicating a need for local training.

The Cook Islands have an extensive EEZ in the world's largest tuna fisheries. In the northern island group the fish caught are canned in American Samoa, while in the southern group the target is high value tuna for the Japanese and US markets, with the by-catch sold for local consumption. However there was little indigenous involvement in the commercial fisheries industry until 1997 when the EEZ was closed to foreign vessels. As a result the number of local

vessels increased dramatically, although lack of experience subsequently led to many locals leaving the industry. By 2004 only 33 local vessels remained in the industry. The rapid growth of the industry had again created demands for a more active government management programme addressing questions of quality control, tax, export certification and illegal fishing. Problems have also arisen with labour shortage. There is no tradition of off-shore fishing in the Cook Islands and pay and conditions have proved unattractive, therefore most boats employ foreign crews.

The financial sector contributes 8.5% to total government revenues, although this is offset by the substantial costs of regulation. In 2000 the Cook Islands were placed upon the OECD Financial Action task Force black list. Subsequently, the government made a commitment to improve the transparency of its tax and regulatory system and to facilitate information exchange by 2006. It also established a Financial Supervising Commission in 2003. Technical assistance in public financial management, tax administration and banking regulation has been provided under the RIP.

Although the Cook Islands score highly on the UN Human Development Index (0.82) economic development has been concentrated in Raratonga and Aitutak (tourism) and Murihiki (pearls). By contrast the other outer islands were particularly adversely affected by the reductions in public sector employment. Although the government has had an outer islands development policy for many years, it had lacked the commitment and resources to deliver it until recently. A business development fund had been established for these islands and donor support sought for infrastructure improvements.

The government's main challenges are to fulfil the Economic Reform Programme – with transparency in the public sector and introduction of performance based management. The

completion of a National Development Plan is a priority actively supported by the Cook Islands main donors. Similarly management plans for the tourism, fisheries and black pearl industry all await completion, revision and, most importantly, implementation. At the macro level debt management will need to be addressed. Cook Islands government (CIG) aid management has also shown some weaknesses. Although value-for-money audits of CIG departments have been carried out, little project evaluation is undertaken and even where it has been, it has not been employed in policy formulation. This is despite the emphasis upon the need for 'outcome-focused' performance indicators in the current New Zealand CSP (2000), which reflects the EC's approach. The Asian Development Bank is however assisting in the creation of a statistical database.

The social and economic needs of the outer islands will also need to be a priority if further migration is to be reversed. This must include a clarification of the roles and enhancement of the capacities of the Islands Councils and administrations.

### *Aid*

As the previous colonial power New Zealand remains the major donor to the Cook Islands (NZ\$ 6.47 m. 2003/4). They are no longer offering general budget support to cover recurrent costs but are focusing upon project assistance for infrastructure improvements in the outer islands, with additional sector support to education and training, marine resources and 'governance'. Australia is the second largest donor (NZ\$ 1.6 m.), focusing upon education and training, with EU aid totalling NZ\$ 1.0 m. Australia and New Zealand are preparing a joint Country Strategy paper, in consultation with the CIG, to complement the National Development Plan. The Asian Development Bank has concentrated upon capacity building in support of the ERP and for

private sector development; cumulative lending totals US\$ 24.6 m. By contrast applications to the European Investment Bank have been unsuccessful, although there are discussions as to its participation in funding an airport extension and providing loans to the Bank of the Cook Islands.

In selecting the areas for EC assistance the CSP recognises the importance of a poverty focus, sustainability and exploitation of the EC's comparative advantage. It also acknowledges the importance of drawing upon other donors' experience, especially as the EC has no previous experience of aid to this country. Of the € 2.0 m. EDF9 'A allocation' € 1.7 m. will support health and education infrastructure improvements in the outer islands. The Cook Islands Association of Non-Governmental Organisations, which has 68 affiliated groups, will provide a mechanism for the allocation of an additional € 300,000 of EU assistance. Unusually the EC is funding these sectors through the CIG administration, which undertakes tendering etc, and contracts the CIG's own audit department to carry out financial monitoring.

Assistance is dependent on the understanding that the government will maintain the share of the national budget allocated to the outer islands and will permit the involvement of NSA where local government delivery is inadequate. As a small island state the Cook Islands will not prepare a PRSP. The aid programme is explicitly intended to be complimentary to that of New Zealand and Australia, who are preparing a revised joint CSP, and is seen as such by the government. While New Zealand will contribute to infrastructure improvements they will not fund equipment, which is financed by the EU.

Although the CSP is unable to address policy 'coherence' from an EU perspective it did emphasise the importance of the government preparing for the current EPA negotiations and identifying the structural reforms that might be required. In particular the CSP recognises the development potential of the fishing industry, which had begun to be realised subsequent to the

writing of the CSP. However the limitations to its development have also begun to become apparent. The EU's major contribution to the sustainable development of this industry has been through its on-going support for the regional Forum Fisheries Agency and the PIF.

As a new member of the PACP the CIG had found it difficult to grasp the requirements for CSP preparation, which required considerable support from the local EU Delegation. With the current Medium Term Review (MTR) it is the 'performance' criteria that is unclear and apparently subjective. An excessive emphasis may be being placed upon the rate of disbursement of funds – despite the concerns repeatedly expressed by many commentators on EU aid of the inappropriateness of this criteria. However the general expectation is that, with the exception of some enhancement of the EU aid programme, no major changes are expected with the MTR. In view of the short period since implementation of the programme, and its relatively small scale, this is perhaps inevitable.

## **Conclusion**

The Pacific component of the ACP group, as the least significant to the EU in economic and strategic terms and with a limited claim to a 'poverty focus' priority, is the least 'visible', in all senses, in the aid debate. Except for France there is now little EU political interest in the Pacific. Currently the 'sphere of interest' of Australia and New Zealand – and the East Asian powers of the Pacific rim – China, Taiwan, Korea, Japan and Indonesia – the EU is very much a supporting player. Nonetheless the lack of presence of most of the EU Member States, except France and the United Kingdom, offers the EC the opportunity to exploit its role of 'comparative advantage' without fear of duplicating the effort of other Member States. For in a globalised economy the

Pacific and its myriad micro-states, still matter. Money laundering through off-shore financial centres, organised crime and terrorism know no regional boundaries.

Fiji and the Cook Islands represent contrasting examples of the development situation of the PACPs. Fiji, one of the two largest economies of the region, with significant sugar exports to the EU, and the Cook Islands, one of the smaller micro-states, with few economic links other than tourism. However both share some of the classic small island economic problems of un-diversified economies. They also share problems of 'governance'; clientelism in the case of the Cook Islands and, far more significantly in the case of Fiji, unresolved ethnic tensions. In the case of the latter the response of the EU to this political situation must provide the context for the MTR of the CSP.

In both cases however, the EU is a secondary aid provider, not to other EU Member States but to Australia and New Zealand. As these two countries move closer together in their aid programmes it is important that the EU responds, both in terms of its policy dialogue and in terms of administrative harmonisation. It must also be recognised that the small scale of the EU Delegations to the region must constrain, even more than usual, its ability to undertake economic, political and environmental assessments. The concentration upon the rate of disbursement of funds as a 'performance' criterion may be a symptom of this over-concentration upon the administrative demands of aid. A lack of policy analysis might already have led to an over emphasise upon the potential for regional integration, obscured by the strengths of the Pacific Forum Secretariat, and a failure to address the distribution of benefits from the RIP across the PACP states.

It is however unlikely that the current round of MTRs will contain many radical changes. Partly this reflects the short period since the commencement of many of these programmes, but

the other significant factor is the current negotiations of regional Economic Partnership Agreements. These trade agreements are required to replace the existing preferential access granted to the ACP states under Lomé by 2008. However since, unlike the previous arrangements, these must be WTO compatible they therefore involve reciprocity. Such an opening up of the ACP markets to EU exporters, even over long transition periods, is clearly going to involve substantial structural change. It is therefore likely that the discussions over EDF10 will be under considerable pressure from the ACPs to address the additional funding required to facilitate this adjustment. This is likely to be reflected in the orientation of many CSPs.

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