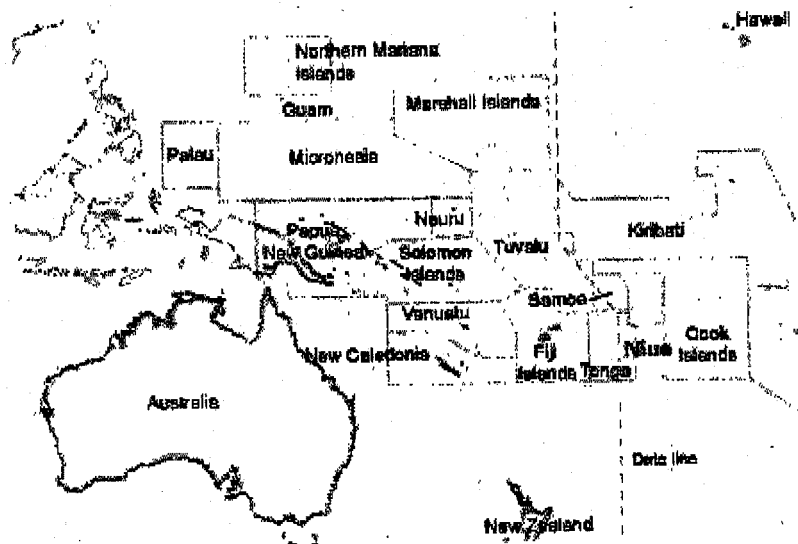


**NIUE/
EUROPEAN COMMISSION
JOINT ANNUAL REPORT
2003**



1. Executive Summary

Niue is an isolated single coral atoll with steep limestone cliffs to the sea and a central greenland plateau. It is located in the South Pacific, at 2,400 kilometres northeast of New Zealand, on the eastern side of the International Date Line. It has a land area of 259 km² and an exclusive economic zone, which extends to 390,000 km² of ocean. Approximately 19 percent of the land is arable, 4 percent has been given over to permanent pastures, while the remainder is made up of forest and woodlands. The GDP per capita in 2000 was € 4,650. Niue is a self-governing country "in free association" with New Zealand, and Niueans are New Zealand citizens.

Niue became one of the six new "Pacific ACP countries" by signing the Cotonou Agreement in 2000. With a population of roughly 1800 it is the least populated ACP country. Its small 9th EDF NIP of € 2 million (A-envelope) will be used for (a) the participation of a five-country-encompassing renewable energy programme, which is foreseen for commitment in 2004, as well as (b) a project benefiting non-state actors (NSA). In early 2004 Niue was hit by tropical Cyclone Heta, which led to widespread destruction and the subsequent decision to allocate the entire B-envelope (€ 600 000) to the reconstruction of the hospital.

As far as the Mid-Term Review (MTR) is concerned, it is proposed to maintain the 9th EDF allocation for Niue and to confirm the strategy initially agreed, i.e. the usage of the available funds for the purposes of renewable energy/energy efficiency, NSAs as well as for the reconstruction of the hospital that was destroyed by Cyclone Heta in January 2004.

2. The policy agenda of the partner country

Niue's development strategy is set out in the Niue Integrated Strategic Plan (2003-2008) "Halavaka ke he Monuina" or "Prosperous Niue", which clearly defines objectives in five key areas:

- Financial Stability
- Governance
- Economic Development
- Social Development
- Environment

Under each of these headings aims and strategies are being elaborated.

In the aftermath of Cyclone Heta, which devastated Niue in January 2004, some of the priorities will certainly have to be amended. The Niue Government has confirmed that while the vision set out in the Niue Integrated Strategic Plan (2003-2008) has not changed some of the strategies and priorities to achieve the goals set out in that plan will have to be amended. The Government subsequently prepared a Cyclone Heta Recovery Plan.

3. Update on the political, economic and social situation

3.1 Political Situation

In 1974 Niue became a self-governing state "in free association" with New Zealand and the smallest self-governing country in the world. Under the Niue Constitution the government has full responsibility for conducting internal affairs, while New Zealand retains responsibility for defence and external affairs. The Head of State is Queen Elizabeth II, represented by the Governor-General of New Zealand.

The government has full executive and legislative powers. The executive functions of government are carried out by the Cabinet consisting of the Premier, elected by the Assembly, and three Ministers appointed by the Premier from the Assembly. Legislation is enacted by the unicameral Assembly,

which consists of twenty members and a speaker. General elections are held every three years. Following the elections in April 2002, Mr. Young Vivian (68) became the new Premier of Niue.

There are 14 villages on the island, each of which has its own village council with elected constituents. The government has devolved much of its community responsibilities to these village councils, which provide a strong support system within their individual communities. Village life remains the focus for political and cultural organisation.

Niue is member of the Secretariat of the Pacific Community (SPC).

3.2 Economic Situation

Niue faces considerable development constraints. These include isolation, limited natural resources, poor communications, an unpredictable climate (including droughts and occasional hurricanes) and, most significantly, a shortage of skilled labour and outward migration, principally to New Zealand. The decrease in public sector employment opportunities has resulted in an exodus of migrants to New Zealand.

Basic Economic Indicators

Population	1,736 (Stats NIUE Census 2001)
Population growth	-3.8% (Stats NIUE Census 2001)
GDP per cap. (purch. power parity)	US\$ 3,600 (2000 est., source: Stats NIUE)
Expenditure on education	6.7 % of total recurrent expenditure, source: CSP
Expenditure on health	7 % of total recurrent expenditure, source: CSP

Substantial aid from New Zealand has historically supported a large public sector providing incomes and jobs for the people of Niue, while outward migration of large parts of the population has ensured a steady flow of remittance income into the country. However, remittance income has fallen and the level of aid provided by New Zealand has declined significantly over the past decade resulting in a considerable "downsizing" of the public sector. Although the number of public servants was reduced in the early 1990s, the Government remains the major employer and public service jobs are an important means of retaining the population from migration.

While the economy remains dependent on substantial amounts of NZAID funding, the Government is committed to increasing the country's economic self-reliance.

The economy is dominated by services, including public services (funded in large part by New Zealand). In 2000, the government sector (public service and government trading enterprises) accounted for almost half of total GDP. Agricultural output (including fishing and forestry) made up approximately 35 percent of GDP, of which 97 percent was household subsistence production. Subsistence farming and fishing forms an important contribution to household income for many families. The financial services sector which contributes approximately NZ\$1.6 million per year to the economy or about 7 percent of GDP have been closed since the end of 2003. NIUE is no longer listed by the OECD Financial Task Force (FATF) as a money laundering country.

TOURISM

Tourism provides one of the best prospects for long-term economic development on NIUE. NIUE's pristine marine environment, excellent diving, fishing and clean and green eco-system creates opportunities to attract tourists. The country is however strongly dependent on airline services. Polynesian Airlines is NIUE's designated carrier providing two scheduled flights per week, with connections through Apia, Samoa and Auckland, New Zealand. With the main emphasis on rebuilding the tourism sector in a responsible and sustainable manner, there is strong support for development in

economically viable eco-tourism projects that complements Niue's unique culture and environment thus taking advantage of our clean, green environment and cultural and social values.

The present focus as highlighted in the Cyclone Heta recovery plan is to rehabilitate the tourism infrastructure through appropriate support for accommodation, sea tracks, and scenic sites maintenance and other activities development in order to reinvigorate the industry.

AGRICULTURE

Agriculture is largely subsistence based, and its development is hindered by limited fertile land, lack of surface water and occasional droughts and cyclones. Rainwater and groundwater are the only sources of water. There is no surface water except a freshwater lens in the centre of the island. The principal crops are taro, yams, bananas, cassava and coconuts. Taro is the most important export crop, but the export market of perishables is hampered by limited air and shipping services.

At present, relentless efforts has focused on development of agricultural products with proven commercial merits, particularly vanilla, nonu, taro and other crops with commercial exports potential. Vanilla and Nonu is fast becoming popular crops for growers with the formation of the Vanilla and Nonu programme with the objective of expanding commercial farming within 3 years. The Nonu processing plant is due to become operational in September 2004 with capacity to produce up to 60,000 kg of raw Nonu per month.

FISHERIES

The estimated value of the fisheries production (115 tons/year) is about NZ\$1.1 million or 7 percent of GDP. Eighty (80) Percent of this comes from subsistence fishing that is domestically consumed and does not enter the cash economy. The value of the commercial fisheries production (10-14 tons/year) is NZ\$104,000 or less than one percent of GDP. Fishing license fees amount to approximately NZ\$0.3 million per year.

The development of domestic and offshore fisheries offers great potential with the fish processing plant expecting to become operational in early September 2004. This industry is expected to comply with sustainable fishing best practices in order to ensure sustainability of fish stocks in the long term. The industry is fully exports oriented.

The impact of Cyclone Heta in January 2004 on the economy must not be underestimated; much of vital infrastructure, such as the hospital, was entirely destroyed. The Government estimates the total damage suffered as follows:

Civil Society:	NZ\$ 7,000,000
Private Sector Enterprises:	NZ\$ 5,000,000
Public Sector:	NZ\$ 25,702,250

TOTAL NZ\$ 37,702,250 (equivalent to more than 19 million €)
Source: Cyclone Heta Recovery Plan, April 2004

3.3 Social situation

Niue has an estimated population of 1,800 people of whom 14 percent are of non-Niuean ethnicity. Over the past decade the population has declined by approximately 25 percent reflecting a large outflow of people. More than 20,000 Niueans live overseas, mainly in New Zealand. The people of Niue are New Zealand citizens and have free access to New Zealand.

Niue's Human Development Index of 0.87 ranks it third in the Pacific region, behind Palau and the Cook Islands. The high HDI reflects Niueans' high life expectancy of approximately 67 years, low infant mortality rate and universal rates of adult literacy. There are no obvious signs of poverty.

Average household size (at 3.4 members per household) is low by Pacific standards, and most houses have access to running water and electricity. All people have universal access to free education and health provision. Widespread unemployment is averted by emigration to New Zealand. The New Zealand social welfare system provides a safety net for Niueans, although the Niue Government also provides child benefit allowances and old-age pensions.

Women enjoy a high social status and play an important part in the economy. They have guaranteed access to a full range of health services, are afforded equal opportunities in education. Their participation in the workforce has increased over the years. Women figure prominently in private businesses and informal trade.

Niue has a relatively high level of education services. Education is free with universal access for all children. The education system is based on the New Zealand Education Curriculum Standards and the Qualification Authority. Schools are reasonably well maintained, although there is a recognised lack of resource materials.

The estimated education budget for 2001/2002 is NZ\$1,416,460, which is about 6.7 percent of total recurrent expenditure. NZODA provides approximately NZ\$460,000 for study awards (scholarships) to enable Niue residents to undertake secondary and tertiary courses in New Zealand and the Pacific region. A fund of NZ\$50,000 is available for vocational and short-term training. Australia also offers scholarships for study awards in the Pacific Region valued at NZ\$400,000 per year.

Niue has relatively high levels of sanitation and public health services. These have been instrumental in controlling the level of communicable diseases in the country. However, with changing lifestyles and dietary patterns, the epidemiological picture is now dominated by non-communicable diseases (cardiovascular diseases, diabetes, obesity, cancer) that are creating new challenges for both public health and curative services. Medical care is free for all Niuean residents. In fiscal year 2001/2002, 7 percent of government's recurrent budget expenditure was allocated to health.

4. Overview of on-going cooperation

4.1 Bilateral Assistance

New Zealand is the principal donor of financial assistance to Niue providing NZ\$ 6.25 million each year, comprising NZ\$ 3.75 million in direct budget support and NZ\$ 2.5 million in project aid. The bulk of NZODA for projects has traditionally been concentrated on human resource development (social infrastructure); this may, however, change in the aftermath of Cyclone Heta.

Australia provides approximately A\$ 875,000 each year, mainly in the form of scholarships and technical assistance. This is also expected to shift to other areas following Cyclone Heta.

4.2 Multilateral Assistance

The South Pacific Applied Geo-science Commission (SOPAC) has provided technical assistance for the Review of Energy Policy and the Wind Power Development Study and programmes in the area of energy generation.

The United Nations Development Programme (UNDP) provided US\$ 134,000 in 1999/2000 to prepare Niue's first National Report to the Conference of the Parties (COP) and to develop a National Biodiversity Strategy Action Plan (BSAP). Other UN agencies such as UNESCO, UNICEF, UNFPA and WHO have also been/or are still active in Niue.

In 1999/2000, Niue's application to join the Asian Development Bank was vetoed by New Zealand.

4.3 EC Co-operation

Niue is a new ACP Member State in the Pacific and has no record of previous co-operation with the European Union. The Country Strategy Paper for the 9th EDF was signed by the Premier of Niue, Hon Young Vivian, and Director General of DG DEV, Koos Richelle, on 17 August 2003.

The CSP foresees an allocation of € 2 million under the A-envelope and € 0.6 million under the B-envelope. Of the A-envelope allocation 1.8 million are foreseen to be spent on a renewable energy/energy efficiency programme that will comprise also four other new Pacific ACP countries. The remaining amount under the A-envelope will be used to support NSA.

The preparations of the energy programme should lead to a financial commitment during the year 2004. With regard to the NSA support programme, the Delegation prepared a draft financing proposal for the Niue Village Economy Development (NVED) Programme which is – at the time of writing of this report – under consideration in Brussels, and should also lead to a financing decision in 2004.

Following Cyclone Heta it was agreed to allocate the entire available amount under the B-envelope (€ 0.6 million) to the reconstruction of the hospital, which was entirely destroyed.

4.4 EC - Regional Cooperation

The regional allocation amounts to € 29 million and includes three focal sectors “Economic Integration and Trade” (€ 9 million), “Human Resources Development” (€ 8 million) and “Fisheries” (€ 5 million) and a non-focal sector, for extension of the 8th EDF programmes to the 6 new ACP countries (€ 7 million). The RSP was signed in 2002 by Commissioner Nielson, during his first visit to the Pacific.

“Regional Economic Integration Programme” (REIP) - € 9.2 million

The programme aims to assist the region in strengthening its capacity to implement PICTA (free trade area among the Pacific island countries), negotiate trade agreements with developed partners (eg. EPA), participate in multilateral trade negotiations (WTO) and assist the private sector in addressing supply-side constraints.

The EDF approved the programme in its November meeting and at the end of the year the Financing Agreement had been finalised. The RAO and the Commissioner during his visit to Fiji in February 2004 will officially sign it, together with the Contribution Agreement. Disbursements will start immediately after. This schedule matches last year's forecasts, which had indicated early 2004 for start of implementation.

“Human Resources Development” (HRD) – PRIDE programme - € 8 million

The objective of the programme is two-pronged: to assist Pacific island countries (PICs) in developing a sector-wide strategy for Education and subsequently to finance the implementation of some parts of that strategy. Most PICs have identified Education as a focal sector in their NIP and a number of other donors are very active in the sector in all of them. Therefore the parts of the strategies that have a more national character will be implemented with national funding (both governments' own resources and donors') and those that have the capacity to be shared by the region can be selected for funding by this programme. The programme is implemented by the Institute of Education of the University of the South Pacific.

The financing proposal was finalised during 2003 and approved by the EDF Committee in September. Both the Financing Agreement and Contribution Agreement were signed in Suva in November.

A very positive development occurred during 2003: at the invitation of the Pacific Island Countries, led by Samoa, and with the consent of the Commission, NZAid agreed to provide funding for PRIDE, to the tune of NZD5 million for three years, with the possibility of additional funding after that. This allowed USP to proceed with the recruitment of the project management team during the second half of 2003. At the end of the year all but one element of the team have been selected and all have either ACP or EU nationality. USP is also finalizing works in the PRIDE office building. The team will start working in February 2004.

Implementation of this programme went faster than expected: we had forecasted implementation to start early 2004, but at the end of 2003 almost all the team has already been selected and works in the office are almost completed.

“Fisheries” - € 5 million

This section will be composed of two projects:

- a) Extension of PROCFISH to the 6 new ACPs - €1.997 million

The complementary financing proposal was approved. The Financing Agreement will be signed in February 2004, during Commissioner Nielson’s visit to Fiji, for immediate implementation (cf. 8th EDF, below, for further details on PROCFISH).

- b) DEV FISH, a project to be managed by the Forum Fisheries Agency (FFA) in collaboration with the Secretariat of the Pacific Community (SPC) - €3 million

The objective of the project is to increase the benefits received by PICs from sustainable use of marine resources, by increasing the capacity of PICs to directly participate in the tuna fishing and processing industry, and reinforcing national and regional policies and strategies for the sector.

The financing proposal is being finalised by headquarters in view of a decision by mid-2004. Implementation should start immediately after.

Non-focal sector - € 7 million

The non-focal sector is composed of extensions for the new 6 ACP countries and the Palau Festival of Arts:

- a) All extensions refer to the participation of the 6 new ACP countries (Cook Islands, Federated States of Micronesia, Nauru, Niue, Palau and the Republic of the Marshall Islands), which cannot benefit from 8th EDF funding, in projects recently approved and financed under the 8th EDF. Three extension proposals were approved during 2003 and one other is being finalised, as per the table below.

PROJECT	EURO Millions	EDF SOURCE	STATUS
SPC/DSAP ext.	1.981	9th NF	Approved. FA to be signed by Com. Nielson in Feb 2004
SPC/PPP ext.	1.512	9th NF	Approved. FA to be signed by Com. Nielson in Feb 2004
SOPAC ext.	2.55	9th NF	Approved. FA to be signed during the first quarter of 2004
SPREP/PIEN ext.	0.56	9th NF	being finalised by HQ in view of a decision by mid-2004

- b) The Palau Festival of Arts is a co-financing with the Pacific OCT: € 330.000 from the 9th EDF RIP (including balances of previous EDFs, transferred into the 9th) and € 250.000 from the OCTs. The RIP part will finance the purchase of sound and light equipment, its installation and training of Festival staff for its operation. The OCT part will finance lodging, local transport and catering for the participants from the French Pacific territories. The Festival will take place in Palau in July 2004 and the organisation wanted to start tendering for the sound and light equipment in November 2003.

The financing proposal was presented to the Delegation in May 2003 and, after further processing, to AIDCO at the end of the same month. Staff rotations in headquarters and the usual difficulties in coordinating funding from different sources resulted in serious delays. Approval is expected at the end of the first quarter of 2004.

The Delegation is seriously worried about meeting the deadlines for this project, given that it refers to a public event with dates fixed years in advance.

8th EDF and balances of previous EDFs

At the end of 2003 all 8th EDF and most balances of previous EDFs are committed. The second phase of the TA to the RAO project (€ 1.3 million), financed from 6th and 7th EDF balances, starts implementation on January 1st 2004, the day after the previous team ends its contract. The 8th EDF is advancing according to schedule, a table providing information on each project's progress is annexed.

A total of € 461.779,83, from previous EDFs, was added to the 9th EDF allocation. Once all the projects identified above have been approved only €330.000 will remain uncommitted. This will be used for any necessary studies, in particular in view of preparing financing proposals to substantiate the RAO's intention to request additional funding during the mid-term review of the 9th EDF.

5. Programming perspectives for the following years

5.1. Integration of new EC/EU policy initiatives and commitments

Coherence between development cooperation policy and other EC policies relevant for Niue (mainly trade, fisheries, agriculture and environment) will be assessed on a continuing basis. 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 will be addressed by means of the EC regional programme with support to the regional agencies of the Forum Fisheries Agency (FFA) and the Secretariat of the Pacific Community (SPC). Coherence with cross-cutting issues referring to gender mainstreaming, environmental considerations and principles of good governance will be observed in all future projects.

The National Indicative Programme is complementary to the Government's own efforts to improve the living conditions of the population and to halt the flow of migration as well as to observe the sustainable use (conservation and protection) of the natural environment.

5.2. Review and adaptation of the CSP

It is proposed to maintain the 9th EDF allocation for Niue and to confirm the strategy initially agreed, i.e. to use the A-envelope allocation in the field of renewable energy/energy efficiency as well as for the benefit of NSAs (10% of allocation). The entire B-envelope has already been made available to help rehabilitation efforts following Cyclone Heta.

6. Conclusions of the joint annual report

The EC has been actively involved in a dialogue with the Niue authorities at all levels. Whereas during 2003 this dialogue concentrated on the contents and signature of the CSP and NIP, the events around Cyclone Heta in January 2004 naturally shifted the focus of the discussion to the best possible ways to support Niue in the aftermath of this natural disaster. Despite the changed priorities it was decided to maintain the focus of the A envelope on renewable energy/energy efficiency, but to adapt the specific activities to be carried out in Niue to the post-Heta situation.

The NSA-initiative has been progressing well and should lead to a financial commitment in 2004.

The entire B-envelope will be made available for the reconstruction of the hospital following Cyclone Heta. This will be carried out in close cooperation with other donors.

As far as the Mid-Term Review (MTR) is concerned, it is proposed to maintain the 9th EDF allocation for Niue and to confirm the strategy initially agreed, i.e. the usage of the available funds for the purposes of renewable energy/energy efficiency, NSAs as well as for the reconstruction of the hospital that was destroyed by Cyclone Heta in January 2004.

Annex 1 - Chronogramme of activities (9th EDF)

Title	Amount (In € million)
5-country renewable energy Programme	1.8 (from Niue NIP, plus allocations from the other countries' NIPs)
Niue Village Economy Development (NVED) Programme – support to NSAs	0.2
Rehabilitation of hospital	0.6
Total	2.6

Annex 2 – 9th EDF indicative timetable for commitments and disbursements

All figures in € million	2004 (estimate)	2005 (estimate)	2006 (estimate)	2007 (estimate)
<u>Commitments:</u>				
Renewable energy	0	0.4	1	0.4
Village Economy Development	0.1	0.1	0	0
Hospital Reconstruction	0.6	0	0	0
<u>Disbursements:</u>				
Renewable energy	0	0.2	0.8	0.8
Village Economy Development	0	0.1	0.1	0
Hospital Reconstruction)	0	0.4	0.2	0
Total payments	0	0.7	1.1	0.8
Total payments cumulative:	0	0.7	1.8	2.6

AID DONOR MATRIX

COUNTRY DONOR MATRIX

NIUE NATIONAL DEVELOPMENT STRATEGY OR CDF/PRSP (pre-HETA)				
Country Matrix	Economic Development	Social Development	Productivity Sector	Thematic/crosscutting Issues Treaties and Agreements.
Government of Niue (2003/4) (Source of Funds – Telecom Cash Capital Reserve) and Niue Power Corporation (Cash Reserve)	Private Sector Development NZ\$35,000	Scholarship Awards/ Overseas training NZ\$245,000 Local training NZ\$107,000	Product development NZ\$50,000 Young Farmers NZ\$75,000 BCTES (Business Community Training & Employment Scheme) NZ\$25,000 NIOFA (NIUE Island Organic Farmers Assoc) NZ\$8,000 Taro Exports NZ\$50,000	Secretariat of the Pacific Community (SPC). Forum Secretariat. South Pacific Regional Environment Programme (SPREP). University of the South Pacific (USP). Tourism Council of the South Pacific (TCSP). United Nations Education, Scientific and Cultural Organisation (UNESCO). World Health Organisation (WHO). Biodiversity Convention. World Metrological Organ- isation (WMO). Commonwealth Parliamentary Association (CPA). Forum Fisheries (FFA). Asia Caribbean Pacific State Member to the European Union (ACP-EU). United Nations Framework Convention on Climate Change (UNFCCC).

				<p>United Nations Convention to Combat Desertification, (UNCCD).</p> <p>United Nations Development Programme (UNDP).</p> <p>United Nations Population Fund (UNFPA).</p> <p>United Nations International Children's Fund (UNICEF).</p> <p>South Pacific Applied Geo-science Comm. (SOPAC).</p> <p>Pacific Island Development Fund (PIPD).</p> <p>Commonwealth Fund for Technical Cooperation.</p> <p>Signatories to PICTA and PACER, (2001).</p>
Private Sector				
Non-State Actors				
<p><u>Donor Activity</u> New Zealand: Aid Programme 2003/2004</p>	<p>Good Governance – Economic Planner. NZ\$ 100,000.</p> <p>NIUE Hotel repairs and maintenance - NZ\$41,000</p> <p>Vanilla NZ\$170,000</p> <p>Government asset management NZ\$204,000</p>	<p>Culture/ Language NZ\$19,000</p> <p>Village and community NZ\$24,000</p> <p>Training/ Capacity building NZ\$140,000</p> <p>Private Sector Training, NZ\$15,000.</p> <p>Study Awards/ Scholarships, NZ\$360,000</p> <p>Education development NZ\$250,000</p>	<p>Tourism Promotion NZ\$113,000</p> <p>Business Advisory Service NZ\$35,000</p> <p>Agriculture, NZ\$25,000</p> <p>Organic Farming, NZ\$30,000</p> <p>Technical/ Capacity assistance NZ\$65,000</p> <p>Government building repairs and maintenance NZ\$90,000</p>	

Australia		A\$0.875 millions of support to NIUE each year. This support is provided mainly in the form of scholarships and technical assistance		