SUSTAINABLE FINANCING MECHANISM

FOR RIDGE TO REEF APPROACHES AND PROTECTED AREA MANAGEMENT WITHIN MARAE MOANA –

AN ASSESSMENT OF OPTIONS

Report to the Cook Islands Marae Moana Coordination Office and National Environment Service | March 2020

COVER & INSIDE COVER IMAGES
ALISHA STREET @myrarotonga | www.my-rarotonga.com

ABBREVIATIONS

CI	Conservation International
CIT	Cook Islands Tourism Corporation
CTF	Conservation Trust Fund
EEZ	Exclusive Economic Zone
EPF	Environmental Protection Fund
HOA	House of Ariki
IMSP	Island Marine Spatial Plan
LSMPA	Large-Scale Marine Protected Area
MFEM	Ministry of Financial and Economic Management
MM	Marae Moana
MMCO	Marae Moana Coordination Office
MMR	Ministry of Marine Resources
MPA	Marine Protected Area
MOA	Ministry of Agriculture
NES	National Environment Service
NMSP	National Marine Spatial Plan
OPM	Office of the Prime Minister
PMU	Project Management Unit
R2R	Ridge to Reef project
RMD	Revenue Management Division
SFM	Sustainable Financing Mechanism
Starling	Starling Resources
TAG	Technical Advisory Group

2011 Crystal Drive, Suite 600, Arlington, VA 22202, USA
Tel: +1 703 341.2400
Fax: +1 703 553.4817
www.conservation.org

March 30, 2020

To Your Excellency Prime Minister Henry Puna, Esteemed Marae Moana Director, Esteemed Ridge-to-Reef Coordinator and All Cook Islanders,

I am pleased to share with you a final report prepared by Conservation International and Starling Resources as part of the consultancy on *Sustainable Financing Mechanism for Ridge to Reef Approaches and Protected Area Management within Marae Moana.*

The Cook Islands has long been a leader in taking bold action to protect and sustainably manage our ocean and island environments. The Marae Moana vision remains a uniquely ambitious, if not yet fully realized, vision for island nations to nurture their marine resources for future generations.

We were reminded of the power of bold ambitions this past December, when we lost our dear colleague and longtime Pacific leader Sue Taei. Sue worked tirelessly to move forward the protection of natural and cultural heritage in the Pacific, and she held deep reverence for the Cook Islands' people, culture and environment. She will be missed by many, but her legacy and spirit continue through CI's ongoing commitment to the Cook Islands and the broader Pacific region.

The CI team stands ready to support the Cook Islands to further explore the financing options presented in this report, to connect with technical experts or potential donors, and to work to achieve the ambitious and inspiring vision of Marae Moana for all Cook Islanders and for the world.

We look forward to our continued partnership for many years to come.

Sincerely,

Susana Waqainabete-Tuisese
Pacific Islands Regional Director
Conservation International

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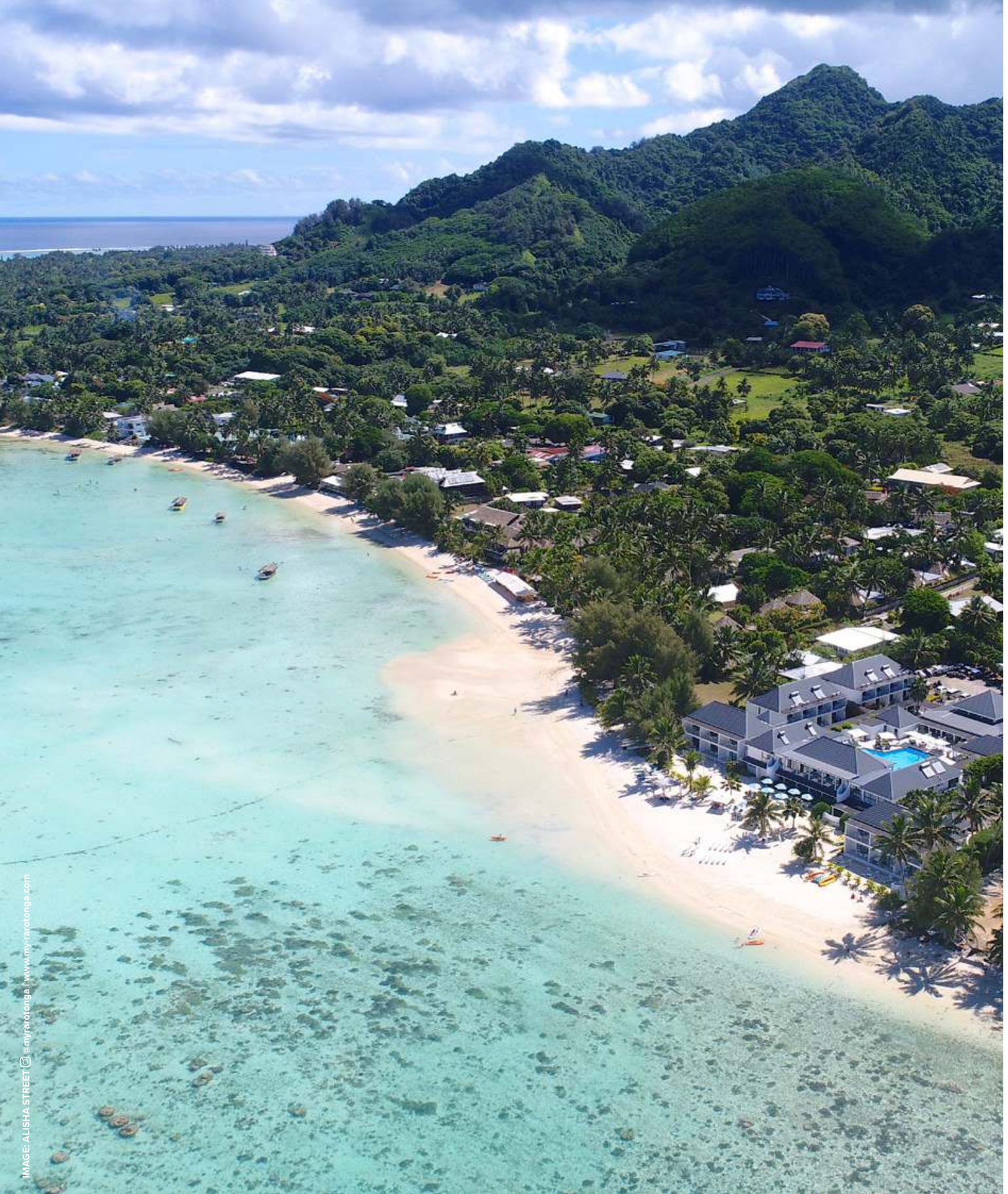

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EXECUTIVE SUMMARY

This report provides an assessment of sustainable financing sources and mechanisms that can be used to support the long-term implementation of Marae Moana. The introductory section provides context on law and policy relevant to Marae Moana, notes how the concept of sustainable financing is defined in various official documents, and provides an overview of the challenges of managing and financing large-scale ocean conservation areas. A summary is also provided of the scope of work of the consultancy, the process and methodology for the analysis, and summary of the challenges and constraints encountered. A description of the stakeholder consultation workshop is also provided along with a summary of reactions from various stakeholder groups.

This is followed by an overview of current government spending on Marae Moana and analysis of three cost model scenarios for implementation moving forward. The first operational model assumes funding for only the MMCO; the second includes the minimum costs that are required to enable early implementation of the Marae Moana as per the Marae Moana Legislation; and lastly a 'good practice' operational model includes additional funding for Marae Moana activities to be made available by the SFM on an annual basis. Additional detail on each cost model is presented, along with a description of some of the challenges of analyzing costs at a relatively early stage in the development of Marae Moana.

Annual average costs range from just under NZD 80,000 for the most basic scenario to NZD 2.14 million for a 'good practice' level of management. Results indicate that meaningful action is viable at reasonable cost, though the more robust implementation models will require significant additional funding beyond current levels of government allocations.

Section 3 provides an overview of previous sustainable financing mechanisms used in the Cook Islands to fund environmental protection activities, and discusses the role of government allocations in covering management costs in the current structure of Marae Moana.

Section 4 provides more detailed background, case studies, and analysis on sustainable financing mechanisms for Marae Moana that were prioritized based on stakeholder feedback. This section provides context on the use of tourism taxes globally, including arrival/departure taxes, and how they could be applied to Marae Moana. It was found that an arrival/departure tax of NZD 25 per visitor could generate nearly NZD 5 million in annual revenue for Marae Moana at historical tourism levels, and is expected to have little if any impact on demand. Background, case studies, and analysis are also provided for a potential investment in sustainable tuna fisheries, development of an environmental offset or compensation system, accessing of external donors and philanthropic funding, and multi-donor finance deals.

Brief summaries of other options for sustainable financing sources and mechanisms are presented in the following section, although for various reasons stakeholders have identified these options as less likely to be suitable to the Cook Islands and Marae

Moana context. These include debt-for-nature swaps, payments for ecosystem services, nature bonds, and impact investing.

Section 5 provides a deep analysis on the potential role of a conservation trust fund in supporting Marae Moana. These mechanisms are widely used globally, provide a vehicle for managing and administering funds for conservation, convening and supporting different stakeholder groups, can be tailored to diverse circumstances, and may play a role in supporting other sustainable financing structures discussed earlier in the report.

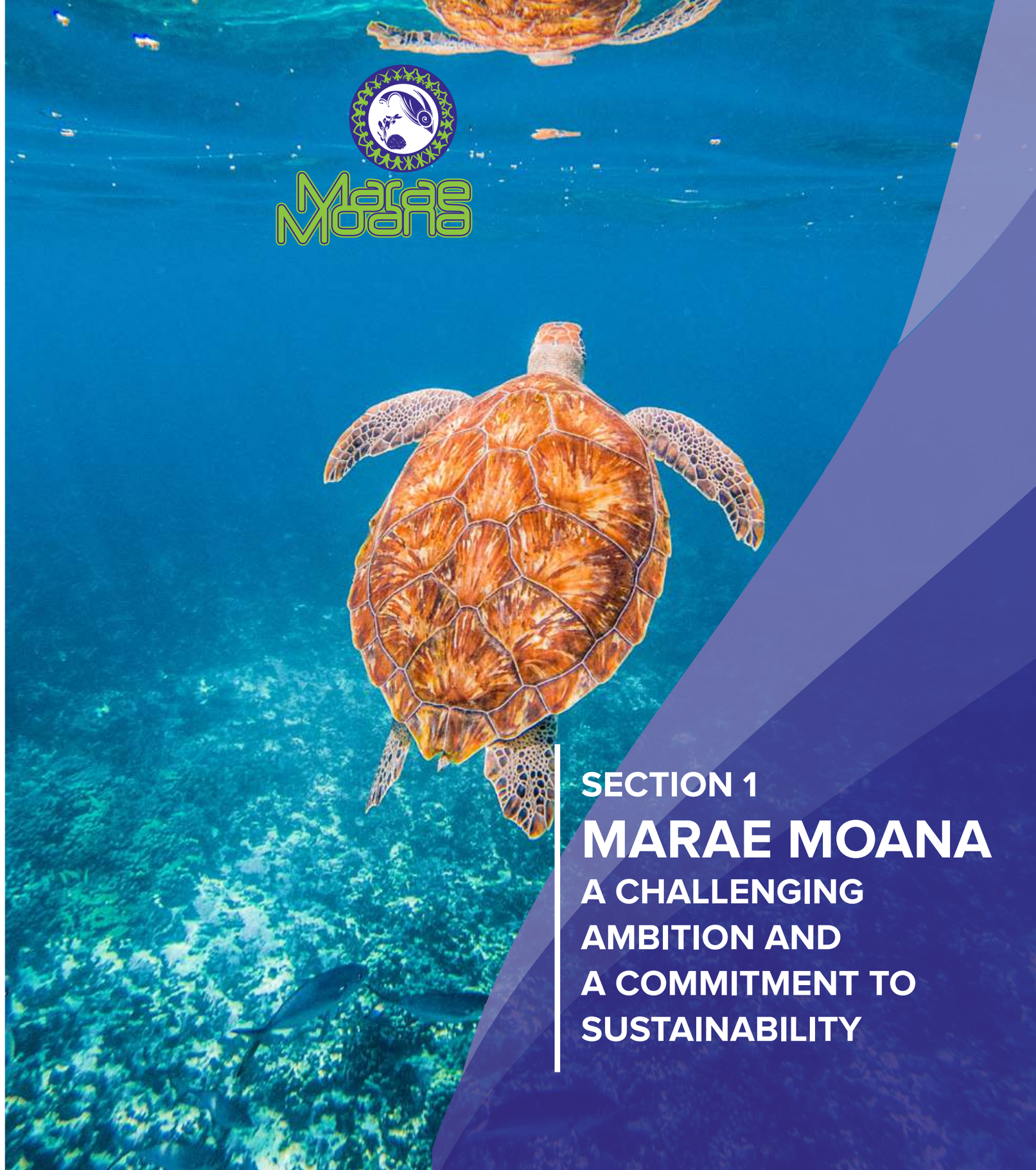
A brief summary of potential operating costs for a Marae Moana conservation trust fund is provided, and a more detailed analysis of appropriate legal and financial structures is provided in Annex 3.

> "Overall, it is believed that the Cook Islands has a number of promising sustainable financing options to support Marae Moana"

Conclusions and recommendations are offered in the last section, drawing from stakeholder feedback and the global experience of Conservation International and Starling Resources to recommend appropriate next steps and mechanisms worthy of further exploration.

Overall, it is believed that the Cook Islands has a number of promising sustainable financing options to support Marae Moana. We recommend pursuing a diversified mix of revenue sources, including an arrival/departure tax or green fee with appropriate branding, continued development of sustainable tuna fisheries, consideration of the establishment of an independent conservation trust fund, exploring the use of compensation fees for environmentally-impactful development, the use of other tourism taxes and fees as a tool to generate modest revenue while also managing tourism impacts, and the exploration of external donor relationships that may facilitate and accelerate any of the above.

The annexes provide documents with supporting detail, including the agenda and attendees at the stakeholder workshop, detailed analysis of the conservation trust fund option, a list of interviews held by the local consultant, and questions that could be added to visitor surveys to better understand willingness to pay of tourists to the Cook Islands.



SECTION 1

MARAE MOANA

A CHALLENGING AMBITION AND A COMMITMENT TO SUSTAINABILITY

1 MARAE MOANA:
A CHALLENGING AMBITION AND A COMMITMENT TO SUSTAINABILITY

1.1 INTRODUCTION AND BACKGROUND

The Marae Moana Coordination Office issued a tender for the scope of work entitled, "Sustainable Financing Mechanism for Ridge to Reef Approaches and Protected Area Management within Marae Moana." The terms of reference stated that "a financing mechanism is needed to ensure the effectiveness of Marae Moana and to support the implementation of the Marae Moana Action Plan, legislation and policy."

The purpose of this consultancy is to identify options for a sustainable financing mechanism "to finance activities that meet the primary purpose of the Marae Moana Act and within the realm of the objectives of the Marae Moana Policy." Further, "The results of the Scope of Work will enable the Marae Moana Technical Advisory Group and Council firstly, to understand the options available, then prioritise those options."

> Our analysis lays out what we believe to be the most promising mix of conservation finance options that could be pursued in advancement of Marae Moana's sustainability.

The terms of reference also state that "costs of managing Marae Moana are inevitable, but the over-arching reach of the Marae Moana across multiple sectors and across government and non-government organisations will enable the identification and resolution of issues relating to funding inefficiencies." As such, the terms of reference requested a more in-depth analysis of the costs of Marae Moana implementation.

The team of Starling Resources, Conservation International, and a local consultant were awarded the contract and have conducted a process by which we now present a more in-depth look at a set of possible 10-year cost scenarios for Marae Moana, as well as a set of sustainable financing options that have been initially vetted by a set of Cook Island stakeholders (government, civil society and traditional leadership).

Our analysis lays out what we believe to be the most promising mix of conservation finance options that could be pursued in advancement of Marae Moana's sustainability.

1.2 OVERVIEW OF MARAE MOANA LAW AND POLICY

Marae Moana presents an inspiring and challenging ambition to Cook Islanders and to the world: that a country's entire marine territory, its natural heritage, would be sustainably managed for generations. The implications of this vision touch many aspects of life for all Cook Islanders and will require input and participation from many sectors of Cook Islands society to effectively manage and conserve such a large seascape.

This is a vision that must be sustained over time to meet its objectives. It is impossible to imagine a short-term Marae Moana project; by its very nature it is an ambition that will require sustained effort, advocacy and financing.

The Marae Moana Act (2017) enshrines the principles of sustainability and sustainable financing in Marae Moana law and policy:

> **"The principle of sustainable financing is that adequate funding for activities implemented for the Marae Moana should be pursued to achieve desired outcomes."**

Moreover, the Marae Moana Policy (2016-2020) sets out a Policy Objective on sustainable financing:

> **"Policy Objective: To seek long term sustainable financing for the Marae Moana in order to resource the activities of this policy, for example, coordination, planning, management, research, ecosystem and species monitoring, information sharing, stakeholder consultation, monitoring, compliance and enforcement."**

The Policy also sets forth a subset of sustainable financing policy objectives to be pursued:

13.1 A sustainable financing mechanism and an appropriate governing body for funding shall be selected based on a feasibility study of options and cost benefit analysis;
13.2 The sustainable financing mechanism selected shall have a clear focus on achieving Policy outcomes;
13.3 The sustainable financing mechanism shall entail diverse sources of finance to protect against over-reliance on limited sources of funding;
13.4 The membership of the governing body for the sustainable financing mechanism shall be diverse and participatory but shall include financial/economic and/or business expertise;
13.5 Annual reports and financial records will be public documents; and
13.6 The costs and benefits of marine activities under the Policy will be monitored.

Together Conservation International (CI) and Starling Resources (Starling) have produced the following analysis, under the scope of work of this consultancy, with the goal of supporting many of the above policy objectives, notably 13.1, 13.3 and 13.6

1.3 MARAE MOANA AND LSMPAS

At 1.9 million km^2 (Protected Planet, n.d.), Marae Moana is frequently categorized as a large-scale marine protected area (LSMPA) (Marae Moana Marine Park, n.d.). Marae Moana is registered in the World Database on Protected Areas as an IUCN Category VI 'Protected Area with Sustainable Use of Natural Resources,' defined as an area that:

> **"Conserves ecosystems and habitats, together with associated cultural values and traditional natural resource management systems. They are generally large, with most of the area in a natural condition, where a proportion is under sustainable natural resource management and where low-level non-industrial use of natural resources compatible with nature conservation is seen as one of the main aims of the area."**

LSMPAs such as Marae Moana have important shared characteristics that make them particularly challenging from the perspective of long-term planning and sustainable financing options. There are also several unusual characteristics of Marae Moana, as discussed in this document, that make it unique in the LSMPA sector.

With over 32 LSMPAs operating or in development, there is now an established knowledge base of some of the financing conditions and constraints faced by LSMPAs :

- Nearly all LSMPAs globally do not have sufficient financial resources to implement their management plans;
- Government budgets often underfund conservation, inevitably fluctuate, and approval and distribution of funds can be unsteady and unpredictable at times;
- There is a widespread lack of awareness and understanding about the costs of managing LSMPAs, particularly in remote marine environments;
- Government finance departments, and the conservation community generally, lack expertise in LSMPA management costs;
- LSMPA managers may not be best positioned to effectively advocate for their budget needs; and
- Given their recent development, external donors largely lack understanding of LSMPAs and their management needs.

Some of these conditions are relevant to the Marae Moana context, but there are some unique features of Marae Moana that have additional bearing on the financing conditions.

First, Marae Moana is a whole-EEZ multiple-use marine park. While protection of oceans and coastal environments is a central pillar of Marae Moana, the park will be zoned for other permitted uses, including, but not limited to, tourism development, industrial fisheries and other potential extractive activities. These types of economic activities should result in more opportunities for revenue generation that can be directed towards Marae Moana's implementation. This differentiates Marae Moana from many LSMPAs, which are often more focused on full/strict protection and located in areas more remote from population centers and commercial activity.

Second, Marae Moana has a multi-stakeholder mandate, with many sectors of Cook Islands society contributing to its realization, including: state and island governments, traditional leadership, civil society, the private sector and the public. This 'single vaka' approach to management creates opportunities for widescale alignment of resources to support the Marae Moana Act and Policy. However, it also adds complexity, as there are many challenges with coordinating and managing the various efforts of numerous independent ministries and other actors, as well as measuring how these combined efforts lead to the long-term protection and sustainable use goals of Marae Moana.

Overall and as will be discussed below, while sustainable financing for large-scale ocean conservation faces significant constraints, Marae Moana's 'Blue Economy' focus and the Cooks' legal frameworks, economic climate and high institutional capacity create a favorable landscape for conservation finance options to support this ambitious commitment to ocean conservation.

1.4 MAIN DELIVERABLES FOR THE CONSULTANCY: SUSTAINABLE FINANCING MECHANISM FOR RIDGE TO REEF APPROACHES AND PROTECTED AREA MANAGEMENT WITHIN MARAE MOANA

The main deliverables of this consultancy's scope of work are as follows:

1	Assessment of options for funding sources and financing mechanisms
2	Determine financing needs
3	Report on the cost of implementing Marae Moana
4	Prioritised options for funding sources and financing mechanisms
5	Determine the feasibility of using revenue from the tourism sector to fund the sustainable financing mechanism
6	Cost-benefit analyses of the priority options + final report

The order of deliverables shown above largely reflects the order undertaken in the consultancy process. These deliverables are reflected in this report in a different sequence in order to facilitate readability, as follows: an introduction to Marae Moana and the consultancy, a discussion of the assessment and consultation process, an overview of the cost model, a discussion of prioritized sustainable financing mechanism options, and final conclusions and recommendations. Several annexes are also provided with detailed information on individual components of the analysis.

1.5 ASSESSMENT AND CONSULTATION PROCESS

In this section, the process undertaken and challenges encountered by the consultancy team are discussed, along with a description of the process to gather feedback from Marae Moana stakeholders on appropriate sustainable financing mechanism and tools.

Conservation International and Starling Resources assembled a team of practitioners with in-depth experience in marine conservation finance, design and implementation of sustainable financing mechanisms, design of cost models for large-scale MPAs and firsthand knowledge of Marae Moana and the Cook Islands context, as well as relevant knowledge and experience in the broader Pacific region.

Commencing in April 2019, the first phase of work focused on a desktop review of key documentation that was produced in the establishment of Marae Moana (e.g. the Marae Moana Act and Policy, the Marae Moana Action Plan, etc.) as well as documentation developed under the Ridge to Reef program and other relevant analytical products.

> "The fact that Marae Moana is still largely in its definition phase led to a number of difficulties in costing out Marae Moana's financing needs."

Following this review, CI led an analysis of external funding sources tailored to the context of the Cook Islands to identify and assess potential funding sources against relevant criteria. CI then conducted a desktop review of potential internal funding sources for Marae Moana (i.e., a menu of potential conservation finance options that can be initiated by and within the Cook Islands). The team utilized several conservation finance resource tools and guidelines to create a menu of relevant conservation finance options that have been deployed in the field of marine conservation and these options were presented at a multi-stakeholder workshop in Rarotonga in July 2020 (see description below).

1.6 CONSTRAINTS TO SCOPE OF WORK

The consultancy was originally expected to be an 18-week scope of work, but this ended up being an unrealistic timeframe for both parties, due to the ordering of deliverables and the availability of the key project staff for the duration of the project. CI undertook a major realignment of its Pacific Islands program and strategy in mid-2019, which resulted in key staff being reassigned to other projects, and there was also a change in leadership and management in the Marae Moana Coordination Office (MMCO) midway through the consultancy timeline.

The fact that Marae Moana is still largely in its definition phase led to a number of difficulties in costing out Marae Moana's financing needs. In the first instance, many agencies and stakeholders are not currently in the practice of tracking their resource allocations that support the Marae Moana Act and Policy. In addition, as Marae Moana's design phase – anwd Marine Spatial Plan (MSP) – is ongoing, it is not fully clear what future costs will fall under Marae Moana's mandate, those which will continue to be allocated under ministry allocations, and/or what new activities might emerge under the newly developed MSP.

Ultimately this has made the data collection a more complicated and iterative process than expected as many data collection efforts led to conversations about what should and should not be included as part of the Marae Moana vision. That being said, a number of descriptive scenarios have been developed and are presented within this report. These can serve as a starting point for Marae Moana costing and should be updated once a final design framework is in place.

1.7 WORKSHOP DESCRIPTION

To facilitate the process of sharing information on sustainable financing funding sources and mechanisms, and to gather feedback from various Marae Moana stakeholders, a workshop was held on July 11, 2019 in Muri, Rarotonga.

Attendees focus in at the Sustainable Financing Mechanism for Ridge-to-Reef Approaches and Protected Area Management within Marae Moana workshop in 2019. IMAGE: Ridge to Reef (Facebook)

The workshop on "Sustainable Financing Mechanism for Ridge-to-Reef Approaches and Protected Area Management within Marae Moana" was facilitated by Christopher Stone (CI), Rhona Barr (Starling), James Webb (independent consultant), Michael McGreevey (CI) and Andrew Schatz (CI), and had the following objectives:

- Provide Marae Moana stakeholders with an overview of sustainable financing tools and strategies for environmental management;
- Gain deeper understanding of the Marae Moana and Cook Islands context and develop a framework for tailoring sustainable financing solutions to meet Marae Moana's needs; and
- Identify priority options for sustainable financing and potential next steps.

The workshop included presentations on:

- the purpose and objectives of the consultancy;
- a description of the cost modeling process;
- an overview of global conservation finance experiences and survey of sustainable finance mechanisms:
- a detailed discussion of conservation trust funds and how they could function in the Cook Islands; and
- a discussion of next steps.

Breakout sessions were organized to ensure robust, cross-sector discussions of key questions, including: what activities should be included in the Marae Moana cost model, which financial mechanisms were best suited to the Marae Moana context, and whether a conservation trust fund would be an appropriate tool. The full workshop agenda is included in Annex 1.

Workshop participants covered a wide variety of stakeholder groups within the Cooks, including government (Ministry of Financial and Economic Management, Ministry of Marine Resources, Ministry of Transport, Ministry of Foreign Affairs and Immigration, Seabed Minerals Authority, National Environmental Service, Ministry of Cultural Development, Cook Islands Superannuation, Infrastructure Cook Islands and the Office of the Prime Minister), traditional leadership (House of Ariki and Koutu Nui) private sector (Cook Islands Tourism Corporation, Chamber of Commerce), and civil society (Cook Islands Voyaging Society). A full list of participants and invitees is found in Annex 2.

Prior to the workshop, during the week of July 8-12, the team met with several government agencies, community members, and local counsel in Rarotonga to get a better sense of goals for a Marae Moana sustainable financing mechanism as well as potential legal or operational structures. This included meetings with the Office of the Prime Minister (Ben Ponia, Jacqui Evans, Wayne King), MFEM (Natalie Cooke, Kai Berlick, Lafala Turepu), MFEM Revenue Management Division (Xavier Mitchell), Marae Moana Ambassador Kevin Iro, and local attorney Heinz Matysik, among others. These discussions allowed the CI/Starling consulting team to obtain a better sense of potential options, legal structures, and acceptable mechanisms for a Marae Moana sustainable financing mechanism.

> The following characteristics were viewed as important to the mechanism's future success: transparency, accountability (to the people of the Cook Islands), and independence from political influence.

Andrew Schatz also spoke with Xavier Mitchell at RMD concerning tax exempt issues for foundations and other legal structures. The contents of the above conversations are reflected throughout this document and in the detailed discussion of CTF design in Annex 3.

The local consultant, James Webb, also met with a number of government representatives to discuss current ministry allocations to Marae Moana-related activities, as well as any future costs that may be envisioned from its implementation. A list of interviews is provided in Annex 4.

1.8 REACTIONS FROM STAKEHOLDER GROUPS

During the July 2019 workshop the CI/Starling consulting team presented a comprehensive "menu" of conservation finance options and examined each option according to the following criteria: revenue potential, ease of implementation, key design considerations and relevant examples. Participants were then requested to break out into smaller groups and to assess and rank these options in terms of their applicability to the Cook Islands and Marae Moana context. Sub-groups then returned to plenary and shared their own perspective on the various conservation finance options they felt were worthy of further consideration.

There was an important discussion during the workshop regarding the desire to continue supporting Marae Moana implementation with a combination of both external and internal funding sources. Many of the attendees made note of the Cook Islands' steady economic growth over the past 5 years and its graduation to developed country status (Ministry of Finance & Economic Management, Government of the Cook Islands, 2019). This change will result in Cooks' ineligibility to receive certain types of external funding.

Given these developments, some stakeholders suggested that it may be time for the Cooks to rely solely upon its own internal funding sources to operate Marae Moana. Other stakeholders felt that there would still be opportunities to attract or leverage external public/private donor investments and project funding to help support key components of Marae Moana's development.

In one breakout session during the workshop, stakeholders were asked to provide what characteristics they found most desirable in a potential sustainable financing mechanism (or other funding mechanism for Marae Moana). The following characteristics were viewed as important to the mechanism's future success: transparency, accountability (to the people of the Cook Islands), and independence from political influence. Participants also expressed the need for a sustainable financing stream for the future driven by long-term needs and goals. One stakeholder group emphasized the need for a mission-driven and impact-oriented sustainable financing mechanism that could provide for a sustainable environment. The other group focused on the need to make the fund acceptable and compelling to the Cook Islands public, while also being attractive to foreign donors.

The consulting team's meetings prior to the workshop helped explore a variety of perspectives within the government. MFEM expressed a strong preference that any funds generated for Marae Moana within the Cook Islands, such as those that might be raised from a Departure Tax or Green Fee, would need to be managed centrally by MFEM. However, if an external donor were to contribute to a Marae Moana sustainable financing mechanism, they noted that MFEM could be flexible in order to accommodate any specific donor requirements. MFEM also expressed a hesitancy to ring-fence government revenue for Marae Moana. They noted that if legislation said a certain dollar figure or percentage of a Green Fee had to go to Marae Moana, MFEM could accept that, but maintained the desire to have the flexibility to move funds out of Marae Moana for other purposes in the event of a financial crisis or other emergency that required urgent funding.

The following sections of the report take these stakeholder views into account with an extended discussion of financing options that can be entirely or partially generated within the Cook Islands.

SECTION 2

COST MODEL
FOR MARAE MOANA

2 COST MODEL FOR MARAE MOANA

2.1 MARAE MOANA IMPLEMENTING AGENCIES AND CURRENT BUDGET SPENDING

Marae Moana is a collaborative effort across multiple agencies to better manage the Cook Islands oceanscape and, as such, a number of agencies play a role in implementing Marae Moana.

Planning for the Marae Moana remains in progress and, moreover, government budget allocations for activities that align with or fit into the broader Marae Moana initiative have not been differentiated from general spending. This creates a significant challenge in the process of accurately assessing costs of implementation. For the purposes of the analysis included in this report, our team reviewed line budgets and made broad assumptions about which costs should be considered Marae Moana costs. The figures presented are an initial estimate for ministry-wide spending and should not be taken as conclusive. Although Marae Moana spending is not at present coded within current Cook Island budgets, the table below presents indicative spending based on 2019 budget figures.

The figures presented below are based on 2019 budget reporting as well as consultations with local stakeholders. The percentages presented as MM-associated spending are derived from all ocean-related spending as per the Cook Islands 2019 budget report. Where a clear delineation on ocean spending by ministry or output was not possible, assumptions were made based on level of ocean-related activities by respective ministries and outputs. Final levels were selected based on consultations with MMCO and partners. These numbers are intended to serve as a starting point for further discussion only.

Ministry	2019 Budget (Gross)	% Total Budget	% Ministry Budget to MM	Marae Moana Spending
National Environmental Services	$ 1,686,417		9%	$ 160,045
OUTPUT 1: Advisory and Compliance	640,178	38	25	
Infrastructure Cook Islands	$ 6,285,169		1%	$ 53,958
OUTPUT 7: National Hydrography Office	53,958	1	100	
Ministry of Marine Resources	$ 2,372,618		100%	$ 2,372,618
OUTPUT 1: Offshore Fisheries	477,289	100	100	
OUTPUT 2: Pearl Industry Support and Laboratory Services	571,872	100	100	
OUTPUT 3: Inshore Fisheries Management & Aquaculture	857,786	100	100	
OUTPUT 4: Policy and Legal Services	142,597	100	100	
OUTPUT 5: Corporate Services	323,074	100	100	
Office of the Prime Minister	$ 2,721,886		3%	$ 80,600
OUTPUT 8: Marae Moana	80,600	3	100	
Cook Islands Police Service	$ 5,375,199		23%	$ 1,252,351
OUTPUT 1: Crime and Operations	4,174,503	78	30	
Cook Islands Seabed Minerals	$ 295,292		100%	$ 295,292
OUTPUT 1: Effective Seabed Minerals Sector	230,188	100	100	
OUTPUT 2: Stakeholder Engagement	20,000	100	100	
OUTPUT 3: Corporate Services	45,104	100	100	
Cook Islands Tourism Corporation	$ 9,274,662		50%	$ 4,637,331
OUTPUT 1: Destination Sales and Marketing	7,396,520	78	50	
OUTPUT 2: Destination Development	958,670	10	50	
OUTPUT 3: Corporate Services	919,472	10	50	
Ministry of Transport	$ 1,160,232		16%	$ 182,020
OUTPUT 2: Maritime Division (Taka o te Moana)	182,020		100	
Total Cook Island Budget/Marae Moana Spending 2019	**$ 141,370,725**		**6%**	**$ 9,034,214**

Figure 1: Marae Moana spending across Cook Island Ministries (Ministries not presented are expected to have no spending).

The MMCO operating budget represents some three percent of the OPM's total annual operating budget. However, under this analysis, approximately 6 percent of current government spending overall (NZD 9 million) is being directed towards Marae Moana related activities. It is anticipated that the majority of Marae Moana spending will remain within the relevant line ministries who are already tasked with mandates set out in the Marae Moana Policy and Action Plan documents, an approach preferred by multiple government stakeholders as noted during interviews.

2.2 THE MARAE MOANA COST MODEL

In order to identify suitable financing mechanisms for Marae Moana, one must first determine all associated costs to implementation. However, due to Marae Moana's highly integrated – and innovative – framework, its exact design is as yet undetermined. Clarity on Marae Moana's final design and implementation structure is expected following the conclusion of Marae Moana's marine spatial plan (MSP) in 2021. Marae Moana's national and island MSPs will form the basis of Marae Moana' final design and direction. Decisions yet to be made around zonation and permitted activities within ocean zones will ultimately dictate future operations, management and regulations. The cost model should therefore be updated after this next phase of planning.

Specific management plans, strategies, activities and operating costs for Marae Moana are not yet developed or available. In order to account for this early stage of development and the broad array of possible future arrangements, a number of operational models were developed. The models developed have been designed to, where possible, align with Marae Moana's policy objective 13, as defined under the Marae Moana Policy 2016 – 2020.

> "Policy Objective 13: To seek long term sustainable financing for the Marae Moana in order to resource the activities of this policy, for example, coordination, planning, management, research, ecosystem and species monitoring, information sharing, stakeholder consultation, monitoring, compliance and enforcement."

For example, data entered into Marae Moana's cost model focus primarily on activities relating to coordination, planning, monitoring and information sharing as well as stakeholder engagement. It was not possible at this time to include compliance and enforcement costs, as these will depend highly on the final design of the Marae Moana MSP.

It is important to note that the cost model results presented herein do not depict all Marae Moana-associated spending but only that spending which should be covered by any SFM moving forward.

In order to design and develop the Marae Moana cost model, the team reviewed all relevant documents and legislation. These included:

- Marae Moana Act (2017)
- Marae Moana Policy 2016 – 2020
- Marae Moana Action Plan 2018 – 2021
- MMCO budget information
- Cook Islands Budget Estimates 2019/2020: Ministry Budget Statements
- Ridge to Reef (R2R) documents and budget information
- Relevant MSP processes and budgets
- Additional budget data of select associated organizations

In addition, the team met with and interviewed key Marae Moana stakeholders between May and July 2019. A full list of interviewees is provided in Annex 4.

> "The cost model presented here is not attempting to determine all Marae Moana-associated spending but only that spending which should be covered by any SFM moving forward."

The information gathered from desk research and interviews was used to populate an Excel-based financial cost model that produced projections for Marae Moana over a five- and ten-year period, and provides analysis on potential Marae Moana implementation/organizational design and structure. Within the cost model three operational models were examined. All results are indicative of annual operational costs and do not include management and administration of any future SFM, which are presented in the section below. All results assume a 2% inflation rate plus increases in annual salary. Values are presented in NZD.

2.3 COST MODEL OPERATIONAL MODELS

In order to account for the uncertainty in Marae Moana's final design, three operational models were developed. These models range from the current status-quo up to more well-funded, higher service models. Within each operational model, two potential scenarios are presented.

The operational models range from a minimum 'base-line' operating model up to a more advanced model with a greater level of management standards and services available. For example, the first operational model assumes funding for only the MMCO; the second includes the minimum costs that are required to enable early implementation of the Marae Moana as per the Marae Moana Legislation; and lastly a 'good practice' operational model includes additional funding for Marae Moana activities to be made available by the SFM on an annual basis.

A summary of the operational models (and scenarios) developed is as follows:

1. Base Operational Model: MMCO operating costs only;
    a. Current MMCO government budget allocation
    b. Expanded MMCO
2. MSP Legislation Operational Model: MMCO + MSP
    a. Expanded MMCO + NMSP
    b. Expanded MMCO + NMSP + IMSP
3. Good-Practice Operational Model: Includes additional annual operating costs for Marae Moana-related activities

It is worth noting that the operational models presented are considered additional to current line ministry spending. These are not included within the cost models (as previously noted) because exact spending is not available at this time, and government agencies specified a strong desire that any current allocations remain within the respective ministries. The cost model presented here is not attempting to determine all Marae Moana-associated spending but only that spending which should be covered by any SFM moving forward. Based on consultations over the course of this project this is considered to be only: the MMCO; new/additional activities to emerge from Marae Moana implementation and legislation; and (in the final operational model) support for currently under-funded on-going activities.

1. BASE OPERATIONAL MODEL

In the first operational model we present the MMCO operating costs under two scenarios: one based on current MMCO budgeting and one assuming an expanded MMCO budget.

1a. Current MMCO government budget allocation: This costing represents current government allocations to the Marae Moana Coordination Office.

The budget is predominantly made up of the following budget items:

- MM Director Salary;
- Two MM council meetings including printing and travel costs.

In this first base scenario, we simply present the status-quo for current MMCO operating costs as per budgets provided by the MMCO as currently funded under the OPM government allocation. This scenario is indicative of current 'additional costs' of Marae Moana adoption by the Cook Islands, as the MMCO was established under the Marae Moana Act as a secretariat in order to coordinate all Marae Moana activities across the ministries.

This scenario presents MMCO costs only in order to deliver a similar level of service as is presently offered. As previously noted, the cost model does not include additional services that are currently being provided by the line ministries. It does not represent full spending or indicate that current spending across the ministries be reduced or consolidated. It is expected that these would also continue as per the assumptions and values presented in Figure 14 above. However, these costs are not included in the current scenarios as additional costs that require funding, nor in any of the following operational models.

1b. Expanded MMCO budget: This costing includes the above budget allocations but also includes additional staff support and activities.

More specifically, this scenario includes:

- Two additional MMCO staff members;
- Membership to Big Ocean Network;
- Responsibility for Cook Island's annual Lagoon Day event.

The second scenario presents costings for an expanded MMCO office, as per a proposal set out under the previous Marae Moana Director (Evans, 2019). This includes two additional staff members for the MMCO, on-going payments for Marae Moana's inclusion within the Big Ocean Network and repositioning of responsibility for Cook Islands' Lagoon Day under the MMCO.

It is worth noting that under this operational model, requirements of the Marae Moana Act have not been met. However, we present these results in order to display base-cost scenarios.

2. MSP LEGISLATION OPERATIONAL MODEL

The second operational model represents an approximate costing associated with meeting Marae Moana's Legislative requirements in the coming years. The model also assumes the expanded MMCO operating costs as per scenario 1b. Unfortunately, no current budgets exist for Marae Moana MSPs. Therefore, the MSP budget is based off Marae Moana's current MSP activity plan, previous MSP workshop spending, current Reef to Ridge (R2R) budget allocations, as well as consultations with IUCN's MSP specialist Dr. L. Fernandes and Conservation International[1].

At this stage, this operational model covers budget associated with MSP design processes only, hence the title MSP Legislation Model and not Legislative model more generally. Based on final MSP design additional legislative requirements (and associated costs) are expected. A few additional caveats must be noted. The NMSP budget includes consultations and a final dissemination phase, however it does not include any budgetary changes under any new compliance framework, which is assumed to be absorbed into MMR and Cook Island Police's on-going compliance budget. Island MSPs include budget for 2 consultations for each relevant island. Once the MSPs are in place this model should be updated to include all additional requirements under the MSP guidelines and protocols. These costs presented should serve only as starting costs for the Marae Moana legislative requirements.

Within the MSP operational model, we develop two scenarios. Scenario 2a includes costs for a National MSP only, while 2b includes additional Island MSPs.

2a. NMSP Legislation: This costing represents conservative costs associated with the implementation of meeting Marae Moana legislation in the coming years, including that of a national MSP.

The budget is predominantly made up of the following budget items as well as associated admin and material costs:

- Expanded MMCO as described in scenario 1b;
- Additional MSP design and compliance staff including:

  Consultants/Non-permanent, 2-year positions

  - MSP General: MSP Team Leader/Specialist; MSP in-country Lead; MSP Project Support Personnel;
  - MSP Compliance: Compliance Consultant; In-country Compliance Project Officer;
  - MSP GIS: MSP GIS Officer, international support team member;

  Consultants/Non-permanent, 6-month positions

  - MSP Legislative: MSP Legislative + Needs Analyst;

  Permanent
  - MSP In-country Project Officer.

- MSP Workshops (3 additional to that held in 2019):
  - Oceans zones;
  - MM procedures and policies for MSP, revised ocean zones, zone placements guidelines;
  - Ocean zone placement, and MSP draft;

- On-going TAG meetings and training;
- Ministry and TAG Consultations
- MSP Public Consultation events including outer island visits;
- MSP Awareness Campaign.

2b. All MSP Legislation: The level of service presented in this scenario is as above but includes an additional two MSP consultations per relevant outer island.

1 Consultations with Dr. L.Fernandes (Previously IUCN) and O.Andrews (Conservation International).

3. 'GOOD PRACTICE' OPERATIONAL MODEL

During the July workshop it was noted that additional activities, beyond the legislative requirements, could be included within any Marae Moana funding framework. As such an additional third operational model is explored.

The final operational model presents a "Good-Practice" model. This "Good-Practice" model includes a budget for additional conservation and protected area activities, in line with Marae Moana's financing policy objective, which includes "research, ecosystem and species monitoring". Similarly, this model provides an additional funding cushion in order to encompass any additional compliance needs as will be defined under a future MSP.

At time of cost model design, it was not possible to determine exact activities to be included within this model. However, as a possible point of reference we include a budget based on the current Ridge to Reef (R2R) project budgets within the respective ministries and respective budget data.

On-island consultations and interviews also indicated a need and desire to support Pa Enua (Outer Islands) offices. An additional finance officer is also included within each Pa Enua budget. Based on key consultations, it was clear that some accessibility for non-government agencies should be available under Marae Moana funding; a grant of NZD 200,000 is included for such.

In Summary, this final model provides budget for:

- Expanded MMCO as described in scenario 1b;
- An MSP design and consultation phase as described in scenario 2b;
- Additional budget for as yet undefined compliance and conservation activities;
- Additional support budget for Pa Enua finance reporting;
- An annual grant to be made available for non-government agencies

Here again, the early stage of development and lack of work plans or strategies prohibits accurate cost modelling suited to specific scenarios.

This operational model may serve as the basis for discussion and help inform future decision making.

2.4 COST MODEL RESULTS

1. BASE OPERATIONAL MODEL: MMCO OPERATING COSTS ONLY

As previously noted, in the base operational model we present the MMCO operating costs under two scenarios based on levels of investment. It is worth noting that under these scenarios, requirements of the Marae Moana Act have not been met. This first scenario presents the current additional Marae Moana spending, i.e. MMCO costs only, however we present these results in order to display a base-cost scenario.

It should be noted that these values do not represent additional Marae Moana-related spending included within current ministry mandates and budgets as per Figure 1, nor does it meet the requirements of the Marae Moana Act.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		
COSTS	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**5-yr Total Cost**	**Annual Average**
MARAE MOANA (MMCO)												
CURRENT												
TOTAL COST	71,702	73,136	74,599	76,452	79,778	79,165	80,748	82,363	84,409	88,081	383,130	79,859
MAIN PERSONNEL COST	61,500	62,730	63,985	65,264	66,570	67,901	69,259	70,644	72,057	73,498	326,449	67,990
OCCUPANCY COST	-	-	-	-	-	-	-	-	-	-	-	-
CAPITAL ASSET COST	-	-	-	361	2,165	-	-	-	398	2,390	2,526	590
ASSET MAINTENANCE COST	70	72	73	74	76	78	79	81	82	84	373	78
ACTIVITY COST	10,132	10,335	10,541	10,752	10,967	11,187	11,410	11,638	11,871	12,109	53,782	11,201
MISCELLANEOUS	-	-	-	-	-	-	-	-	-	-	-	-
Expanded												
TOTAL COST	218,363	227,639	227,468	232,378	238,822	241,391	251,331	251,143	256,564	263,679	1,167,698	243,379
MAIN PERSONNEL COST	171,500	174,930	178,429	181,997	185,637	189,350	193,137	197,000	200,940	204,958	910,343	189,597
OCCUPANCY COST	-	-	-	-	-	-	-	-	-	-	-	-
CAPITAL ASSET COST	-	4,631	-	361	2,165	-	5,113	-	398	2,390	7,156	1,673
ASSET MAINTENANCE COST	70	349	356	364	371	378	386	394	401	409	1,819	379
ACTIVITY COST	36,792	37,528	38,279	39,044	39,825	40,622	41,434	42,263	43,108	43,970	195,299	40,675
MISCELLANEOUS	10,000	10,200	10,404	10,612	10,824	11,041	11,262	11,487	11,717	11,951	53,081	11,055

Figure 2: Base Operational Model: Cost data per annum, broken down by budget category.

Under the baseline cost scenario, MMCO can operate on a budget of approximately NZD 380,000 over the next five-year period, around NZD 80,000 per annum. Under an expanded office scenario these costs increase to NZD 1.2 million and NZD 240,000 respectively. Although this increase seems substantial, it is indicative of how the current office structure is minimal (operating with only one dedicated staff member).

Costs are predominantly personnel costs: 86% and 76% of total costs under the current and expanded scenarios respectively. Activity costs presented here represent annual office costs such as printing and supplies. At present MMCO has no occupancy costs as these are provided in-kind by the OPM.

2. LEGISLATIVE OPERATIONAL MODEL: MMCO + MSP

Scenarios 2a and 2b present the costs associated with Marae Moana's legislative requirement for a Marine Spatial Plan. Scenario 2a presents the costings for a National MSP only while 2b includes additional Island MSPs occurring over a seven-year period.

The scenario builds on scenario 1b above as it is assumed that MMCO will require additional capacity in order to accommodate the additional activities included here. Results are displayed in the table below.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		
COSTS	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**5-yr Total Cost**	**Annual Average**
MMCO + MSP												
W/NMSP												
TOTAL COST	**238,363**	**901,266**	**911,051**	**1,045,768**	**323,632**	**326,571**	**348,441**	**339,765**	**346,958**	**355,881**	**3,508,287**	**544,370**
MAIN PERSONNEL COST	171,500	802,230	755,851	770,968	245,171	250,074	255,076	260,177	265,381	270,688	2,824,293	430,624
OCCUPANCY COST	-	-	-	-	-	-	-	-	-	-	-	-
CAPITAL ASSET COST	-	13,892	-	361	2,165	-	15,338	-	398	2,390	16,418	3,838
ASSET MAINTENANCE COST	70	7,643	7,796	7,952	8,111	8,273	8,438	8,607	8,779	8,955	39,774	8,284
ACTIVITY COST	41,792	52,000	121,394	239,958	41,124	40,622	41,434	42,263	43,108	43,970	495,098	73,986
MISCELLANEOUS	25,000	25,500	26,010	26,530	27,061	27,602	28,154	28,717	29,291	29,877	132,703	27,638
W/N + IMSP												
TOTAL COST	**233,363**	**951,495**	**988,158**	**1,124,417**	**403,854**	**408,398**	**416,652**	**383,250**	**346,958**	**355,881**	**3,876,321**	**597,674**
MAIN PERSONNEL COST	171,500	802,230	755,851	770,968	245,171	250,074	255,076	260,177	265,381	270,688	2,824,293	430,624
OCCUPANCY COST	-	-	-	-	-	-	-	-	-	-	-	-
CAPITAL ASSET COST	-	13,892	-	361	2,165	-	15,338	-	398	2,390	16,418	3,838
ASSET MAINTENANCE COST	70	7,643	7,796	7,952	8,111	8,273	8,438	8,607	8,779	8,955	39,774	8,284
ACTIVITY COST	36,792	102,230	198,501	318,607	121,346	122,448	109,645	85,748	43,108	43,970	863,132	127,289
MISCELLANEOUS	25,000	25,500	26,010	26,530	27,061	27,602	28,154	28,717	29,291	29,877	132,703	27,638
MSP PERSONNEL COSTS	**-**	**627,300**	**577,422**	**588,970**	**59,534**	**60,724**	**61,939**	**63,178**	**64,441**	**65,730**	**1,913,951**	**2,169,239**
NMSP ACTIVITY COSTS	**-**	**14,472**	**83,116**	**200,913**	**1,299**	**-**	**-**	**-**	**-**	**-**	**299,800**	**299,800**
IMSP ACTIVITY COSTS	**50,229**	**77,107**	**78,649**	**80,222**	**81,827**	**68,211**	**43,485**	**-**	**-**	**-**	**386,016**	**429,501**

Figure 3: Legislative Operational Model: Cost data per annum, broken down by budget category.

Under the Legislative operational model, the largest cost by far is implementation of Marae Moana's MSP. Marae Moana costs are significantly higher in years 1 – 3. Year 3 (2022) shows the highest budget due to a significant number of MSP activities being carried out in this year. Costs were some 650, 000 to 750,000 NZD across MSP years.

These costs are associated with an increase in personnel requirements for MSP design and planning. These costs represent approximately an additional 600,000 NZD per year for across the years 2020 to 2022. The year 2022 also includes the high cost of an MSP public consultation event, including outer island visits.

The distribution of MSP costs against all other Marae Moana policy functions is presented below. Additional activity costs predominately include consultation activities and workshops.

Once the MSP process is concluded at the end of 2022 (year 3) costs drop significantly but remain higher than in the base model due to the inclusion of a dedicated MSP Program Officer.

Total operating costs over a five-year period equate to approximately NZD 3.8 million, with a 10-year average of NZD 600,000.

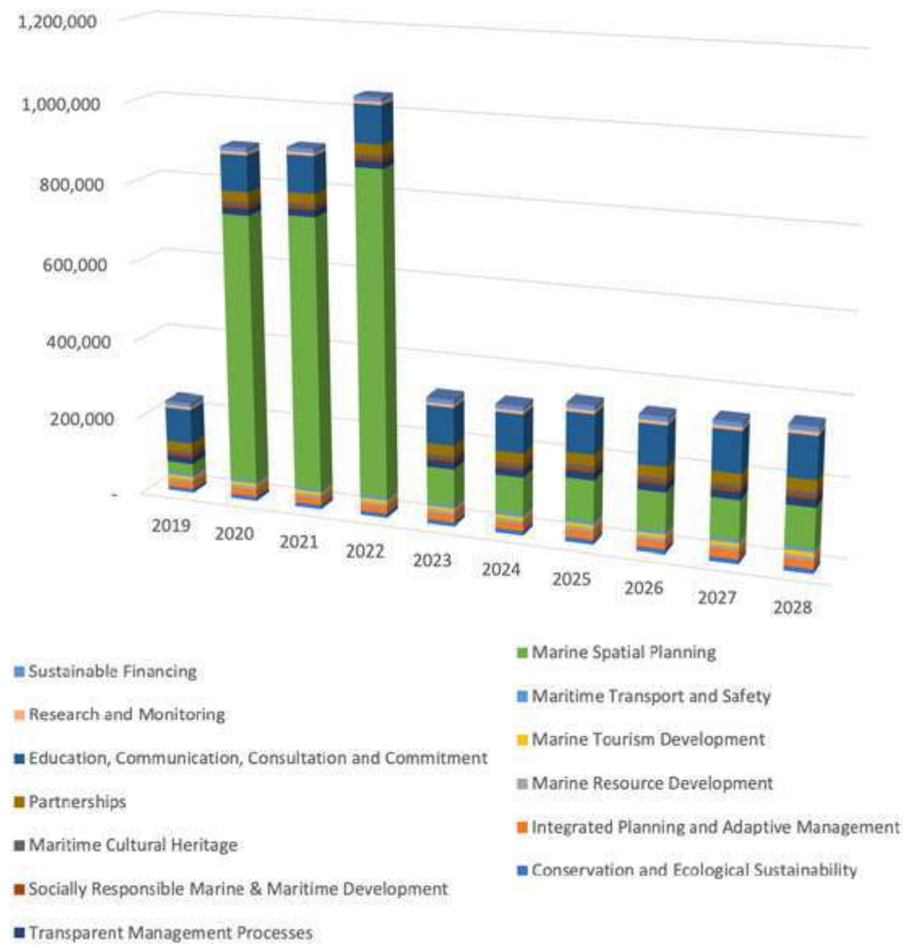


Figure 4: Legislative Operational Model: Spending across Policy Functions as indicated under the Marae Moana Policy 2016-2020.

3. GOOD-PRACTICE OPERATIONAL MODEL

The final model presents a "Good-Practice" operational model as described above. Two scenarios are examined. The first represents the addition of a budget similar in size to current R2R spending to be included in Marae Moana's costing from Year 1. The second presents a 'transition' framework, where R2R-like spending is phased in after MSP costs are reduced in 2023. As discussed above, we use the R2R budget as a proxy, given the lack of strategic direction for full implementation of the Marae Moana.

	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		
COSTS	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**5-yr Total Cost**	**Annual Average**
MMCO + MSP												
W/NMSP												
TOTAL COST	**868,316**	**2,455,608**	**2,522,353**	**2,689,296**	**2,000,030**	**2,036,498**	**2,077,314**	**2,077,125**	**2,074,711**	**2,118,189**	**11,703,785**	**2,140,566**
MAIN PERSONNEL COST	350,900	1,228,215	1,190,355	1,214,162	697,229	711,174	725,397	739,905	754,703	769,797	5,041,135	892,326
OCCUPANCY COST	2,400	4,896	4,994	5,094	5,196	5,300	5,406	5,514	5,624	5,736	25,479	5,307
CAPITAL ASSET COST	-	13,892	-	361	2,165	-	15,338	-	398	2,390	16,418	3,838
ASSET MAINTENANCE COST	70	7,643	7,796	7,952	8,111	8,273	8,438	8,607	8,779	8,955	39,774	8,284
ACTIVITY COST	489,946	971,462	1,085,118	1,222,956	1,043,783	1,063,333	1,069,348	1,064,645	1,041,583	1,062,415	4,967,311	982,068
MISCELLANEOUS	25,000	229,500	234,090	238,772	243,547	248,418	253,387	258,454	263,623	268,896	1,194,327	248,743
Transition Model												
TOTAL COST	**868,316**	**1,350,315**	**1,394,954**	**1,539,349**	**2,000,030**	**2,036,498**	**2,077,314**	**2,077,125**	**2,074,711**	**2,118,189**	**8,321,147**	**1,852,054**
MAIN PERSONNEL COST	350,900	802,230	755,851	770,968	697,229	711,174	725,397	739,905	754,703	769,797	3,737,451	747,473
OCCUPANCY COST	2,400	-	-	-	5,196	5,300	5,406	5,514	5,624	5,736	10,495	3,642
CAPITAL ASSET COST	-	13,892	-	361	2,165	-	15,338	-	398	2,390	16,418	3,838
ASSET MAINTENANCE COST	70	7,643	7,796	7,952	8,111	8,273	8,438	8,607	8,779	8,955	39,774	8,284
ACTIVITY COST	489,946	297,050	397,218	521,297	1,043,783	1,063,333	1,069,348	1,064,645	1,041,583	1,062,415	3,322,681	840,075
MISCELLANEOUS	25,000	229,500	234,090	238,772	243,547	248,418	253,387	258,454	263,623	268,896	1,194,327	248,743
Transition Model												
TOTAL COST	868,316	1,350,315	1,394,954	1,539,349	2,000,030	2,036,498	2,077,314	2,077,125	2,074,711	2,118,189	8,321,147	1,852,054
CIT	77,000	-	-	-	126,645	129,177	131,761	134,396	137,084	139,826	255,822	88,765
PMU	89,800	2,040	2,081	2,122	183,499	187,169	190,913	194,731	198,626	202,598	376,912	129,309
MOA	6,000	-	-	-	51,416	52,444	53,493	54,563	55,654	56,767	103,859	36,037
MMR	213,100	-	-	-	336,241	342,966	349,825	356,821	363,958	371,237	679,206	235,672
MMCO	257,063	951,495	988,158	1,124,417	463,820	469,564	479,041	446,887	411,868	422,089	3,997,454	639,704
NES	127,053	-	-	-	301,746	307,781	313,937	320,216	326,620	333,152	609,528	211,495
HoA & Pa Enua	98,300	192,780	196,636	200,568	320,177	326,580	333,112	339,774	346,570	353,501	1,236,741	289,967
NON-GOVERNMENT	-	204,000	208,080	212,242	216,486	220,816	225,232	229,737	234,332	239,019	1,061,624	221,105

Figure 5: Good-Practice Operational Model: Cost data per annum, broken down by budget category and agency.

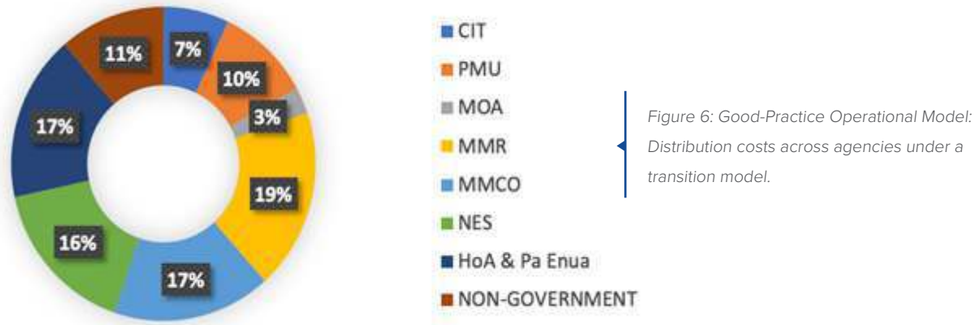


Figure 6: Good-Practice Operational Model: Distribution costs across agencies under a transition model.

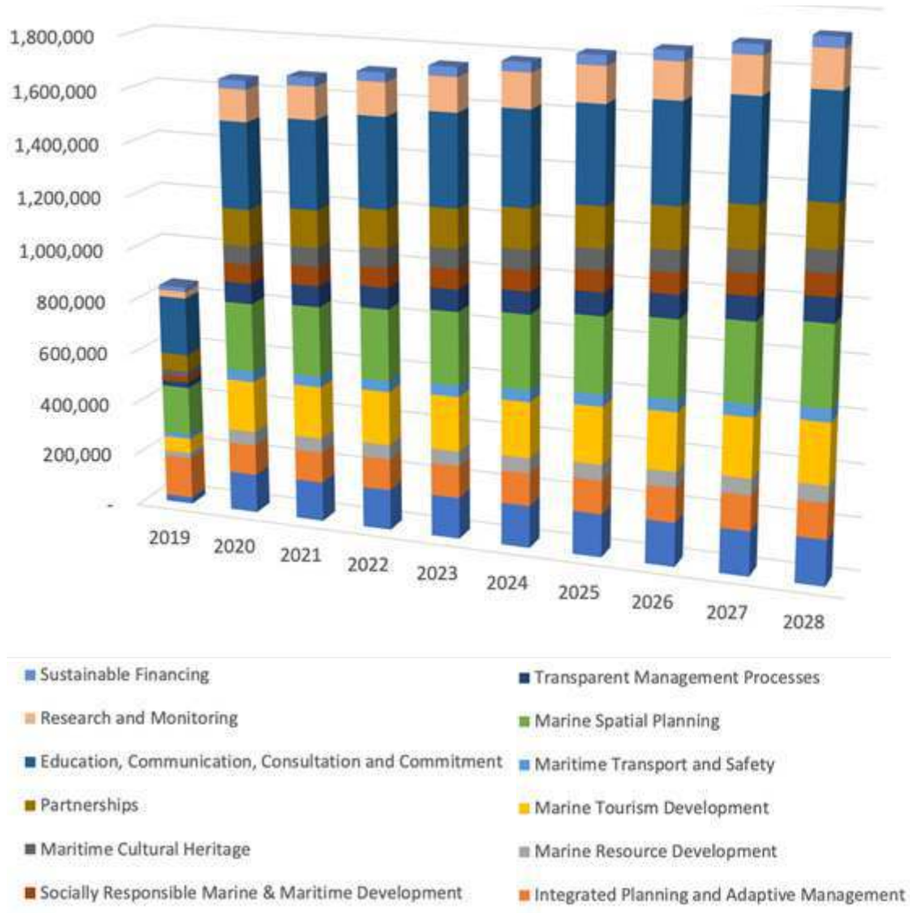


Figure 7: Good-Practice Operational Model: Distribution of costs under a transition model across Policy Functions as defined in the Marae Moana Policy 2016-2020.

The model outputs above present three possible costing operational models, but do not represent maximum cost models. The third operating model has been termed “Good-Practice” to reflect the scenario assumptions used. This does not reflect a “best-practice” model which would include a number of additional activities. For example, deep-sea data collection and monitoring can add significant costs but should be included where possible in order to provide more complete biological and ecological monitoring. These costs can easily reach into the millions of dollars per year.

2.5 COST MODEL SUMMARY RESULTS

In summary, three broadly differing operating models are generated, each divided into two scenarios. Each provides insights into current and potential future costs and cost drivers. While the lack of activity planning and strategies prohibit the costing of full management activities, proxies are used to estimate potential costs and better understand the financing impact at different levels of operation. A summary of the operational model results is presented in Figure 8.

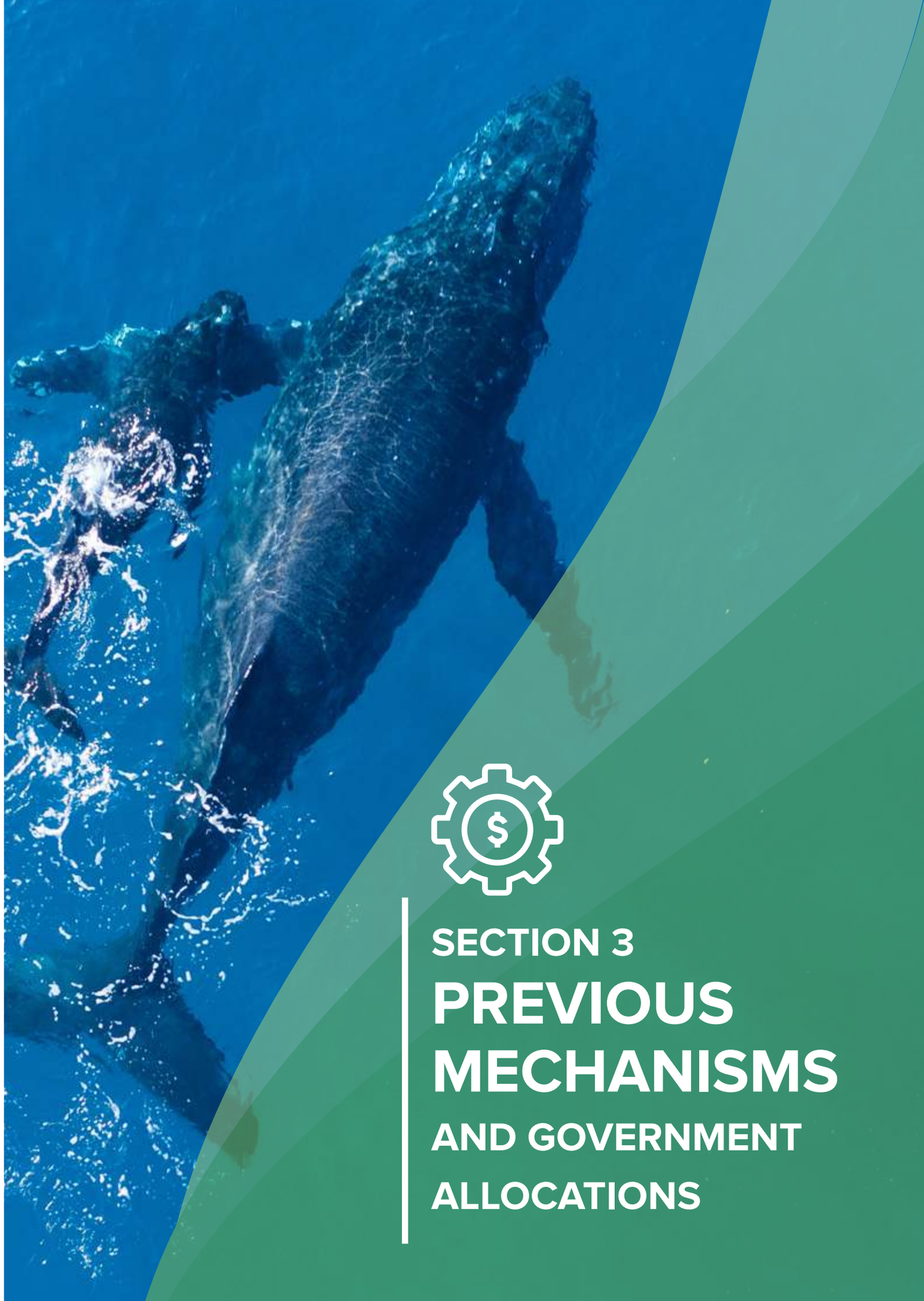
	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028		
COSTS	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**	**Year 7**	**Year 8**	**Year 9**	**5-yr Total Cost**	**Annual Average**
S1a. MMCO Current	71,702	73,136	74,599	76,452	79,778	79,165	80,748	82,363	84,409	88,081	383,130	79,859
S1b. MMCO Expanded	218,363	227,639	227,468	232,378	238,822	241,391	251,331	251,143	256,564	263,679	1,167,698	243,379
S2a. MMCO + NMSP	238,363	901,266	911,051	1,045,768	323,632	326,571	348,441	339,765	346,958	355,881	3,508,287	544,370
S2b. MMCO + NMSP + IMSP	233,363	951,495	988,158	1,124,417	403,854	408,398	416,652	383,250	346,958	355,881	3,876,321	597,674
S3a. Good Practice	868,316	2,455,608	2,522,353	2,689,296	2,000,030	2,036,498	2,077,314	2,077,125	2,074,711	2,118,189	11,703,785	2,140,566
S3b. Good Practice Transition	868,316	1,350,315	1,394,954	1,539,349	2,000,030	2,036,498	2,077,314	2,077,125	2,074,711	2,118,189	8,321,147	1,852,054

Figure 8: A summary of cost model results.

Costs range from some NZD 380,000 to NZD 11M, over a 5-year period, depending on those services to be included within the operational models and model scenarios. Results indicate that meaningful action is viable at reasonable cost, though the more robust implementation models will require significant additional funding.

However, while funding requirements look reasonable in scale overall, it is important to note that operational models 2 and 3 (which include more than just MMCO cost) represent between 0.4% to 2% of current national budgetary spending.

More so, even the most robust operational model presented here is not best practice and does not include many activities which may ultimately be required under any MSP requirements (for example, additional monitoring, research, mapping, cultural activities, etc.). These ‘good practice’ operational models herein likely represent minimum spending scenarios, and to truly implement ‘best practice’ will require a more robust operational model which could add substantial costs. Cost estimates should be revisited in the later stages of planning to help guide decision making and better understand the financing impact and requirements of such decisions.



SECTION 3

PREVIOUS MECHANISMS AND GOVERNMENT ALLOCATIONS

3 PREVIOUS MECHANISMS AND GOVERNMENT ALLOCATIONS

3.1 THE ENVIRONMENTAL PROTECTION FUND

It is important to recognize that the Cook Islands has previous experience using financial mechanisms to generate revenues for conservation and sustainable resource management (Tiraa, 2000). The Environmental Protection Fund (EPF), established in 1994 pursuant to the International Departure Tax Act Amendment, was an early example of the Cook Islands' leadership and innovation on environmental management.

The Fund was created to support the conservation and protection of the natural environment, including the reef and foreshore, flora and fauna, soil, and pollution abatement, among other activities. It was funded by departure taxes, where every visitor over 12 years of age was required to pay NZD 25. Of this, NZD 5 was dedicated to EPF.

Initially, proceeds from the departure tax went directly to the Treasury and were consolidated into general government revenue, but concerns about transparency led to a separate account for these funds being established at Westpac bank in Rarotonga in 1998 (Tiraa, 2000). Departure taxes were then paid at this bank and transferred to MFEM.

> "There appears to be broad perception that the EPF, although innovative at the time, was not ultimately effective, generally due to a perceived lack of transparency in the administration, governance and decision-making of these funds"

The long-term effectiveness of the fund was limited by several factors. The authorizing legislation did not establish guidelines for selecting eligible projects for financial support. As a result, in 1995, the Cabinet created an Environment Fund Committee (EFC) to establish guidelines and assess project eligibility. Although the EFC created guidelines, these were never implemented. The EFC later dissolved (Conservation International, 2019). After 1999, an Environmental Council was responsible for assessing and approving EPF funded projects. By the 2000s, however, the EPF and its dedicated account were effectively discontinued and defunct. This is reflected in the 2012 Departure Tax Act, which no longer provides for payment into the EPF.

There appears to be broad perception that the EPF, although innovative at the time, was not ultimately effective, generally due to a perceived lack of transparency in the administration, governance and decision-making of these funds, as well as a lack of environmental projects successfully receiving financial support from EPF (Conservation International, 2019). Many of the consulted stakeholders expressed their concern that this type of environmental funding runs the risk of being reprogrammed for other purposes, and that environmental funding derived from a departure tax may be better suited to a specially designated fund for conservation or environment purposes.

3.2 GOVERNMENT ALLOCATIONS

Government Allocations have historically been one of the most important sources of long-term funding for conservation activities and protected area management. It is reasonable to expect that as public understanding of the importance of healthy ecosystems continues to grow, government expenditures on natural resource management should increase over time. Impending global environmental challenges such as climate change also will likely drive more investment (public and private) into strengthening environmental resilience and adaptation strategies (Iyer et al., 2018).

While government budget allocations are nearly always a part of any sustainable financing strategy for conservation, these allocations are always subject to political changes and competing budget priorities, tied to the broader fiscal environment. As such, budgets for natural resource conservation are very rarely sufficient by themselves to ensure effective long-term conservation.

Marae Moana by its very nature has a multi-stakeholder mandate; many ministries are involved in its implementation (**Marae Moana Policy 2016-2020**, 2016). Current government expenditure by each ministry is currently unknown as no coding framework for Marae Moana spending exists, unlike for activities such as climate change policy and/or waste management to name only two cross-cutting issues for which government spending is more easily tracked.

Based on stakeholder consultations, government mandates and associated budgets are expected to continue, with only specific new and additional – as to be defined after final design of Marae Moana – activities falling under the remit of any Marae Moana financing mechanism. It is further assumed that some of these new activities will later be absorbed into existing ministry mandates. As such this analysis is not treating government budget allocations as a 'priority funding option' for Marae Moana's sustainable financing, although their ongoing contribution to Marae Moana's implementation is recognized.

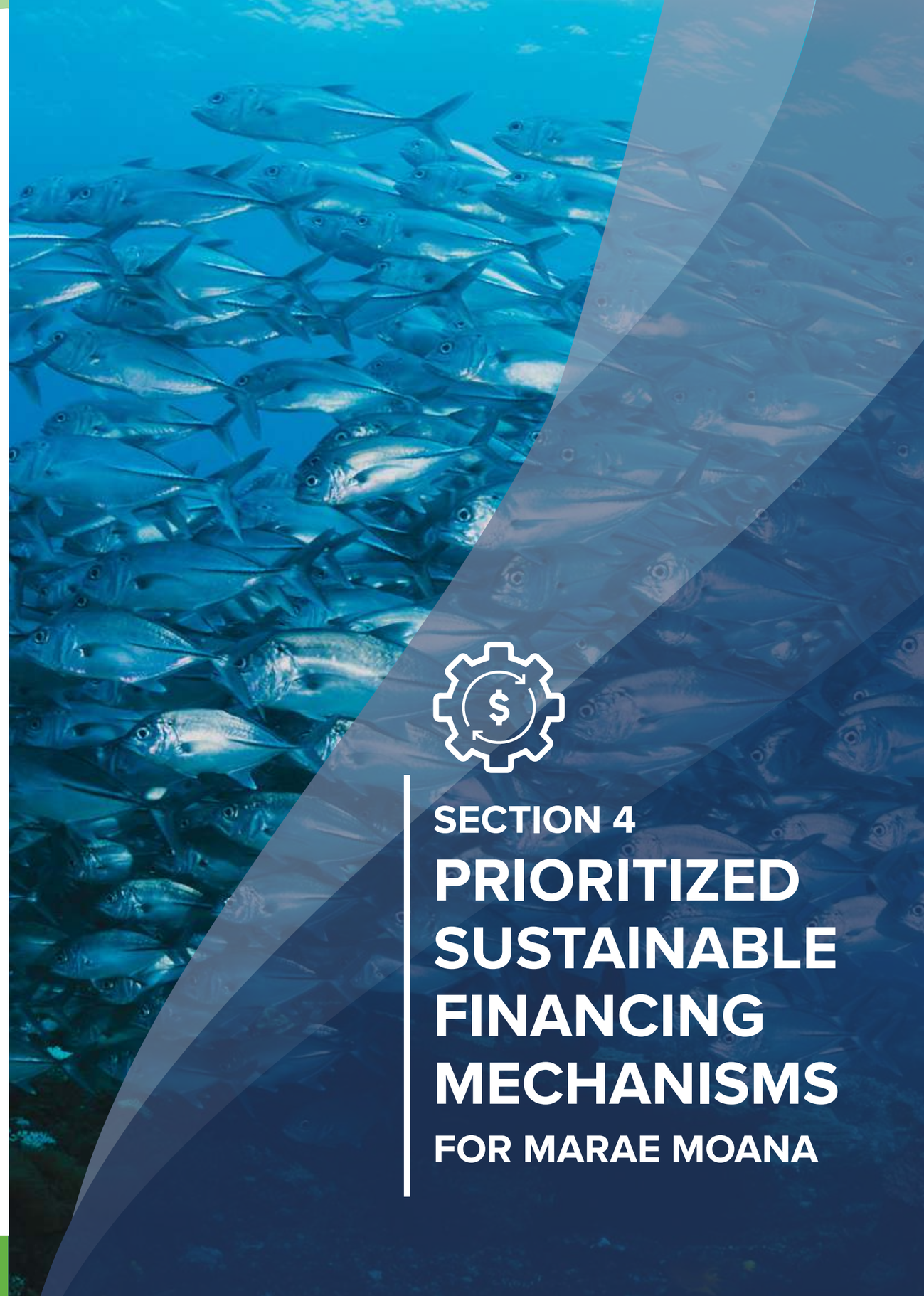
IMAGE: COOK ISLANDS TOURISM/DAVID KIRKLAND

At the July workshop in Rarotonga, numerous government agencies were present, and most shared their view on the costs for Marae Moana implementation. One interesting discussion topic was the idea as to whether Marae Moana implementation actually entails any incremental costs, and as such may not have implications on the budget allocations of various line agencies. Some in the audience indicated that part of the political rationale for creating Marae Moana was that this initiative would not entail any additional budgetary resources for the various line agencies, and that in the course of doing their regular work, they are 'already implementing' Marae Moana.

This perspective is not supported by the Marae Moana Policy, which states in the rationale for sustainable financing:

> **"To be effective, the Marae Moana will require sustainable funding. Whilst costs of managing the Marae Moana are to be expected, the over-arching reach of the Marae Moana across multiple sectors and across government and non-government organizations will enable the identification and resolution of issues relating to funding inefficiencies. These include duplication of roles, gaps in communication and the duplication and inefficient use of funds."**

Clearly there is more work to be done to identify and resolve funding inefficiencies, and indeed the "over-arching reach" mentioned here may present more challenges than expected. But the perspective conveyed by the Marae Moana Policy is that costs can be expected, and Marae Moana stakeholders should take an active role in ensuring that revenue sources for implementation are explored and expanded, and that limited resources are applied efficiently for maximum benefit to Marae Moana and Cook Islanders.



SECTION 4

PRIORITIZED SUSTAINABLE FINANCING MECHANISMS FOR MARAE MOANA

4 PRIORITIZED SUSTAINABLE FINANCING MECHANISMS FOR MARAE MOANA

The following sections discuss sustainable financing options that were identified at the workshop and by other stakeholders as being potentially suitable for the Marae Moana and Cooks Islands context, and therefore worthy of additional exploration and analysis. Each section begins with an overview of the main characteristics of the mechanism and discussion of global examples, before discussing how the option might be applied to Marae Moana.

4.1 TOURISM TAXES

The potential for tourism, the world's largest service industry, to drive economic growth, create employment, and attract investment is well understood. Tourism has the potential to help generate sustainable funding for MPAs when governments access that revenue stream through taxes and levies on tourism businesses and tourist activities (OECD, 2014).

> In the design of any taxation system, governments should consider efficiency, transparency, and equity, including differences in the economic impacts between tourists and local residents.

Yet tourism, especially in a location such as the Cook Islands, operates in a highly competitive global marketplace where consumer preferences can be volatile. Moreover, for tourism-based revenue sources to generate funds successfully and sustainably for MPAs, tourism sites need to be both attractive and accessible to tourists, and the underlying natural assets that drive demand must be protected and effectively managed. The most effective revenue generating strategies are built on strong market research and collaboration between government agencies, conservation organizations, local communities and private operators (Leung et al., 2014).

Recent trends in tourism show a greater interest in so-called emerging destinations, as consumers seek greater value, have online access to information on a greater breadth of destinations and as generational tastes change, with Millennials expected to be 50% of tourists by 2025. A "megatrend" in tourism is the emerging focus on sustainability, which can be defined as "tourism that respects both local people and the traveler, cultural heritage and the environment" (Horwath HTL), and can touch on issues as diverse as culturally appropriate experiences on one hand and waste management on the other.

These issues have special relevance in a "green" destination such as the Cook Islands, which also must account for the unique circumstances of a small island state with limited carrying capacity. When promoting and managing tourism, destinations like the Cook Islands need to account for transportation to and from the islands; infrastructure, services, and facilities for tourists; marketing and promotion; and health, safety, and security concerns (of special relevance again in light of the recent COVID-19 pandemic); all while respecting local culture and traditions and maintaining the ecological and cultural 'product' that tourists come to experience.

The OECD defines taxes as "unrequited payments to general government. Taxes are unrequited in the sense that benefits provided by government to taxpayers are not normally in [direct] proportion to their payments"[2].
The UN World Tourism Organization has defined tourism taxes as applicable specifically to tourists and the tourism industry or, alternatively, if not specific to the tourism industry, those which are applied differently in rival destinations" (World Tourism Organization Business, 1998). Tourism taxes can be further defined as falling into two categories: general and specific. General taxes include sales taxes, value-added taxes (VAT), and duties on imports. Specific tourism taxes may include those that fall disproportionately on goods and services that may be used by tourists, such as hotel and restaurant taxes, airport taxes and visa fees.

In the design of any taxation system, governments should consider efficiency, transparency, and equity, including differences in the economic impacts between tourists and local residents. In the special context of an island nation, it is also appropriate to consider the polluter-pays principle as a guiding element in order to steer tourists toward behaviors that are less environmentally harmful. A coherent package of taxes, fees, subsidies and regulation is essential to ensure that any individual tax will have the desired effect. Likewise, effective governance, implementation, enforcement and monitoring are necessary for any instrument to have its intended impact (OECD, 2014).

It should also be noted that tourism taxes will have a key stakeholder: the tourism industry. Listening to the concerns of industry professionals and representatives is essential, as the most effective tourism tax systems will have full industry buy-in, in order to facilitate participation in data sharing, monitoring, and analysis of whether the taxes are implemented effectively and efficiently and having the desired impacts.

A common industry complaint is that there is a lack of transparency on how tourism tax revenues are spent to meet the stated objectives, and indeed there are many examples of taxes ostensibly collected for one purpose and later redirected to another (OECD, 2014). Some of the mechanisms described elsewhere in the paper (such as Conservation Trust Funds, as discussed above) are a potential option to avoid some of these transparency concerns.

2 A fee, by comparison, is defined by the OECD as a charge by government "for the supply of particular services by the authorities." For the purposes of this report, most relevant charges by government authorities are considered to be taxes. (OECD glossary)

4.1.1 ARRIVAL AND DEPARTURE TAXES

One of the options prioritized at the recent Sustainable Financing Mechanism Workshop was an Arrival/Departure Tax. These taxes may be applied to passengers, and occasionally also to crew members. Visas are a common example, but are generally more akin to a fee as they are used to cover the administrative and operations costs of customs, immigration, quarantine, and other essential government services and processes that are primarily related to people entering and exiting from the country.

This section of the report focuses on true arrival and departure taxes, where revenues generated are spent on government activities, such as conservation, that are not directly related to immigration services.

In New Zealand, a new International Visitor Conservation and Tourism Levy will cost visitors NZD 35 but exempts those from Australia and Pacific Islands Forum countries. As described on the official website:

> **"The IVL is an important tool to make sure that New Zealanders' lives are enriched by sustainable tourism growth. It will do this by investing in projects that will substantively change the tourism system, helping to create productive, sustainable and inclusive tourism growth that protects and supports our environment."**

The new tax comes in light of recent concerns about over-tourism in a country that accepts 3.8 million annual visitors with just 4.8 million residents. Interestingly, Australians are the largest source of tourists in the country (about 39% or 1.5 million tourists) yet, as mentioned above, are exempt from the tax. The tax is expected to raise NZD 80 million and will be split between developing tourism infrastructure and conservation activities.

In Jamaica, a departure tax of USD 35 (approximately NZD 59 at time of publication) per passenger is complemented by a landing fee of USD 20 (NZD 33), which is officially named the Tourism Enhancement Fee. Together, these constitute some of the highest airfare taxes in the Caribbean region but generate more than the equivalent of NZD 8 billion annually.

The Maldives has also recently added a green fee of USD 6 (NZD 9.6[3]) per person per day, that is charged from visitors staying in hotels, resorts, and vessels, with a lower fee from those staying in more informal lodgings like guest houses. The fee, which was only started in 2019, had already collected USD 40 (NZD 64) million through the first 9 months of operation.

3 Values in USD, FJD, EUR converted to NZD at historical rate March 1, 2020.

Bhutan has a remarkable tourism policy and tax that is unique in the world. The country now requires foreign visitors to spend a minimum of USD 250 (NZD 400)/day during the high season, which includes a daily charge of USD 65 (NZD 104) for a Sustainable Development Fee. Regional visitors from neighboring countries and youths may be eligible for reduced rates, but the fee would still apply to approximately 70,000 non-regional visitors who came to the country in 2018 (Sarkar, 2019). A fee at such a high level is clearly aimed somewhat at carefully managing tourism, and focusing the market on higher value visitors in line with a policy in place since 1974 to manage tourism as a high value, low volume or low impact sector. To some extent, the exclusivity implied by these rates contributes to Bhutan's brand as a unique and sustainable destination.

Departure taxes have the advantage of applying the tax as closely to the consumer—the tourist—as possible. Many other types of tourism taxes, such as hotel taxes and others discussed below, effectively tax the tourism service business or operator, which then pass these taxes onto the consumer. This structure is perhaps more likely to attract opposition from the tourism industry, as they may see more localized impacts on individual businesses.

> Departure taxes have the advantage of applying the tax as closely to the consumer—the tourist—as possible.

In some cases, as in Palau, the green fee component constitutes only one portion of the overall departure tax, with other revenues going to general government revenues and other purposes (Te Ipukarea Society, 2018). One risk of this mechanism is that, absent clear policies and enforcement on the preferred capacity and limits for tourism in the country, government could be incentivized by increasing departure tax revenues to promote more and more tourism beyond sustainable levels.

Another consideration comes from the perspective of the consumer's experience of paying the departure tax/green fee. Ultimately, this mechanism is a revenue generator, but it can also serve as an effective communications and branding tool. By explaining to tourists why and what they are paying for with their green fee contribution, the Cook Islands has an opportunity to communicate about what makes Marae Moana innovative and unique among competing destinations. An effective communications and branding effort could ultimately lead to make it easier for the tourism industry to explain additional charges to customers, raise awareness of the unique resources and threats to Marae Moana, and lead to a deeper tourist connection and experience with the Cook Islands.

CASE STUDY

PALAU'S PRISTINE PARADISE ENVIRONMENTAL FEE

(adapted from Von Saltza, E. (2019). Green Passport: Innovative Financing Solutions for Conservation in Hawai'i.)

Palau's Pristine Paradise Environmental Fee (PPEF) is an example of a successful, and transparently administered green tourist fee, which was developed to support conservation and effective management of natural resources. The PPEF builds on Palau's previous experience with departure taxes (Von Saltza, 2019). First implemented in 2009, a fee of USD 35 (NZD 56) was applied to all departing visitors and was comprised of a green fee USD 15 (NZD24) and a departure tax USD 20 (NZD 32). In 2010, this fee was increased to USD 50 (NZD 80), increasing the green fee component to USD 30 (NZD 48).

In 2015, the Palau National Marine Sanctuary Act created the environmental impact fee, increasing Palau's fee on departure from USD 50 (NZD 80) to USD 100 (NZD 160) per person. In doing so it earmarked a percentage of the funds for PNMS. In 2017, this was renamed the "Pristine Paradise Environmental Fee" (PPEF) and in 2018 collection began of this increased amount. The current charge remains at USD 100 (NZD 160) per head (Customs Republic of Palau, 2017; Amendment of the Palau National Code to rename the Environmental Impact Fee the Pristine Paradise Environmental Fee, 2017).

In addition to this fee, visitors are not issued a visa until they sign a pledge promising to respect the environment and culture of Palau:

> **"Children of Palau,**
> **I take this Pledge,**
> **To preserve and protect your beautiful and unique island home.**
> **I vow to tread lightly, act kindly, and explore mindfully.**
> **I shall not take what is not given.**
> **I shall not harm what does not harm me.**
> **The only footprints I shall leave are those that will wash away."**

Palau's Pristine Paradise program additionally includes a mobile app, called Pristine Paradise Palau. The app positively promotes the fee and contains visitor travel information, including ample environmental education material (Pojas, 2019).

The Palau Visitor Authority recognizes that the country's scuba diving industry alone brings approximately USD 90 (NZD 144) million to Palau's economy a year (40% of Palau's GDP) (The Pew Charitable Trusts, 2015). Palau received 115,964 visitors in FY2018 (Bureau of Immigration, MOJ and Bureau of Budget and Planning, MOF, 2018). That number of visitors paying a USD 100 (NZD 160)/visitor fee, has recently generated annual revenue as high as USD 10 (NZD 16) million. Part of the success of the green fee system, including anecdotal data demonstrating the positive perceptions that visitors have of the fee, is due at least in part to its transparent management and compelling marketing. The table below illustrates how the fund revenue is allocated per USD 100 (NZD 160) visitor fee (Kesolei, 2018).

Fisheries Protection Fund	USD 10 (NZD 16)
State Governments USD	USD 12.5 (NZD 20)
Operations of Palau International Airport	USD 25 (NZD 40)
National Treasury	USD 22.5 (NZD 36)
Protected Areas Network (PAN) (green fee)	USD 30 (NZD 48)

The green fee's 30% share is divided further as follows:

- 15%: the PAN Fund, capped at USD 2M (NZD 3.2M);
- 5%: Micronesia Conservation Trust, capped at USD 100,000 (NZD 160,000);
- 10%: Other (water & sanitation).

As shown above, USD 10 (NZD 16) of each USD 100 (NZD 160) fee is allocated to the Fisheries Protection Fund (FPF), which is a fund within the National Treasury with the mission to fund the Palau National Marine Sanctuary and the laws related to it, administer activities related to the enforcement of the sanctuary, and promote eco-tourism (Republic of Palau, 2017). An amendment in June of 2019 assigned USD5 (NZD 8) per visitor from the FPF to the Palau International Coral Reef Center (PICRC) to support the PICRC's newly expanded role in managing the marine sanctuary.
Another USD 12.50 (NZD 20) of each USD 100 (NZD 160) fee is divided among the states such that 70% goes to the states in equal shares, and the remaining 30% is allocated in proportion with each state's population. USD 25 (NZD 40) goes directly to the National Treasury and is then earmarked to the appropriate agencies with the purpose of funding maintenance and improvement of the Palau International Airport. An additional USD 22.50 (NZD 36) per fee is reverted to the National Treasury.

IMAGE: Luka-Peterne

USD 30 (NZD 48) of the fee is managed by the Protected Areas Network (PAN) Fund, a non-profit organization established by the Republic of Palau to act as a financial trustee for the funds acquired from international donations and visitor arrival fees to support the PAN sites. Each of the fifteen PAN sites is run by its corresponding state government; national governments may not control PAN site management (PAN Fund, 2019). While the PAN Fund is a non-profit entity, it was established by the government and the government has significant decision-power including appointing board members (T. Holmes, personal communication, June 19, 2019). The PAN office sits within the Ministry of Natural Resources, Environment, & Tourism.

Five percent (capped at USD 100,000 or NZD 160,000) is deposited into the Palau's Micronesia Challenge Trust (MCT) Fund. In 2017, Palau met its endowment goal of USD 10 M (NZD 16 M) and was able to make its first withdrawal from the MCT Fund. This comprised some USD 435,000 (NZD 696,000) and accounted for 17% of PAN annual income in that year (PANF, 2017). This disbursement has proved valuable in bolstering the PAN's annual income, which experienced a drop in 2018 due to reduced visitor numbers (Koshiba, personal communication, 2019).
This comprehensive conservation finance infrastructure took more than a decade to develop and fully implement, and the fee staggered in its first two years between becoming law and being implemented. The intended date for the USD 100 (NZD 160) fee enactment was April 1, 2017, but the Palau National Congress and visitor industry agreed that the economy was too weak and waited to enact the fee until January 1, 2018. While the average of visitor arrivals over the 2017 quarters versus the available 2018 quarters show a 16% decline in visitors, Palau's visitor arrival data (Palau Government, 2018) is not substantial enough, nor has the fee existed long enough, to draw conclusions on its impact on visitor arrivals.

4.1.2 ARRIVAL/DEPARTURE TAX REVENUES IN THE COOK ISLANDS

In the discussion below, revenues from a departure tax/green fee are modeled over time for different fee rates and different rates of tourism growth. It is assumed here that the Cook Islands will effectively cap tourism at 200,000 visitors/year, a goal which in itself might recommend a departure tax as a tourism volume management tool.

As shown here, a fee of NZD 25 per visitor would yield significant revenues that could be made available for the management of Marae Moana. While we did not have sufficient data to assess how these different price points would affect tourism demand in the Cook Islands, it is highly unlikely that a rate of NZD 25 would have any significant effect on tourism volume. Indeed, Palau has increased their departure tax/ green fee significantly without any appreciable impact on volume. It is important to note here, however, that Palau has an international reputation for the quality of its dive sites, which may reduce elasticity of demand for its tourism product.

In order to determine possible income generated through a departure tax or green fee, a series of analyses were developed based on current Cook Island visitation figures as presented in the 2019 Cook Island Migration Statistics. The first analysis explores potential revenue based on a series of tourism growth rates. Under these scenarios all visitors to the Cook Islands would be required to pay a departure tax. Income is modeled under 3 different growth rates:

1. a static growth rate: models current numbers as a baseline;
2. a 3% annual growth rate: based upon increase in Cook Island visitor numbers between 2018 and 2019 and represents a modest growth scenario;
3. a 5% annual growth rate: based on international average.

Each growth rate is modelled against four possible departure fees, ranging from an NZD 10 – 100. Potential annual income between 2021 and 2026 are presented below. After 2026, annual income remains constant for all scenarios. Predicted visitor numbers are displayed along with associated potential revenues.

	Year:	2021	2022	2023	2024	2025	2026
Visitor Numbers:	**Static**	173,382	173,382	173,382	173,382	173,382	173,382
	3%	182,851	182,851	182,851	182,851	182,851	182,851
	5%	191,154	200,000	200,000	200,000	200,000	200,000
Fee NZD10	**Static**	1.73	1.73	1.73	1.73	1.73	1.73
	3%	1.83	1.88	1.93	1.98	2.00	2.00
	5%	1.91	2.00	2.00	2.00	2.00	2.00
Fee NZD25	**Static**	4.33	4.33	4.33	4.33	4.33	4.33
	3%	4.57	4.69	4.82	4.95	5.00	5.00
	5%	4.78	5.00	5.00	5.00	5.00	5.00
Fee NZD50	**Static**	8.67	8.67	8.67	8.67	8.67	8.67
	3%	9.14	9.39	9.64	9.90	10.0	10.0
	5%	9.56	10.0	10.0	10.0	10.0	10.0
Fee NZD100	**Static**	17.3	17.3	17.3	17.3	17.3	17.3
	3%	18.3	18.8	19.3	19.8	20.0	20.0
	5%	19.1	20.0	20.0	20.0	20.0	20.0

Figure 9: Income revenue generated from various potential departure tax scenarios (values presented are in NZD M).

If we assume the modest but increasing visitation scenario to be consistent with Cook Island visitation rates, potential income from a departure tax in 2021 could equal some NZD 1.8 million to 18.3 million depending on the rate implemented. This would increase to NZD 2 million to 20 million by 2026.

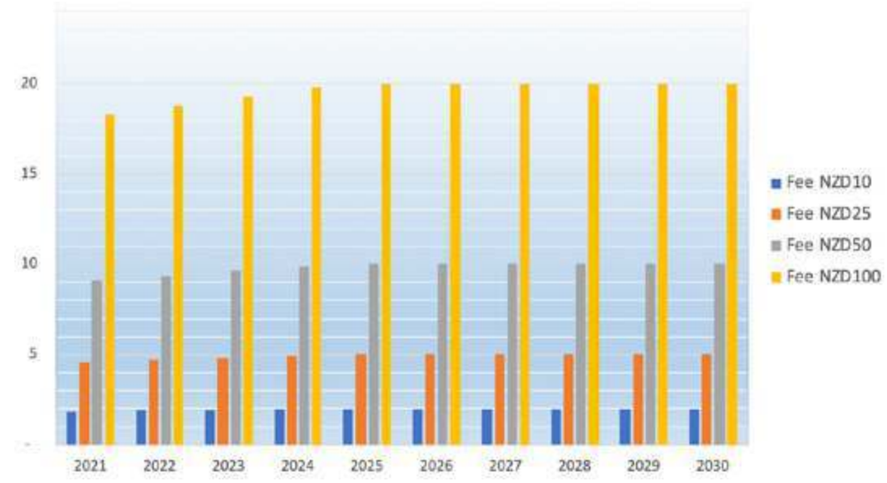


Figure 10: Income revenue under a 3% growth scenario under potential departure tax scenarios (values presented are in NZD M).

Although globally international tourism has been growing, it can be described as a fickle market. Risks associated with an over-reliance on tourism are significant, as can be seen by recent events.

As such, two additional analyses are included: a low- and high- risk scenario. In the first 'low-risk' scenario a 4% reduction in tourism is seen. This is in line with the global decline in international travel as seen after the economic crash of 2008. A second 'high-risk' analysis indicates possible revenues under a tourism crash, where tourism decreases by as much as 80%. Such occurrences are considered high impact, low probability but based on severe weather and, more recently, global pandemics, have unfortunately been known to happen.

Analyses assume the moderate growth scenario (2) as a baseline. Results are presented in the table below.

YEAR:	2021	2022	2023	2024	2025	2026
4% RISK MARGIN: DECLINE AFTER 2008 FINANCIAL CRISIS						
Fee NZD10	1.76	1.80	1.85	1.90	1.95	2.00
Fee NZD25	4.39	4.51	4.63	4.75	4.88	5.00
Fee NZD50	8.78	9.01	9.26	9.51	9.76	10.00
Fee NZD100	17.55	18.03	18.51	19.01	19.52	20.00
80%: CATASTROPHIC EVENT						
Fee NZD10	0.37	0.38	0.39	0.40	0.41	0.42
Fee NZD25	0.91	0.94	0.96	0.99	1.02	1.04
Fee NZD50	1.83	1.88	1.93	1.98	2.03	2.09
Fee NZD100	3.66	3.76	3.86	3.96	4.07	4.18

Figure 11: Income revenue generated from low- and high-risk scenarios (values presented are in NZD M).

In light of recent developments around the coronavirus and a growing uncertainty in future global tourism markets, an additional analysis has been included. This analysis represents one possible conservative estimate for SFM revenues under this recent pandemic. The analysis assumes that the Cook Islands will receive no more tourists in 2020, having closed its borders until 2021. It is then assumed that global tourism in 2021 will be the significantly reduced as the global economy deals with high unemployment rates and reduced household incomes; an 80% decline in current tourism arrivals is assumed.

After this point, the model assumes 50% growth rate each year as the tourism market recovers more quickly.

YEAR:	2020	2021	2022	2023	2024	2025	2026
VISITORS	**18,268**	**36,570**	**37,556**	**56,333**	**84,500**	**126,750**	**190,125**
POSSIBLE CORONAVIRUS SIMLUATION							
Fee NZD10	0.18	0.37	0.38	0.56	0.84	1.27	1.90
Fee NZD25	0.46	0.91	0.94	1.41	2.11	3.17	4.75
Fee NZD50	0.91	1.83	1.88	2.82	4.22	6.34	9.51
Fee NZD100	1.83	3.66	3.76	5.63	8.45	12.67	19.01

Figure 12: Income revenue generated from scenarios under response to coronavirus (values presented are in NZD M).

It is worth noting that the above calculations assume no elasticity in demand based on any prescribed increases in price, as such calculations are beyond the scope of this consultancy. However, it is anticipated that such a price increase would show minimum impact on visitor numbers, especially for smaller departure fees. In addition, increased revenue collection (yield) per person is a key component of the Cook Islands 2016 Sustainable Tourism Development Policy Framework and Goals (Cook Islands Tourism Corporation, 2017).

If any departure fee were to be added to the price of a plane ticket from Auckland to Rarotonga, as is the norm in a number of Pacific countries, this price increase could represent some 1.3 to 12.5% of current pricing (assuming an average ticket of NZD 800). That said, current price increases represent between 0.4 and 4.1% of current visitor spending, assuming an average daily spend rate of NZD 243 and an average 10-day trip.

A recent meta-analysis of international tourism demand elasticities noted that tourists visiting Oceania destinations were less sensitive to price changes than tourists to other areas. In fact, average price elasticities for demand ranged from -0.449 for visitors to from Europe to -1.046 for those coming from Asia. For those traveling within Oceania this value is -0.917. Price elasticities of <1 are considered relatively inelastic (Peng et al, 2015).

That is to say that a price increase of 5% will lead to a decrease in demand of 3.6%, lower than that which is presented in the table above. Under a 4% decline scenario, analysis indicates that it would only take the Cook Islands an additional year to reach its carrying capacity.

However, it should be noted that this figure is provided for reference only and should not be considered indicative of price elasticity for the Cook Islands. It is also indicative of overall spending and not airline costs which could be more relevant if departure tax was to be added to the cost of a plane ticket. Determining important attributes of tourism preferences and experience will be key to determining if and how tourism will be influenced by any price increases. A valuation question, which can be included within Cook Island's current visitor survey is included in Annex 5. This will allow further analysis of impacts for any potential price increase moving forward.

Interestingly, when Palau implemented a USD 35 (NZD 56) departure fee in 2009, no decline in tourism numbers was seen; a similar pattern was seen in 2010 when the fee was increased to USD 50 (NZD 80). The figure below displays Palau's tourism arrivals from 2006 – 2018 as well as timing of departure fee introductions and increases. A decline in Palau's overall tourism numbers can be seen starting in 2016, after which time the country made the decision to limit flights from China.

Figure 13: Palau visitor arrivals and departure fee implementation.

Image: Kirby Morejohn

4.1.3 HOTEL AND ACCOMMODATION TAXES

A recent study of tourism taxes across OECD-member countries found that the revenue from hotel and accommodation taxes are generally redirected back into the sector through tourism promotion activities. The clear majority of these taxes were administered at the sub-national level, including at municipalities that were popular destinations, and many were seasonally applied. Several countries, including Chile, Ireland, and Spain, apply these taxes at the national level.

Chile charges any foreign currency transaction made in hotels additional fees of 19% and recently extended this policy to include all categories of lodging, such as Airbnb's and home stays. In Spain, a tax on hotels and other tourist facilities that provide hosting services is jointly administered by national and sub-national governments, who coordinate in collection and disbursement of the revenues. Exemptions are provided for smaller operations with turnover of less EUR 1 (NZD 1.76) million/year.

Ireland has an unusual system dating to the 1930s where registration fees are charged to enterprises that provide accommodations, from large hotels to guest cottages. The revenue from these registration fees contributes to maintenance standards for the hospitality industry, thereby ensuring a minimum level in the quality and consistency of tourist products. Similar fees are directed to training programs for hospitality professionals to boost the quality of service and ensure a ready pool of workers.

Fiji has had an airline departure tax since 1986. The rate started at FJD 100 (NZD 72) and by 2014 had increased to FJD 200 (NZD 144), which since 2012 has also included a modest environmental tax of FJD 10. Revenues from the tax rose to FJD 149.3 (NZD 107.5) million by 2016, but is primarily directed toward airport operating/infrastructure costs and promoting tourism in the country. In 2016, the environmental tax was separated out from the departure tax to form a separate Environmental Levy, which was subsequently renamed the Environment and Climate Adaptation Levy (ECAL). It is applied nationally to tourism-related businesses including restaurants, hotels, home stays and recreational businesses (night clubs, cinemas) and currently applied at a rate of 10% of total charges to consumers (Pacific Community, 2019a).

When first introduced, the ECAL was criticized by the tourism industry and environmental advocates for a lack of transparency about how its revenues would be used. In response, the government set up the Environment and Climate Adaptation Fund, with its resources exclusively earmarked for biodiversity conservation, climate adaptation and mitigation (Pacific Community, 2019a).

The system, administered by Customs and Revenue Service, provides exemptions to operations with less than FJD 1.25 (NZD 0.9) million in revenue (Fiji Revenue and Customs Service, 2018).

CASE STUDY
ICELAND'S TOURISM SITE PROTECTION FUND

Iceland launched an aggressive tourism promotion campaign in 2010, in response to the country's financial crisis which caused major economic damage and to the eruption of the Eyjafjallajokull volcano, which disrupted air travel for months. By some measures, the campaign worked almost too well, and the country saw rapidly accelerating tourism growth through much of the 2010s: Iceland received 1.8 million international tourists in 2016, representing a 39% increase from 2015 (Lee, 2020; Tourtellot, 2018).

In 2011, through the Act on the Tourist Site Protection Fund, Iceland's parliament established a Tourism Site Protection Fund with the goal of managing tourism and its impacts on the small island country. The Fund supports the development, maintenance, and protection of tourist attractions in the country, whether they are natural or manmade, and whether they are owned and managed by the national government, municipalities or private owners. The Fund also support investments in tourist safety and has a mandate to spread tourism impacts throughout the country, so that no single tourist site is overwhelmed with impacts (Iceland Tourist Board, n.d.).

Panoramic view of Stokksens in Iceland.

The Fund is governed by a board consisting of four representatives serving two-year terms. Two board members are representatives of the Icelandic Travel Industry Association, one is nominated by the Association of Local Authorities in Iceland, and another designated by the Ministry of Industries and Innovation who acts as the chair. The board annually solicits and seeks out proposals from various stakeholders, then makes recommendations on projects to be funded to the Minister of Industries and Innovation. Fund disbursements are made yearly, but the Fund is also available to support emergency needs (Ministry of Industries and Innovation, Government of Iceland, n.d.).

Revenues for the Fund come from annual budget allocations from the treasury, to be appropriated on an annual basis, an annual infusion of 60% of the accommodation tax revenue, and interest from investments of the fund's capital.

This mechanism works in concert with other tourism initiatives run by the Ministry of Industries and Innovation, including the Tourism Task Force, the Icelandic Tourist Board, and the Route Development Fund, which promotes and manages airline access to the island.

4.1.4 POTENTIAL OF BED LEVIES TO GENERATE FUNDING FOR MM

Based on the Cook Islands' tourism profile, hotel and accommodation taxes hold some potential as a funding source for Marae Moana. An analysis is provided in order to estimate potential revenues from such an arrangement. A bed tax of 10% could raise significant revenue, but does come with the risk of drawing greater opposition from the tourism industry. As such these taxes, or at least those with a higher rate, might be best used to manage the impacts of tourism on particularly sensitive sites or islands.

The analysis is based on a 3% annual tourism rate and assumes similar occupancy distributions across accommodation options as presented in the 2019 Migration Statistics Report (Ministry of Finance & Economic Management, Government of the Cook Islands, 2019). Hotel and motel stays comprise 45% and 36% of all visits respectively. Assuming an average hotel rate of NZD 130, daily hotel and motel rates are assumed to comprise approximately 53% of daily spending (NZD 244 in 2019; MFED 2019). Again, a more conservative analysis is also presented based on one possible reaction of the tourism market to the ongoing coronavirus pandemic. Preliminary results for potential revenue from the introduction of hotel taxes are shown below.

Year	2021	2022	2023	2024	2025	2026
Visitors	**182,851**	**187,778**	**192,837**	**198,033**	**200,000**	**200,000**
Hotel occupancy	415,244	426,432	437,922	449,721	454,188	454,188
Motel occupancy	215,051	220,845	226,796	232,907	235,220	235,220
Average annual spending on hotel/motel rooms						
Hotel	53,973,529	55,427,780	56,921,214	58,454,887	59,035,529	59,035,529
Motel	27,952,408	28,705,552	29,478,988	30,273,264	30,573,973	30,573,973
Potential income from Levy						
1% Levy	819,259	841,333	864,002	887,282	896,095	896,095
2% Levy	1,638,519	1,682,667	1,728,004	1,774,563	1,792,190	1,792,190
5% Levy	4,096,297	4,206,667	4,320,010	4,436,408	4,480,475	4,480,475
10% Levy	8,192,594	8,413,333	8,640,020	8,872,815	8,960,950	8,960,950

Figure 14: Potential Revenues associated with implementation of hotel/bed taxes (values presented are in NZD).

Year	2021	2022	2023	2024	2025	2026
Visitors	**36,570**	**37,556**	**56,333**	**84,500**	**126,750**	**190,125**
Hotel occupancy	83,049	85,286	127,930	191,894	287,842	431,763
Motel occupancy	43,010	44,169	66,254	99,380	149,071	223,606
Average annual spending on hotel/motel rooms						
Hotel	6,875,609	7,060,864	10,591,296	15,886,943	23,830,415	35,745,623
Motel	3,560,816	3,656,758	5,485,137	8,227,706	12,341,559	18,512,338
Potential income from Levy						
1% Levy	104,364	107,176	160,764	241,146	361,720	542,580
2% Levy	208,729	214,352	321,529	482,293	723,439	1,085,159
5% Levy	521,821	535,881	803,822	1,205,732	1,808,599	2,712,898
10% Levy	1,043,643	1,071,762	1,607,643	2,411,465	3,617,197	5,425,796

Figure 15: Potential Revenues associated with implementation of hotel/bed taxes under one potential tourism response to coronavirus (values presented are in NZD).

4.1.5 TAX DISCOUNTS

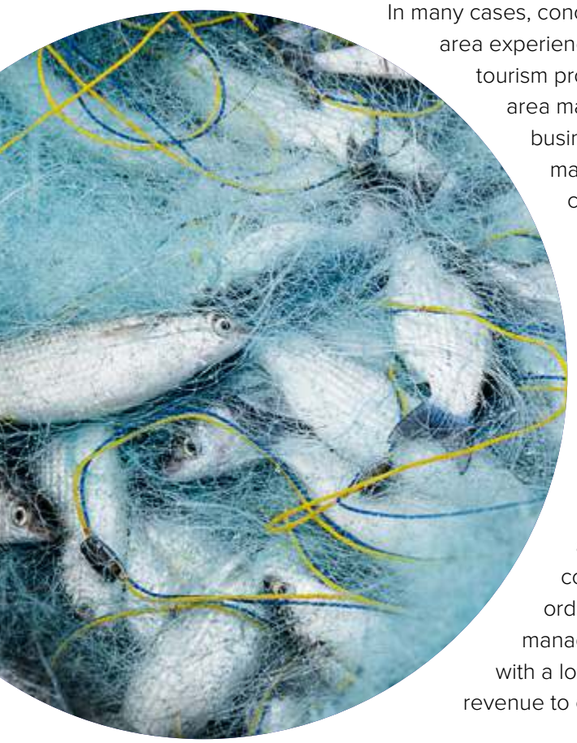
Hotel and accommodation fees such as these are often counter-balanced by reduced rates of taxation for other tourism-related activities, presenting a complex set of incentives and disincentives for the sector. Discounts in the applicable VAT rate, for example, may be applied to hotels, transport, or even to museum entry fees.

Generally, these tax policies are meant to balance the desire to raise revenue for tourist-related costs, while discounting the products and services in the sector in order to promote development and growth in the sector. However, there is rarely rigorous monitoring and evaluation to determine if the specific goals and objectives of the tax policies are met. In case studies where the issue of linking tourism tax policy to the desired economic impacts has been analyzed, it has been difficult to make a direct causal link between policies and effect. In other cases, lack of transparency about how revenues are directed has drawn skepticism from the tourism industry and eroded support for these taxes.

IMAGE: KIRBY MOREJOHN

4.1.6 CONCESSIONS AND COMMERCIAL TOURISM OPERATOR LICENSES

Concessions and systems for authorizing commercial operators in protected areas can be an important way to engage the private sector and add complementary strengths to protected area management. These arrangements may be structured as leases, licenses, permits, easements, or public-private partnerships and typically last for a multi-year or even decades-long period. Legal agreements will define the terms of use, length of the agreement, conditions under which the operator will function, and protected area infrastructure and resources that the operator will be able to access. Such agreements can enable commercial operations to provide a variety of valuable services to tourists and locals alike, such as food and beverage services, lodging, recreational activities such as diving, educational and interpretive tours, and merchandise.



In many cases, concessionaires are an important part of the protected area experience, and successful operations provide a high-quality tourism product while directing revenue back into protected area management. Concessionaires with tourism as their core business can provide a productive complement to government management authorities, with greater capacity to adapt to changing marking conditions and preferences, greater flexibility in staffing, better ability to adjust pricing in response to market demands, increased appetite for innovation, and, generally, fewer bureaucratic constraints.

A variety of fees can be charged to concessionaires, including user fees, fees for maintenance, or fees or other penalties for failure to comply with the terms of the agreement. Although it may seem preferable for these fees to be tied to usage (e.g. a fee charged per dive) in practice many of these fees are charged as a flat rate on a monthly or annual basis. This avoids the administrative complexity of tracking receipts across multiple operators in order to verify that the correct amounts are being remitted to management authorities, but may mean that a thriving business with a long-term agreement only directs a small fraction of its revenue to conservation management.

Although this consultancy did not have sufficient data to carry out an in-depth analysis of the impact of concessions and commercial tourism operator licenses in Marae Moana, some preliminary analyses are presented. This analysis assumes that all of 34 CTOs registered with the Cook Islands Tourism Industry Council (Cook Islands Tourism Council, 2019) take an average of two groups of six visitors per tour, and tour occur some 5 days of every week, or 260 days of the year. Under this scenario a CTO fee of NZD 3 per person per day could contribute some NZD 319,000 per year to any SFM.

We believe this tool is unlikely to generate a significant amount of revenue for the area and, since it may affect individual businesses in diverse ways, could be more likely to generate political opposition. However, these taxes and fees can be an important management tool to control usage of sensitive sites and resources, and a source of data on how, when, and where Marae Moana resources are being used.

4.1.7 NATURAL RESOURCE ACCESS FEES

There are some cases where it is possible to assess fees on access to marine resources unrelated to tourism management and visitation. The most common applications of this type of tool usually occur in the fisheries sector. CI is not aware of any cases where a country assesses an access fee to industrial fishers and then uses those proceeds to support marine protected area operating costs, but there are some good examples where fees are charged on fishers in order to cover a portion of the cost of scientific research on fisheries and support sustainable fisheries management activities. A well-documented case of this is the New Zealand Fisheries and conservation services levies. Under this system, Fisheries New Zealand assesses a tax on domestic commercial operators, based on the need of a particular fish stock (Fisheries New Zealand, n.d.). The revenues from the tax are then reinvested in:

- monitoring commercial fishing activities
- fisheries stock assessment research
- research necessary to manage and mitigate the effects of commercial fishing on the aquatic environment and biodiversity, including protected species

This type of a tax system is best suited for jurisdictions that have domestic fishing capacity; there is a much lower likelihood that this type of system could be implemented in jurisdictions that allow access to foreign fishing fleets. Adding additional costs to foreign fishing fleets would create disincentive and, in many cases, could drive foreign fishers to operate in other jurisdictions that do not assess these types of fees.

Specifically, within the Cook Islands, there does appear to be some opportunity to capture more value from fisheries, primarily by generating higher value and profitability from sustainable harvesting of commercially valuable species (e.g., tuna) as discussed elsewhere in this report.

4.1.8 ENVIRONMENTAL TAXES (NON-TOURISM)

There are some examples where country governments have modified their tax codes and policies to capture more revenue specifically for conservation and natural resources management. Green taxes can be imposed by governments and can act as an economic incentive to influence individual and collective behavior that relates to natural resources management. For example, charging a tax on types of pollution (e.g., single-use plastic bags) can create incentives that lead to better environmental outcomes. In best case scenarios, all or a significant portion of the green tax revenue can be earmarked to fund conservation efforts.

In one example, the island nation of Trinidad and Tobago introduced a dedicated tax to provide a mechanism for businesses to mitigate the environmental impacts of pollution and inappropriate development. Established by an Act of Parliament (Miscellaneous Taxes Act of 2000), Trinidad and Tobago's Green Fund levy imposes a 0.1 percent levy on gross sales or receipts of companies doing business in Trinidad and Tobago. The rationale for this was recognition that Trinidad and Tobago's economy depends heavily on natural resources wealth (tourism, fisheries, petroleum reserves). While the underlying ideas are innovative, the fund's execution has encountered some challenges (see Case Study).

CASE STUDY

TRINIDAD AND TOBAGO GREEN FUND LEVY

In 2000, Trinidad and Tobago took a significant policy step towards generating financing for conservation by establishing a Green Fund Levy, which is a mechanism to ensure that companies doing business in T&T contribute financially to the sustainable management of T&T's natural resources and environment. This levy was 0.1% tax on gross sales or receipts – on every dollar spent in the country. The Levy became effective on January 2001.

This initiative was spearheaded by the Ministry of Finance, and observers stated that the process of drafting this legislation and setting the policy was done in a rapid fashion, without proper socialization or consultation with other government agencies and the broader public.

This was originally designed to be the first dedicated tax in Trinidad to be placed in its own designated fund and kept separated from the central government budget. There was reportedly unease among the involved government agencies in trusting a mechanism that was independent of government control. This was changed in the 2001 budget debate to a government-controlled body – the Green Fee Agency, situated within the Ministry of Planning and Development.

Overall, there has been little public education about the levy and the fund. As of September 2018, the Green Fund had collected over USD880 (NZD 1,408) m from the Green Fund Levy and had only supported 23 projects totaling USD55 (NZD 88) m (Connelly, 2019). The majority of this funding (77 percent) has gone to projects operated by state-level government agencies.

In addition to the lack of public education and communications, the Green Fund Agency does not have dedicated management systems and budget, nor the human capacity required to administer a program of this size. They remain understaffed (8 of 24 positions filled), and have no dedicated website or external communications products (Connelly, 2019). There are no timelines associated with the application review process and most organizations that have submitted proposals have received no information regarding the status of their proposals.

4.2 INVESTMENT IN A SUSTAINABLE TUNA FISHERY

Eco-certification is where an independent agency verifies that a certain more sustainable practice has been followed in the production of a given good or service. In the case of environmental goods and services, projects that deliver ecosystem service benefits are often verified by a third-party organization to confirm that the project meets specific sustainability, social and environmental criteria. These types of eco-certification efforts in the marine sector have generally focused on sustainable fisheries and sustainable ecotourism. These certifications are often desirable to producers as they allow goods and services to be marketed to conscientious consumers and to sell at a premium price.

Sustainability certification in the seafood sector (wild caught and farmed) is a growing field, with organizations like the Marine Stewardship Council (MSC) setting out a science-based set of criteria that must be met to receive certification as a sustainable fishery. These types of certifications do not generate direct financing, but a certified fishery may enjoy increased revenues from premium prices paid for their product. Profit-pooling arrangements can be made to ensure that some portion of the excess revenues are reinvested into sustainable fisheries management.

To date, certified fisheries have in practice sometimes failed to command a price-premium, and certification benefits have oftentimes been unevenly distributed among supply-chain actors, with fishers being the most disadvantaged. The promised new funds to harvesters for employing more sustainable fishing practices have not always materialized. However, there are also major industrial fisheries that have recently achieved MSC certification, such as the PNA/Western & Central Pacific free school purse seine skipjack and yellowfin tuna fisheries. It is expected that the increased future supply of MSC certified tuna could lead to more demand for this premium sustainably caught tuna from European buyers in the canned and frozen tuna market.

While tourism is the most economically important industry to the Cook Islands, the fishing industry continues to be a significant source of income and employment (over 50% of Cook Island's exports come from fish and seafood products). The tuna industry is particularly important, with a majority of the world's commercially viable tuna populations located in the Pacific. The Cook Islands already has significant experience in developing and implementing sustainable fisheries management, with part of the longline albacore fishery achieving MSC certification in 2015 (fished by Chinese tuna fleet, although currently the longline albacore fishery is significantly smaller than the purse seine fishery. The expectation is that achieving this standard will enhance product differentiation, expand the market (currently only 29% of global tuna is within the MSC program) and generate more value from the albacore fishery.

Some countries have undertaken broad scale initiatives to ensure that fisheries achieve the highest standards of sustainability across a broad spectrum of environmental, social and economic criteria. One example of this is Iceland, which has invested massively in fisheries improvement measures with a goal of achieving best-in-class sustainable practices in cod and other commercial fisheries. This has included establishment of strictly enforced science-based catch limits, state-of-the-art catch data collection systems and full supply-chain traceability and transparency. These investments have significantly enhanced the profitability and economic contribution of several of the country's commercial fisheries.

4.2.1 NATURAL CURRENCY STANDARD IN THE COOK ISLANDS

In the Cook Islands, establishment of Marae Moana and fisheries learning exchanges have spurred further action to collaborate with partner organizations on the design of a Natural Currency Standard (NCS) for its tuna fishery.

In May 2019, the Cook Islands Government hosted the 'Co-Creating our Future Tuna Fisheries' meeting. The goal of NCS is to identify and develop opportunities to enhance the Cook Islands' tuna fishery from the perspective of environmental sustainability, social responsibility, cultural benefit and economic development.

> "...the Natural Currency Standard (NCS) framework will aim to integrate the highest industry standards of environmental, social, cultural and economic best practices for the tuna fishery."

Recognizing that there is increasing consumer demand for responsibly sourced products, the NCS framework will aim to integrate the highest industry standards of environmental, social, cultural and economic best practices for the tuna fishery. As part of these efforts, the initiative will seek to enhance local capacity to maximize the value of tuna products, including new niche tuna products. The NCS will also seek to develop and/or enhance robust monitoring and verification systems to ensure that the standards are upheld across all actors in the industry.

If the NCS is successful, the expectation is that the Cook Islands will capture more revenue from its 'Marae Moana-caught' tuna fishery, thereby generating potential increased revenues. At the NCS event in May 2019, a subset of stakeholders proposed a new revenue-sharing arrangement, whereby a percentage of the increased NCS revenues would be directly managed by a cross-section of Community leaders to specifically fund on-going cultural, social, environmental and educational initiatives in the Cooks Islands.

The principle behind this revenue-share model is a recognition that the benefits from an enhanced tuna fishery should be more widely distributed across all sectors of Cooks society. Currently, most of the tuna in the Cook Islands is caught by industrial distant water fishing nations who pay fishing access rights to the Cook Islands government. While many of those benefits currently flow back to local communities via government investments in health, education, infrastructure and other public works, a number of stakeholders have expressed support for a development of a new NCS revenue-sharing mechanism that more directly and transparently allocates fishing license revenues with the input of local leadership.

There are a growing number of initiatives in the Pacific Islands region that are focused on capturing greater value from sustainable fisheries, ensuring benefit-sharing arrangements and upholding cultural norms and practices.

CASE STUDY

THE NATURE CONSERVANCY'S PACIFIC ISLANDS TUNA PROVISIONS

Another potentially relevant example of enhancing fisheries sustainability stems from the Nature Conservancy's (TNC) work with various tuna-producing Pacific Island nations to make investments in improved oversight of fishing activities, optimizing fishing efforts through data enhancements and restructuring of supply chains to ensure greater socioeconomic benefits from commercial tuna fisheries.

TNC recently established Pacific Islands Tuna Provisions (PITP), a private company registered in the Republic of the Marshall Islands (The Nature Conservancy, n.d.).

The company is focused on vertical integration of tuna fisheries in Pacific Islands countries. This initiative will seek to partner with local government and communities to incorporeal sustainable fishing rules into contracts with commercial fishing vessels, and match up with retailers for long-term supply contracts focused on transparent custody chains and key sustainability performance indicators.

This effort to strengthen local supply chains and enhance sustainability measures should bring both ecological and socioeconomic benefits to the region. A key feature of the PITP will be to ensure that a portion of net income from tuna sales flows to support community-based conservation and traditional resource management practices.

4.2.2 POTENTIAL FOR MARAE MOANA FINANCING FROM EARMARKED FISHING LICENSES

Based on the possible implementation of NCS, there appears a potential opportunity to earmark funds for Marae Moana implementation and financing. Revenue-sharing discussions have considered opportunities from earmarking either a portion of total fishing revenues or, and perhaps more politically viable, earmarking a portion of any premium secured through the NCS.

This benefit-sharing approach is a potentially exciting medium-term revenue opportunity to support key elements (particularly cultural) of Marae Moana's implementation and should continue to be actively explored and developed. This revenue-sharing mechanism could utilize a conservation trust fund model, as discussed previously, to ensure appropriate governance, sufficient transparency, and to invest, disburse, manage and monitor funds appropriately. As some of these NCS benefit-sharing revenues would be aimed at island groups, a well-managed CTF could be particularly well-placed to work directly with these constituencies. Many CTFs globally work with small community groups and organizations and provide direct technical support to these groups on designing projects/proposals, managing funds, reporting on use of funds, etc.

In the 2019/2020 budget, the Cooks Island Government report an estimated NZD 14.7 million in revenue from fishing access fees. This could increase over time if tuna fisheries become more productive in the Cook Islands as a result of climate change.
A recent analysis on tuna migration patterns under climate change predicts Western Pacific yellowfin and skipjack tuna stocks to shift eastwards in the coming years (Pacific Community, 2019b). The value is expected to increase Cook Island fishing license revenue by approximately USD 2.1 million or some NZD 3.7 million between now and 2050 under current exchange rates.

4.2.3 EARMARKING % OF TOTAL REVENUES

Under any potential revenue sharing agreement under NCS initiative, a range of revenue amounts could be secured for Marae Moana financing depending on the design of the shared commitment.

If the Cook Island Government were to earmark a certain percentage of total fishing revenues for Marae Moana financing (and not simply any premiums achieved), the following values could be secured.

Three possible earmarking scenarios are included for reference. These three percentages represent a low to high range. The highest share of 50% is based on stakeholder discussions as presented within the NCS report (Obregon, 2019). Two lower earmark values are included as these are more in line with political will and/or feasibility in channeling revenue away from other mandates.

Year	Reported Income (M)	% earmarked		
		10%	20%	50%
2019/2020 (Cook Islands Budget Book 1 2019-2020)	14.7	1.47	2.94	7.35
2050 (SPC Policy Brief #32)	18.4	1.84	3.68	9.20

Figure 16: Potential Income from earmarking fishing licenses.

4.2.4 EARMARKING % OF PREMIUMS ONLY

The second scenario explores revenues gained under a revenue sharing initiative on only those premiums obtained under the NCS.
It is as yet unclear as to what potential premiums could be achieved under the NCS and as such two scenarios are visited. These include a high scenario of a 20% premium added to current pricing and a low scenario of 5%. Final numbers will depend on actual premiums received. Here we present the medium and high cost share scenario for both premium values. A lower percentage share of any premium is considered not politically viable and as such is not presented.

Year	Reported Income (M)	LOW (5%)		HIGH (20%)	
		% earmarked		% earmarked	
		20%	50%	20%	50%
2019/2020 (Cook Islands Budget Book 1 2019-2020)	**14.7**	**0.15**	**0.37**	**0.59**	**1.47**
2050 (SPC Policy Brief #32)	**18.4**	**0.18**	**0.46**	**0.74**	**1.84**

Figure 17: Potential income from earmarking % of fishing license premiums under a low and high premiums scenario of 5% and 20% respectively.

Despite broad stakeholder and political support for the NCS initiative, there remain key barriers to success, including:

- An inability to secure market-demand for NCS tuna through new and/or improved supply-chain relationships;
- Short-term pressure (i.e. downward pricing, etc.) exerted by current tuna supply-chain actors to maintain status quo;
- An inability to secure sufficient funds from fishing licenses and other sources to support implementation/monitoring costs of a 'best-in-class' tuna standard;
- An inability to maintain the economic viability of the Cook Islands tuna fishery under the NCS due to higher operational costs;
- Illegal, Unreported, and Unregulated (IUU) fishing in the Cook Islands that could undermine the credibility/reputation of the Cook Islands NCS Standard;
- An inability to make necessary structural reforms to Cooks fisheries;
- An inability to obtain sufficient political support for the NCS initiative and/or revenue-sharing concept.

4.3 OFFSETS AND ENVIRONMENTAL COMPENSATION

Biodiversity offsets and environmental compensation schemes are a regulatory instrument for assigning financial liability for environmental damage to developers and have significant potential to generate revenue for marine conservation (Bos et al., 2014; Walsh, 2017). Increasingly, governments are developing regulatory frameworks to require the mitigation of impacts on biodiversity and ecosystem services.

Although biodiversity offsets are well-established in terrestrial settings, there are fewer examples in the marine context, and the concept is generally unproven in an open ocean or blue water context.

Generally, a biodiversity offset (sometimes also called compensatory actions; technically an offset is a rigorous type of compensatory action) is a mechanism whereby a company is required to compensate for the impacts of their operations on biodiversity, or other environment services, through support for protection in another area. A properly designed biodiversity offset system will follow the mitigation hierarchy, where a company's impacts are first avoided, then minimized, then restored where possible; the resulting impacts that cannot be avoided, minimized, or restored then constitute the minimum target area, and the biodiversity values, that should be offset. When the proper regulatory system and rigorous enforcement is in place, biodiversity offsets aim to result in no net loss of biodiversity. In some contexts, a company may aspire to have net positive impact from their business operations, meaning that the company's impact, after accounting for the steps in the mitigation hierarchy and the necessary offsets, can be seen as having an overall positive impact on biodiversity (Iyer et al., 2018).

Figure 18: Mitigation hierarchy schematic showing progressive steps taken before an offset or net positive impact effort would be appropriate.

Offsets can be quite relevant and appropriate in coastal and coral reef contexts, although analysis of their efficacy is less available than for terrestrial and freshwater ecosystems. Development along coastlines for tourism, ports and other facilities can directly impact coastal and reef ecosystems, or may indirectly generate additional sedimentation or nutrient loads that will negatively impact ecosystems downstream. In open water ecosystems, however, exploration of the potential for offsets for development such as seabed mining, is just beginning. Offsets in this context face a number of significant, and potentially insurmountable, challenges, including the difficulty in monitoring both positive and negative impacts on deep water systems, the additional costs and equipment needed for access, and the ability of development impacts to affect the ecosystems that are intended to be protected.

Should the Cook Islands choose to continue to pursue seabed mineral extraction plans, it will be particularly important to assess if these types of offset and compensation policies could apply to any future development.

Revenue from biodiversity offsets is generally required by regulation, but can flow to government for use in protected areas, or, as designated in the appropriate laws and regulations, can flow through an independent entity such as a conservation trust fund that is approved and authorized by government to collect and spend offset resources on appropriate projects.

An important consideration in the design of any offset system is sustainable financing to cover the ongoing costs of management for a protected area or other offset project area. Companies frequently prefer to pay the lower annual costs of protected area or conservation management instead of a larger sum that might be necessary to capitalize an endowment or other sustainable financing mechanism to support those areas over the long term. However, allowing companies to pay annual costs introduces the risk of future non-payment, requires robust enforcement systems to ensure that the necessary revenue is being collected, and generally increases the risk that the goal of no net loss of biodiversity will not be achieved.

> During the workshop, some stakeholders suggested that a fee on development could be an appropriate tool to both manage development and raise revenue for Marae Moana.

Occasionally, companies, especially those that are consumer-facing or seeking to enhance their social license to operate, will arrange for a kind of informal offset or compensatory action of their biodiversity or land impacts. Although these can be well-designed and resourced, they are currently rare and are developed on an opportunistic basis. During the workshop, some stakeholders suggested that a fee on development could be an appropriate tool to both manage development and raise revenue for Marae Moana. In effect this could function much like an offset/compensation system, where a developer of a new hotel, port, office building, or other structure might need to contribute an appropriate amount of funding to support enhanced protection of an area of similar biodiversity and ecosystem service value elsewhere. These systems do not need to be as complex as the GBRMP example cited above: in Brazil, developers pay a simple fee of between 0.5% and 2% of the total cost of the project. This has raised significant revenue, but many of these funds have sat unused without a pipeline of appropriate projects. In other cases, compensation fee revenues have been applied simply to the protected area nearest to the development, without a strategic assessment of whether that area would protect similar values, is facing imminent threats, or has a financial need that would be addressed by additional investment.

CASE STUDY

BIODIVERSITY OFFSETS IN THE GREAT BARRIER REEF MARINE PARK

The Great Barrier Reef Marine Park illustrates innovative use of biodiversity offsets to manage and mitigate the impacts of coastal development. A recently developed system allows for the calculation of marine and reef ecosystem impacts in dollar terms, to allow for both manager and potential developers to have a better understanding of the impacts and costs of development. Impacts from direct development of sensitive ecosystems, including mangroves, salt marshes, seagrass beds, and shallow reef systems, is of course included, but so are impacts from suspended fine sediments that be generated by development, and dissolved inorganic nitrogen (DIN) which is added to crops and landscapes as fertilizer but can then wash into coastal ecosystems.

The system allows for the restoration costs of various kinds of impacts to be calculated, ranging from a hectare of shallow reef system to a kilogram of DIN, and accounts for variation impacts and costs in different regions. Factors are also built into account for the variability in success of restoration efforts in different contexts, variation in potential costs, and the time delay between when impacts are generated, and offsets benefits can be realized. The resulting calculations estimates range from a cost of more than AUD 8.7 (NZD 9.04) million to restore a hectare of shallow reef to as little as AUD 164 (NZD 262.4) to offset the impacts from 1 tonne of fine sediments in a specific region (50 reefs and Melissa Bos paper). As of 2014, AUD 185 (NZD 296) million had been collected for offsets on behalf of the park, but little or nothing had been spent on projects as scientific, political, and administrative arrangements are sorted out.

Such a system gives developers information to input into calculations for how much their project could be expected to cost, while also guiding policymakers and enforcement agencies in the different magnitude of impacts and the appropriate cost recovery for restoration. But it also illustrates the complexity and difficulty in designing a rigorous offset system that has any significant chance of resulting in no net loss of biodiversity.

Surrogate	NRM Region	Unit	Restoration cost per unit (2016 AUD)	Success rate multiplier	Cost data confidence multiplier	Surrogate condition multiplier	Time delay factor	Risk-adjusted cost (2016 AUD)
Suspended Fine sediment	Cape York	tonnes	$297	1	1	1	1.55	$460
	Wet Tropics	tonnes	$375	1	1	1	1.55	$581
	Burdekin	tonnes	$106	1	1	1	1.55	$164
	Mackay- Whitsundays	tonnes	$987	1	1	1	1.55	$1,530
	Fitzroy	tonnes	$513	1	1	1	1.55	$795
	Burnett- Mary	tonnes	$1,343	1	1	1	1.55	$2,082
DIN	Cape York	kg	$150	1	1	1	1.55	$233
	Wet Tropics	kg	$142	1	1	1	1.55	$220
	Burdekin	kg	$124	1	1	1	1.55	$192
	Mackay- Whitsundays	kg	$157	1	1	1	1.55	$243
	Fitzroy	kg	$150	1	1	1	1.55	$233
	Burnett- Mary	kg	$150	1	1	1	1.55	$233
Mangrove	All Regions	ha	$58,546	1.9	2	1	1	$222,475
Seagrass	All Regions	ha	$160,373	2.6	2	1	1	$833,940
Shallow Reef	All Regions	ha	$2,742,928	1.6	2	1	1	$8,777,370
Saltmarsh	All Regions	ha	$100,818	1.6	2	1	1	$322,618

Figure 19: Table of offset/restoration costs for Great Barrier Reef National Park (Walsh 2016 in 50 Reefs)

4.4 EXTERNAL DONORS AND PHILANTHROPIC FUNDING

As part of the analysis, the CI team considered potential funding sources identified in the National Biodiversity Strategy and Action Plan Ecosystem Evaluation Report, as well as sources compiled from CI's experience and research on funders working in the region or on marine conservation. The team also consulted with internal CI experts on both public and private sources of marine conservation philanthropy. The analysis included both external government cooperation such as official development assistance, voluntary/philanthropic contributions and non-profit organizations.

The analysis has been tailored to the context of the Cook Islands to identify and assess potential funding sources against a set of criteria (e.g. magnitude, transaction cost, timing, etc.) in order to determine which potential funders are most likely to be aligned with the goals of Marae Moana.
It is important to note here that CI cannot guarantee that any of the funding sources shown below will be amenable to providing support to Marae Moana— indeed, successful relationships with such donors can take years of outreach and cultivation, while philanthropic strategies and directions can change quickly. Moreover, recent trends in marine conservation philanthropy have shown decreasing interest in protected areas, increasing interest in climate mitigation and adaptation issues, and increased interest in fisheries management as a key channel for achieving conservation outcomes. This, along with the Cooks Islands' recent OECD graduation to high income country status may put Marae Moana at a disadvantage when competing with lower-income countries for scarce philanthropic dollars. However, there may be a number of strategies that could continue the innovative "brand" of Marae Moana in a way that could appeal to donors, as discussed later in the report. CI has ongoing relationships with many of the donors listed here and may be able to facilitate connections between Marae Moana stakeholders and the philanthropic community.

A summary of potential external funding sources assessment of options is presented in the below.

PRIVATE	Total Amount Awarded (US$ Millions)				"Conservation Grants (US$ Millions)"		Funding Modality	Likelihood	Have Supported/Demonstrated interest										
	Environment	Oceans	MPAs	Year	Amount Awarded	Year			Pacific Islands	Cook Islands	Biodi-versity	PAs	Green Energy	"Sustainable Fisheries/ Markets"	Illegal Fishing	Agri-culture	Tourism	Climate Change	Commu-nities
Prince Albert of Monaco Foundation			0.9					High	Y		Y	Y	Y	Y	Y		Y	Y	Y
Walton Family Foundation	90.9	39.9		2018	3	2018	Grants	High	Y		Y	Y		Y					Y
Gordon & Betty Moore Foundation	149.8			2018	0.75	2018	Grants	High	Y					Y					
Pew Charitable Trust								Medium	Y		Y	Y		Y	Y				Y
Fondation Bertarelli								Medium	Y		Y	Y							Y
Turing Foundation	0.50			2018	0.07	2018		Medium	Y		Y			Y					Y
Arcadia Fund	14.6	11		2018	10.5	2018	Grants	Medium			Y			Y	Y			Y	
The Postcode Foundation							Grants	Medium			Y			Y				Y	Y
Waterloo Foundation	3			2018	0.07	2018	Grants	Medium				Y		Y					Y
Oak Foundation	44.4	12.30		2018	0.78	2018	Grants	Medium						Y				Y	Y
Nippon Foundation		16.50		2016			Projects, Grants	Medium	Y										
Zennström Philanthropies							Programs	Medium			Y							Y	
PUBLIC					**"Contribution to Cook Islands (US$ Millions)"**	**Year**	**Funding Modality**	**Likelihood**	**Pacific Islands**	**Cook Islands**	**Biodi-versity**	**PAs**	**Green Energy**	**"Sustainable Fisheries/ Markets"**	**Illegal Fishing**	**Agri-culture**	**Tourism**	**Climate Change**	**Commu-nities**
Australia					3.3	2018	Aid program	High	Y	Y								Y	
New Zealand					21	2019	Loans, grants, technical cooperation	High	Y	Y			Y	Y		Y	Y		Y
Japan					0.3	2016		High	Y	Y			Y	Y			Y	Y	Y
EU Institutions					3.73	2008-13	Loans, tech assist, grants, guarantees and equity investment	High	Y	Y	Y		Y						Y
ADB					27	2018		High	Y	Y			Y			Y	Y	Y	Y
GEF					131.93	2004-18	Grants	High	Y	Y	Y		Y			Y		Y	
GCF								High	Y	Y	Y		Y			Y	Y	Y	
China								Low	Y	Y									

Figure 20: Marae Moana external funding sources assessment. Amounts, dates, and funding modality are according to information and data publicly available.

Nearly all of the sustainable financing options discussed in this report could benefit from or be catalyzed by support from external donors. An endowment for a conservation trust fund could be capitalized, an investment in sustainable tuna could be underwritten, or additional analysis on tourism taxes or compensation funds could be resourced with external support. This additional financing may not be absolutely necessary due to the secure financial position of the Government of the Cook Islands, but philanthropic relationships may be worth pursuing to accelerate a transition to any of the tools discussed here that prove to be suitable for Marae Moana.

4.5 MULTI-DONOR FINANCE DEALS

Multi-donor finance deals are a relatively new approach to long-term financing for conservation. These multi-party transactions involve a set of public/private sector donors, government(s) and NGOs, all agreeing to shared conservation goals for a particular country or region. Once the terms are agreed and mutual conditions are satisfied, a 'single close' occurs, where all donors mutually commit their funds to support a multi-year conservation effort. These efforts have usually been based around assisting a country to finance and operate its system of protected areas during a period of transition, while the government gradually increases its allocations to protected area management up to the necessary level for effective management. The recipient of the funding is usually a CTF, which operates independently of the government and programs these funds in a manner that ensures the government(s) uphold their commitments. This type of approach has been used in countries such as Costa Rica, Bhutan and Peru.

One potential source of up-front capital for Marae Moana would be a multi-donor package of funding aimed at supporting the Marae Moana vision and goals for a sustainable Cook Islands economy. Donors could collectively agree with the Cook Islands on a structured 'single-close' deal, where all donors provide their funding commitments up-front, with a secured commitment in place by the Cook Islands to follow long-term conservation and sustainable development plans. A financing package could align with the Cook Islands' aspirations to establish a sustainable economy, based on responsible stewardship of its natural resources. With Marae Moana as the framework and building off of the current NCS work, Cook Islands could aim to further develop the economy based on world-class sustainable tourism and fisheries, while protecting core biodiversity and natural assets in the ocean, reefs and islands.

By achieving 'world class' verifiable sustainability milestones in these industries, the Cook Islands could market itself as a global model for a sustainable economy. External investment could potentially be secured to finance key investments in marine spatial planning, the sustainable tourism and sustainable fisheries (achieving environmental, social and cultural standards in these sectors). This pool of capital could be drawn down over some time-period (e.g. 10-15 years), during which the Cook Islands could both invest more in the steps to achieve sustainability in these sectors while also generating more income from higher value tourists and fisheries. This increase in government revenues, and budget allocations, over time could eventually substitute the revenue from the transition draw-down funds.

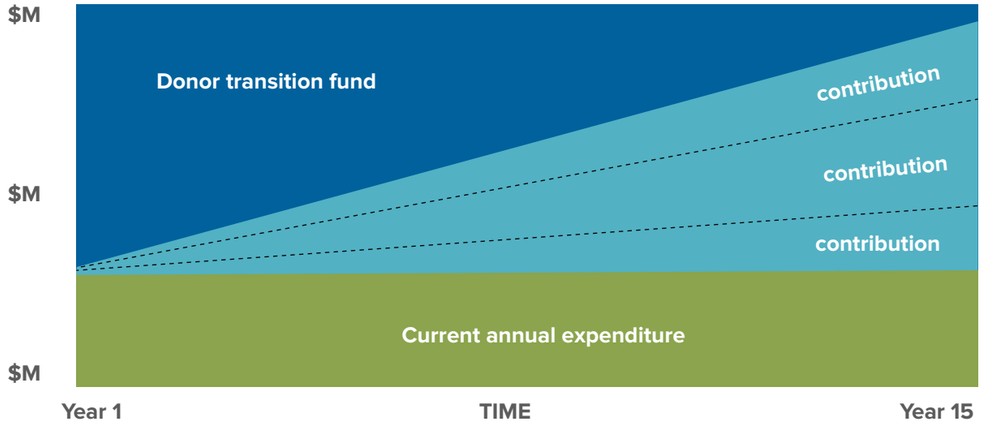


Figure 21: Indicative flow of funds over time in a multi-donor finance arrangement, showing philanthropic contribution to a sinking fund that is drawn down over time (dark blue), government allocations (green), and increasing government allocations over time raised from new sources of revenue (light blue). (Source: Blue Skye, 2019. Presentation).

This 'expanded NCS' multi-donor deal concept would require an extensive feasibility phase, requiring in-depth sectoral economic analyses, and building political will towards this type of vision. Feasibility work would also need to assess the appetite of external donors to commit the resources required to support the Cook Islands in this long-term investment in sustainability.

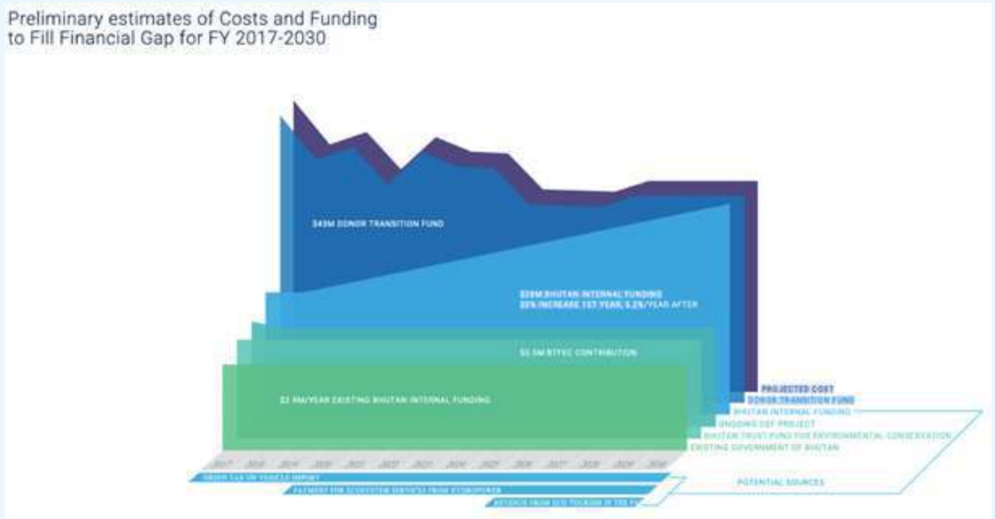
CASE STUDY
BHUTAN FOR LIFE

Bhutan is a small country that has made big commitments to conservation and to the wellbeing of its people and their cultural heritage. The country has the highest percentage of forest cover in Asia—over 70%, with a constitutionally mandated minimum of 60%–with over 2 million hectares of protected areas in one of the most biodiverse regions in the world. Indeed, Bhutan is now known throughout the world as one of the very few carbon negative countries, whose ecosystems absorb far more carbon than is emitted by economic activity.

But Bhutan has also had significant challenges in recent years: an undiversified economy and high youth unemployment have been a recurring concern and increasing human-wildlife conflict, including a rise in poaching and wildlife trade, have been exacerbated by a lack of enforcement capacity. Like the Cook Islands, Bhutan was recently graduated to a higher income status making it less eligible for foreign aid. In this context, Bhutan sought ways to balance economic development with protection of the ecosystems that are fundamental to their way of life. Bhutan For Life was an innovative financing initiative that brought together multiple stakeholders to chart a sustainable path for the country's next two decades. The initiative was an example of a multi-donor financing deal, sometimes also called a Project Financing for Permanence (PFP).

In this model: stakeholders identify the exact resources necessary to achieve a defined conservation strategy and vision; donors, government and other stakeholders commit to defined contribution amounts and timelines to make that vision a reality, and; the initiative is launched and the donor funds released if and only if all the necessary commitments come together in time for a 'single close' transaction.

In the Bhutan for Life deal, a group of public and private donors committed US$43.5 million funding to a sinking fund that would be spent down over 14 years in order to support funding for protected areas, biodiversity corridors and other investments in sustainability. Donors ranged from public donors



like the Green Climate Fund and Global Environment Facility to a $5 million contribution from a wealthy Thai family. The government, in turn, committed to increasing funding levels over that 14-year period so that, once the sinking fund resources were exhausted, Bhutan would be able to continue the same level of management and investment into the future.

To meet this commitment, the Royal Government of Bhutan would increase funding to protected areas by 5-7% per year until the 14-year period was over. After that, Bhutan would be responsible for covering all protected area costs on its own. A conservation plan and financial plan are at the heart of the deal, providing donors a clear roadmap for how their funds will be spent and how and when objectives will be achieved. The conservation plan includes clear targets and metrics, such as requiring by Year 6 that populations of tigers and snow leopards have increased or are stable and by Year 9 all households within protected areas will have increased access to nature-based employment. Potential funding sources that have been identified include new taxes on vehicle imports, hydropower generation (a major resource and export in Bhutan), and revenue from increased eco-tourism in the protected areas.

Resources committed through the deal will be allocated to a variety of activities, including: strengthening enforcement and management of protected areas, diversifying and investing in eco-tourism throughout the country so that impacts are spread more widely, protecting and monitoring wildlife and biodiversity, and supporting communities in and around protected areas through job creation and income generation initiatives.

The Bhutan for Life initiative fits neatly in the context of Bhutan's Gross National Happiness policy, which requires government to measure success through promotion of good governance, sustainable socio-economic development, preservation of culture, and environmental conservation. Bhutan's long-standing commitment to and track record on these issues helped make it that much easier to persuade donors that the country would make good on its commitments.

The former prime minister of the country Tshering Tobgay, has put it this way: "The returns are phenomenal," he says. "And you cannot calculate them. How do you put a price on a tiger population that is growing? Or the protection of butterflies that are endemic to Bhutan? Or forests that have within them secrets that could be the key to future medicine? That is the return. And it is not just a return for Bhutan but for the world."

It is worth noting that the full measure of the impacts of the Bhutan for Life initiative will not be known for many years. It is possible that a future change in direction in government or other economic realities could intervene to derail these commitments. Still, Bhutan for Life represents a model for a bold and innovative commitment to sustainability that is supported by convening both local and global stakeholders around concrete plans, targets, and measures of how to achieve those goals. Bhutan for Life also further enhances the country's brand, identity, and position in the world as a leading sustainable destination.(Bhutan for Life, n.d.; Wright, 2019)

4.6 OTHER OPTIONS

The mechanisms described below are other options for sustainable financing that generally require either very specific conditions to be in place or are at an experimental developmental stage without a substantial track record of success. Nevertheless, they may be worth exploring in the future if conditions in the Cook Islands become amenable or if stakeholders are willing to invest time and effort in the development of one of the more experimental options.

4.6.1 DEBT-FOR-NATURE SWAPS

Debt-for-nature swaps are multiple party transactions in which the sovereign debt of a country is forgiven or partially forgiven by its creditors. In exchange for the debt reduction, the debtor country agrees to invest local currency (typically equal to the face value of the debt) into in-country conservation programs. Such debt swap deals have been conducted in over 20 countries, and recently, the first ocean-focused debt swap was conducted in Seychelles. In the Seychelles swap, NGOs worked with the Seychelles Government to help the country negotiate a debt restructure with its Paris Club creditors. With the newly available funding from the debt restructure, Seychelles will fund its marine spatial planning process, which aims to put a third of its marine Exclusive Economic Zone (EEZ) under protection.

> "While blue carbon projects seem to hold the most promise for large-scale marine PES programs, because the Cook Islands have no native mangrove options this is not a feasible option."

Debt deals for ocean conservation are a growing field, and conservation organizations are actively pursuing opportunities to work with debtor and creditor countries to strike debt restructuring deals that redirect loan repayments toward domestic conservation initiatives. However, our consultations with Cook Islands stakeholders have made it apparent that the Cooks Islands is not a good candidate for a debt-for-conservation deal as the country has a relatively small and manageable overall debt burden, and its current portfolio of loans stem from two creditors, Asian Development Bank and Export-Import Bank of China. Both institutions already offer concessional loans and neither institution has participated in a debt swap agreement before.

4.6.2 PAYMENTS FOR ENVIRONMENTAL SERVICES

Payment for ecosystem services (PES) is a market-based conservation tool that aims to reward stakeholders and custodians for protection of ecosystem services (ES) their land/water provides (Wunder & others, 2005). PES can provide a financial incentive for conservation; custodians are contractually obligated to undertake land use and marine use practices that will ensure continued supply of ecosystem services. The beneficiary of the ecosystem service pays the service provider while receiving the financial/economic benefits associated with an environmental service. An example in the terrestrial world can be found in Ecuador, where the government provides financial and other benefits to private landowners and indigenous communities for the protection of their forests and the many ecosystem services they provide (and which serve as the foundation for the tourism industry in the county).

PES schemes can be challenging as they usually involve property and resource use rights. These dynamics can be particularly challenging when applied to coastal/marine ecosystems, which often have a lack of clarity on tenure arrangements and resource use rights.
Nearly all active PES programs are focused on terrestrial environments, and the majority of these schemes are organized as forest carbon (REDD) projects, where voluntary markets have developed that allow polluters to offset their greenhouse gas emissions by purchasing carbon credits generated by projects that prevent and/or decrease deforestation.

The most promising developments in this space appear to be the development of ‘blue carbon’ projects that focus on monetizing the carbon that is stored in coastal and marine ecosystems. As global demand for carbon dioxide emissions grows, there will be increased market demand for blue carbon projects that focus on protecting, managing and restoring carbon-rich marine/coastal ecosystems such as mangroves.

Such projects can generate creditable carbon dioxide emissions reductions, which can then be sold to carbon dioxide emitters that wish to offset their emissions. There has been extensive work already on examining the broad spectrum of ecosystem services provided by terrestrial, coastal and marine habitats in the Cook Islands (Conner & Madden, n.d.). There has also been an economic valuation of these ecosystem services and this work provides a good analytical framework for future use of market-based mechanisms.

As noted previously in this report, the number of PES projects in the marine/coastal environment are somewhat scarce and tend not to scale-up. While blue carbon projects seem to hold the most promise for large-scale marine PES programs, because the Cook Islands have no native mangrove options this is not a feasible option. Through our consultations and the Rarotonga workshop, there were no obvious PES opportunities explored or discussed, and as such we have listed this as a lower priority option.

4.6.3 NATURE BONDS

Nature bonds are financial instruments issued by corporations, government agencies, or organizations to borrow money from investors for projects that conserve and sustainably use nature. Bonds can be issued by governments (sovereign bonds), by private corporations, or by any entity able to make a compelling case to potential lenders. The proceeds of the bond are then invested in projects that align with criteria set by the bond issuer. In the case of environmental bonds (often called “green” or “blue” bonds), the investments are targeted to generate measurable environmental benefits alongside financial returns. A critical design feature of nature bonds is that the cash raised by bonds needs to be invested in environmental projects that generate not only environmental benefits, but also must generate sufficient revenue (or cost savings) to pay back the principal and interest.

One very recent example is the Seychelles Blue Bond, issued in 2018. The 10-year bond was sold directly to three social impact investors based in the United States: Calvert Impact Capital, Nuveen, and Prudential. The bond issuance raised $15m in capital, which is now being invested in expansion of marine

protected area coverage through a marine spatial planning process and fisheries improvement programs. Through these investments in sustainable marine resource management, it is expected that Seychelles will successfully rebuild key fish stocks. As fisheries recover and the sector generates more revenue, the Government of Seychelles will pay back the principal and interest to the original investors.

As Marae Moana is a long-term initiative that will be governed by a marine spatial plan, the Cook Islands could consider the issuance of a 'blue bond' to generate up-front capital that could then be invested in strengthening key components of the Cook' 'blue economy.' For example, if there was an identified need for the Cook Islands to make substantial investments in the sustainability of its fisheries (e.g., developing climate-proof fisheries, increasing capacity to monitor, enforce and trace fish catch,) or investments aimed at improving ocean health (e.g., improvements in solid waste management systems in the Cooks), there could be an opportunity to raise up-front private capital through the issuance of a blue bond. This is an innovative finance instrument that may be attractive to the Cook Islands, particularly as its graduation in income status may limit access to grants and donor aid.

Given the innovative and multi-stakeholder nature of blue bonds, there are significant up-front costs. Additionally a bond would require institutional infrastructure to manage the cashflows. In the Seychelles example, part of the proceeds (USD 3 million or NZD 4.8 million) go to a recently established trust fund which will issue project grants to support management and conservation of marine areas, and a portion (USD 12 million or NZD 19.2 million) is managed by the Development Bank of Seychelles, which issues loans to projects focused on improved marine resource management projects.

4.6.4 IMPACT INVESTING

Impact investments are investments made into companies, organizations, and funds with the intention of generating social and environmental impact alongside a (below market rate) financial return. There has been a substantial increase in impact investment in the environmental sector, and continued growth is expected in this field, with increasing amounts of private foundations and finance institutions seeking opportunities in the space. While impact investors are typically private sector actors, the creation of impact investing opportunities often involves collaboration among the public, private and nonprofit sectors to create adequate markets and create viable investment projects.

Impact investing deals that support marine conservation are still largely in conceptual stages. Currently there is one pioneering example of using private investment capital to strengthen marine conservation in the Dominican Republic. A newly established marine conservation area was designated and raised private capital from investors to finance up-front costs cost of USD 3 (NZD 4.8) million required to achieve sustainable reef management and develop visitor attractions as well as support operating costs (see case study below).

Impact investing deals are challenging to structure and negotiate; depending on the investor, there is much effort needed to analyze and quantify the expected positive environmental and financial return that would be attributable to the investment capital. Additionally, there would need to be established companies and organization capacity to ensure the profitability of the invested project.

Since impact investing in conservation is still an emerging field, these projects are generally innovative in nature, and therefore seen as higher risk since there are few comparable business models with a proven track record.

CASE STUDY

INNOVATIVE PARTNERSHIP FOR MANAGEMENT AND FINANCING OF THE ARRECIFES DEL SURESTE MARINE SANCTUARY, DOMINICAN REPUBLIC

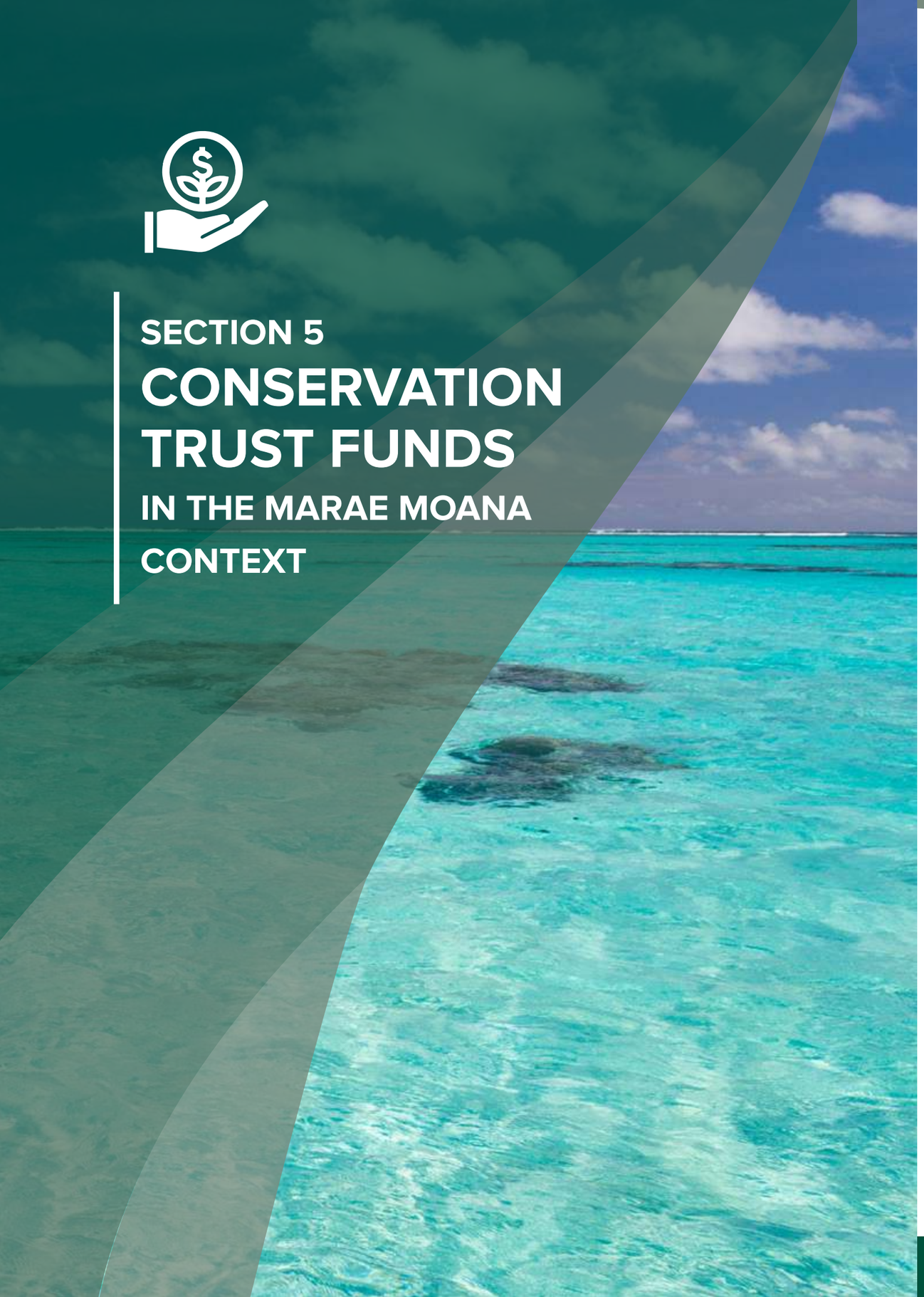
In February 2018, the Dominican Republic became the first Caribbean country to sign a Public-Private Partnership (PPP) agreement for management of a protected area, with the purpose of ensuring the efficient management and sustainable financing of the Arrecifes del Sureste Marine Sanctuary (Blue Finance, 2018; Ministro de Medio Ambiente y Recursos Naturales, 2018).

Arrecifes del Sureste, the second largest Protected Area of the Dominican Republic (DR), comprising 7,862 square kilometers and covering almost 100 km of coastal land from the Canal de la Mona to the Huguamo river, includes healthy coral reef ecosystems and surrounds several major urban centers and two of the country's primary tourism sites. This area receives more than 4 million visitors annually (Blue Finance, 2018).

The partnership was initiated by Blue Finance and led by the DR Ministry of the Environment and Natural Resources—and draws on return-seeking impact investments from the Althelia Sustainable Ocean Fund (Blue Finance, 2018; Ministro de Medio Ambiente y Recursos Naturales, 2018). The project brings together public and private sector actors to contribute to sustainable development goals and generate positive social, economic, and environmental impacts, including the protection of coral reef ecosystems and restoration of the country's marine biodiversity, improvement of 20,000 local household livelihoods through sustainable fisheries, increased business and employment opportunities in ecotourism, and strengthening resilience against the impacts of climate change through shoreline protection (Athelia, n.d.; Centre de Recherches Insulaires et Observatoire de l'Environnement, n.d.; Ministro de Medio Ambiente y Recursos Naturales, 2018).

The Sanctuary will be under the direction of a non-profit company that serves as co-management body, with a board comprised of two local conservation NGOs, two local tourism foundations and other associations (Blue Finance, 2018; Ministro de Medio Ambiente y Recursos Naturales, 2018). The company will receive its initial capital expenditures from international impact investors, such as the Sustainable Ocean Fund, a global fund managed by Althelia, dedicated to investing in marine and coastal enterprises with conservation and social impact. Ultimately, the company will generate its own resources from user fees and other innovative tourism models that will be used to pay back impact investors and maintain operations (Blue Finance, 2018).

Blue finance will assist in the implementation of the financial arrangements and establishment of a project management office within the co-management company, to ensure that the highest standards in MPA practice, tourism product development, community engagement and general management are met (Blue Finance, 2018).



SECTION 5

CONSERVATION TRUST FUNDS IN THE MARAE MOANA CONTEXT

5 CONSERVATION TRUST FUNDS IN THE MARAE MOANA CONTEXT

Many of the sustainable financing options discussed above could benefit from integration with a Conservation Trust Fund (CTF). CTFs are private, legally independent institutions that catalyze funding and resources for biodiversity conservation. They are broadly applied as conservation finance strategy in many countries, with over 80 in existence globally, and are often utilized to support the long-term management of protected area systems (Iyer et al., 2018).

CTFs are not primarily a financing source in and of themselves; they depend mainly on conservation revenues generated by other sources (e.g., external donor philanthropy, revenues from protected area user fees, etc.). However, most but not all CTFs house an endowment fund, which is meant to be managed as a permanent pool of capital that is invested in stocks, bonds and other financial instruments. The returns from these investments are then used to pay for conservation activities, as well at the CTF's own administration costs; in this way, CTFs are both a mechanism to channel funds and, once their capital is invested, a source of recurrent financing.

Many CTFs started with modest amounts of seed capital from public and private donors and grew over time to build their capital base and programs through a combination of developing additional business lines and strategic investment management. Notably, the Mexican Fund for the Conservation of Nature (Fondo Mexicano), the Madagascar Biodiversity Fund, and, most recently, the Mozambican Biofund, have all started with small initial investments and grown their capital base into the tens of millions or, in the case of Fondo Mexicano, in excess of USD 150 (NZD 240) million. These organizations have become conservation finance leaders in their respective countries and are the source of many finance innovations to creatively resource conservation programs and engage with the private sector.

CTFs are generally designed to manage different types of funding streams:

Endowment Funds:

- Capital is committed in a lump sum and/or periodically
- Capital is invested in perpetuity, managed for preservation of "purchasing power" (keeps up with inflation)
- Only investment income is spent on a periodic basis, with some exceptions
- Well-suited for long term financing of recurrent costs

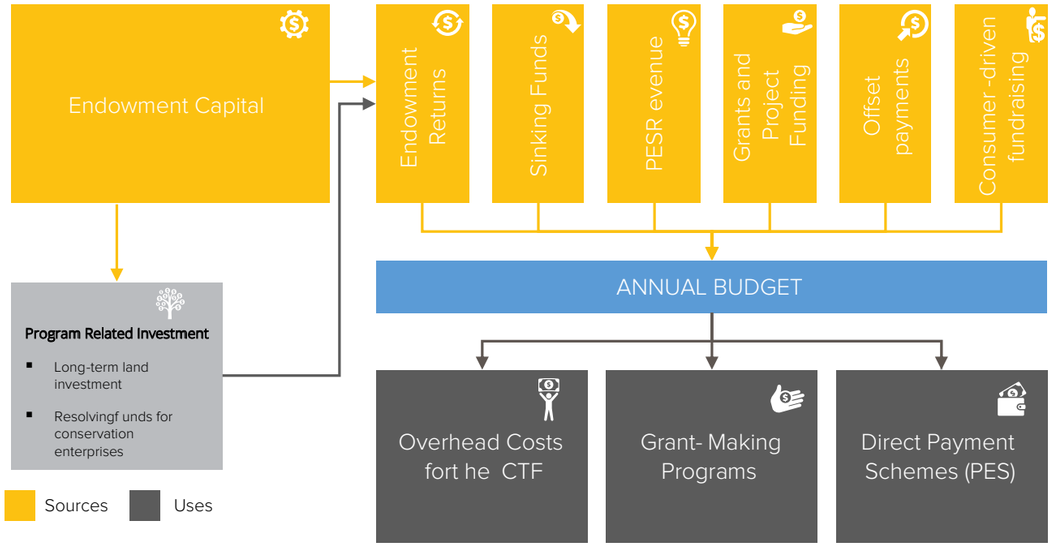
Sinking Funds:

- Capital is committed in a lump sum and/or periodically and often tied to a multi-year project
- Capital is invested more conservatively to preserve capital
- Capital and investment income are spent on a periodic basis until depleted
- Well-suited for long term financing of recurrent and non-recurrent costs for a defined timeframe, non-recurrent costs, and project-specific activities

Revolving Funds:

- Capital replenishment is provided regularly from a revenue source such as a tax
- Capital may be invested more conservatively to preserve capital
- Capital typically spent with the expectation of regular replenishment

As shown in Figure 22 below, CTFs can accept and deploy diverse revenue streams to a variety of programs and can adapt to changing needs and opportunities as they arise.



Source: WCS Markets Team

Figure 22: An idealized depiction of a typical conservation trust fund with revenue sources managed in multiple accounts and distributed to multiple projects.

5.1 A MARAE MOANA CTF

Given the long-term view and goals of Marae Moana, as well as the high potential for financial flows to support Marae Moana's implementation, the Cook Islands may want to establish a dedicated Marae Moana Conservation Trust Fund. This concept gained traction with some of the stakeholders in the July workshop: some noted that this type of mechanism could enhance transparency and access to additional funding opportunities (e.g., external donors) to support Marae Moana.

Some noted that the previous experience of having the Cook Islands departure tax under centralized government management strengthens the case for establishing an independent vehicle. Many of the stakeholders felt there was a window of opportunity to reboot the 'green fee' departure tax system that previously existed in the Cook Islands (see discussion of EPF above), which would generate an important source of revenue for Marae Moana and environment spending. But these stakeholders also suggested that some portion of new green tax revenue should feed into an independent fund to address the kinds of transparency and accountability concerns that were apparent in the EPF, and which may have ultimately led to it being discontinued. A similar system is currently utilized in Palau, where a portion of annual revenues from the 'pristine paradise fee' flow to the Palau Protected Area Network (PAN) Fund, an independent non-profit corporation under Palauan law (see Case Study).

> "... stakeholders also suggested that some portion of new green tax revenue should feed into an independent fund to address the kinds of transparency and accountability concerns that were apparent in the Environmental Protection Fund (EPF), and which may have ultimately led to it being discontinued."

Furthermore, given the development and trajectory of the Natural Currency Standard (see discussion below), it is expected over the next 1-3 years there may be policy changes to implement a revenue sharing agreement that could make more funds available for Marae Moana and related activities. In such an arrangement, the MMR might split some portion of the revenue from tuna fishing licenses with traditional leadership and communities. This would likely require a mechanism that could successfully govern and administer these funds in accordance with the policy, and incorporate stakeholder input into funding allocations strategies and decisions. This is another potential opportunity to use an independent Marae Moana CTF, which could be structured to manage revenue streams from several sources. For example, an external donor agency or foundation may wish to support a specific activity in Marae Moana and could choose to have the CTF manage, administer and re-grant the funds to local actors.

A Marae Moana CTF that captured recurring revenues generated by tourism taxes and possible tuna fisheries revenues could use any combination of these approaches. For example, the CTF might aim to spend these revenues shortly after they are received (in a revolving fund structure). It could also set aside some portion of revenues to build up an endowment or a long-term sinking fund, with a goal toward investing the funds and seeking capital growth over time. An endowment fund may be a prudent option as it will give the CTF long-term financial stability, and help mitigate the risk of a downturn in tourism or fisheries revenues affecting ability to cover Marae Moana's annual management costs.

A Marae Moana CTF could be designed and operated to ensure deep alignment with government's Marae Moana policies, priorities and budgets. The CTF would include participation from key ministries on its governing bodies (e.g., a board of trustees) and would be a strategic partner for the government, potentially increasing their effectiveness in achieving conservation goals by contributing complementary knowledge, experience and resources and promoting innovation There would be a logical role for the MMCO in a CTF framework – as the coordinating unit for all government agencies responsible for implementation of Marae Moana, the MMCO could work directly with the CTF to ensure that government action plans are coordinated with CTF funding plans. The MMCO could lead the process of organizing and submitting regular funding requests to the CTF on behalf of the Cook Islands government.

In many countries, CTFs work closely with government to support activities from a common strategic or work plan; governments may focus on funding staff salaries and infrastructure for a given protected area, while a complementary CTF might have the flexible funding to focus on "elective" activities such as capacity building, community engagement or support for innovative sustainable enterprises.

The CI/Starling team has analyzed legal structuring options for a private Marae Moana CTF, and we have identified structuring options for this kind of a vehicle in Annex 3, attached to the end of this document. As discussed in detail therein, the Cook Islands National Superannuation Fund provides a case study of an independent statutory fund containing a diverse board of trustees from public and private institutions and civil society.

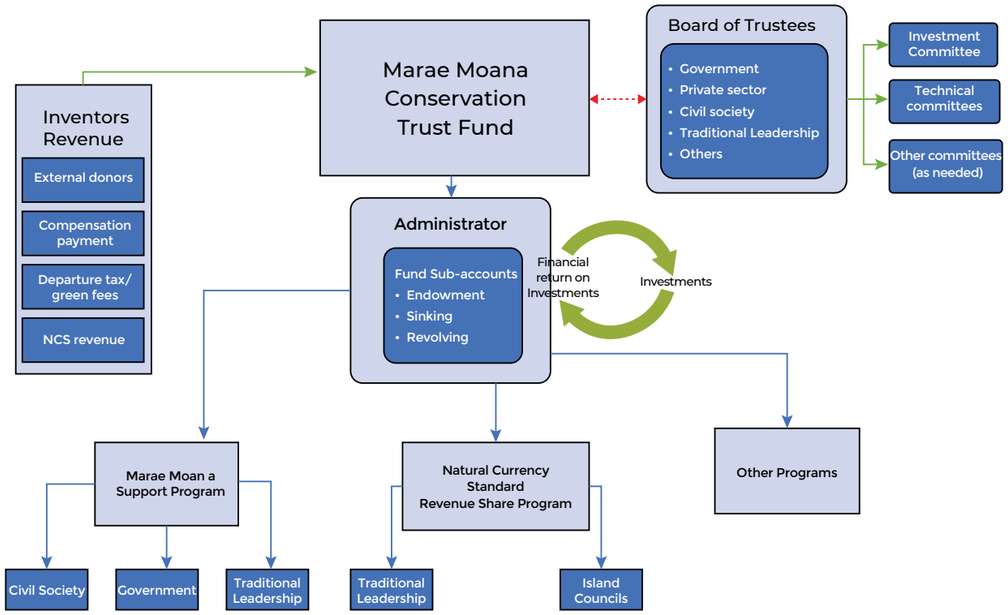


Figure 23: Diagram of potential financing mechanism for Marae Moana.

The diagram above illustrates how an independent Marae Moana Conservation Trust Fund could work. On the left side are shown potential sources of revenue for Marae Moana, which might come from a combination of external donors, a departure tax or green fee, or potentially from some revenue-sharing arrangement that might arise from a change in fisheries management or from revenues from seabed mineral extraction. In addition, we have listed compensation payments as an optional revenue source, a financial mechanism discussed below that would require environmental impact fees to be paid for by developers that impact Marae Moana. These funds would then be channeled into a variety of financial subaccounts, in which some might be structured as endowments (funds invested in capital markets with the intention of using primarily investment returns as the revenue source for funding projects), revolving funds (funds that will be spent down and renewed by a continual stream of revenue, such as a green fee or departure tax), and sinking funds (funds earmarked for a specific purpose by donors that are intended to be spent down during the life of a project).

A board of trustees or other governing body could be empowered to make decisions with regard to investing funds, approving funded project proposals, hiring personnel, and providing overall oversight and management to the CTF. This board could have representatives from government, traditional leadership and other stakeholder groups, and could designate subcommittees to focus on technical details of project proposals or on investment management issues. Finally, the CTF revenues could ultimately be directed to any number of appropriate projects, whether they are intended to complement government resources for Marae Moana, focus on aspects of traditional governance or cultural perpetuation, or relate to a scope of work for a specific donor.

5.2 PUBLIC CTF OPTION

If there is a lack of political will to establish/support an independent mechanism, a second option could be the establishment of a public, government-controlled trust fund. Such a mechanism could still allow for the participation of non-government stakeholders and provide them access to financial resources. A dedicated fund of this nature could still establish strong transparency measures and can be administered efficiently. We have also examined legal structuring options for this kind of public fund, as discussed in Annex 3.

The key drawbacks to be aware of in the 'public fund' scenario are that government at any time would have the power to dissolve the fund and repurpose the funds. This is a potential risk if future political administrations are not supportive of Marae Moana's goals and have competing funding priorities. Additionally, the potential to attract external donors would likely be significantly reduced; there is a strong preference in the public and private donor community to give to CTFs that are aligned with, but independent of government.

There is precedent of creating a statutory fund that remains government controlled and operated. As detailed in Annex 3 (Section I.C. Public and Private Fund Structuring Options), these include the EPF, the Workers' Compensation Scheme Fund, and to a lesser extent the Disaster Emergency Trust Fund. As noted above, the EPF was created in 1994 with its share of revenues from the departure tax controlled by the Treasury and consolidated into general revenue, but ultimately the fund was discontinued. It represents a cautionary tale for a public fund, with stakeholders expressing concerns over a lack of transparency, insufficient legislative guidelines for project selection, unstable governance, and consolidation into general revenue, among other issues. Additional information on the Workers Compensation Scheme Fund and the Disaster Emergency Trust Fund can be found in Annex 3.
In our consultations with members of MFEM, they expressed the view that revenues from a departure tax or green fee should be classified as public revenues, and therefore should be under centralized management. Within the Ministry, there did not appear to be strong appetite to consider the use of an independent CTF mechanism in this 'green fee' scenario. Other stakeholders, citing the historic challenges of the Workers' Compensation Scheme Fund and EPF, were strongly in favor of an independent CTF with oversight from many stakeholder groups, to promote transparency and equity in how the funds are allocated. Many of these same stakeholders felt an independent CTF could be better suited to supporting the cultural and traditional governance elements of Marae Moana that are not already funded by government.

CASE STUDY
ALIGNMENT WITH GOVERNMENT AND MOBILIZING CONSERVATION DOLLARS THROUGH MOZAMBIQUE'S BIOFUND

BIOFUND is an independent, privately managed CTF with a strategic partnership with the Government of Mozambique (GoM). BIOFUND's mission is 'to support the conservation of aquatic and terrestrial biodiversity and the sustainable use of natural resources, including the consolidation of the national system of Conservation Areas.'

Publicly launched with USD 15 (NZD 24) m in capital in 2015, including contributions from Conservation International, the German government (KfW), and the World Bank, BIOFUND began making its first disbursements in 2016. It has since drawn more investments from external donor agencies and currently has a USD 37.2 (NZD 59.5) million investment portfolio.

By having effective and transparent systems in place, BIOFUND has built a track record as an effective mechanism for channeling financial resources to Mozambique's protected area system. Several donors are now using BIOFUND to support biodiversity programs, and its annual budget is expected to double to over USD 8 (NZD 12.8) million in 2020.

Structured as an independent, non-profit organization, BIOFUND was designed to closely coordinate with government agencies responsible for conservation management in Mozambique. Funding allocations are made in close coordination with these agencies, to ensure complementarity of efforts.

Government representatives also directly participate in BIOFUND's governing bodies (e.g., Member Assembly, Board of Directors). This type of coordination has in part been responsible for attracting major investments by bilateral and multilateral funding agencies (e.g., World Bank, French, German and US aid agencies, etc.) who see BIOFUND as the most transparent and efficient mechanism to support Mozambican conservation.

In a parallel strategy, BIOFUND is hoping to mobilize significant additional funding for conservation through innovative finance mechanisms such as biodiversity offsets and environmental compensation payments. BIOFUND is strengthening biodiversity compensation regulations with the Government of Mozambique and a working group including key private sector actors. Establishing these legal frameworks has assured that Mozambique's protected areas get first priority for receiving compensation funding, and BIOFUND is well-positioned to be the administrator of such payments once the national offsetting policy becomes operational.

5.3 COSTS SPECIFIC TO A CONSERVATION TRUST FUND

Although not included in the cost model, we have provided below some cost estimates for the design and operation of a conservation trust fund. This is intended to provide a general estimate for these types of costs, should this option warrant further exploration as a sustainable financing mechanism suitable for Marae Moana. Depending on the revenue sources, a CTF can be structured to be largely self-financing and would not necessarily require additional financial support from government to cover operating costs.

Development of a conservation trust fund would incur costs over distinct stages spread over 1-2 years: first, for design and establishment; second, for a transitional or bridge stage, and; third, for annual operations once established and revenues are being received and managed by the fund. Design and establishment would include working with local counsel to identify and develop the most appropriate legal and financial structures, conducting a consultative process to assess expectations for the fund and integrate the perspectives of different stakeholders (potentially including travel to outer islands), training and recruiting for board members and staff, and optional donor engagement should the fund seek investment from partners outside the Cook Islands. Some of the activities outlined would likely require the use of in-country and/or external consultants or partner organizations.

Providing resources for a bridge or transitional stage is considered best practice when establishing a new conservation fund. This might include some initial sinking capital that can be used to initiate pilot grants or investments from the CTF and test out policies and procedures before ramping up to full operations.

Design costs (NZD)	Year 1	Year 2
Consultative process/workshops	$ 50,000	
Local counsel and development of governing documents	$ 50,000	
Training/recruiting board and staff		$15,000
Donor engagement (optional)		$15,000
Select investment management firm		$20,000
Financial management systems and training		$30,000
Bridge Funding		
Sinking funds for pilot projects		$125,000
Total	$100,000	$205,000

Once operational, a conservation fund should expect to incur costs for office space, personnel salaries and benefits, technology, equipment, and travel, among other expenses. A typical conservation fund might be staffed by an Executive Director, Program Director, Financial Manager, and supporting administrative staff. Additional financial, fundraising and development, technology, communications, monitoring and evaluation, or programmatic staff may also be necessary, depending on the size and scope of the fund.

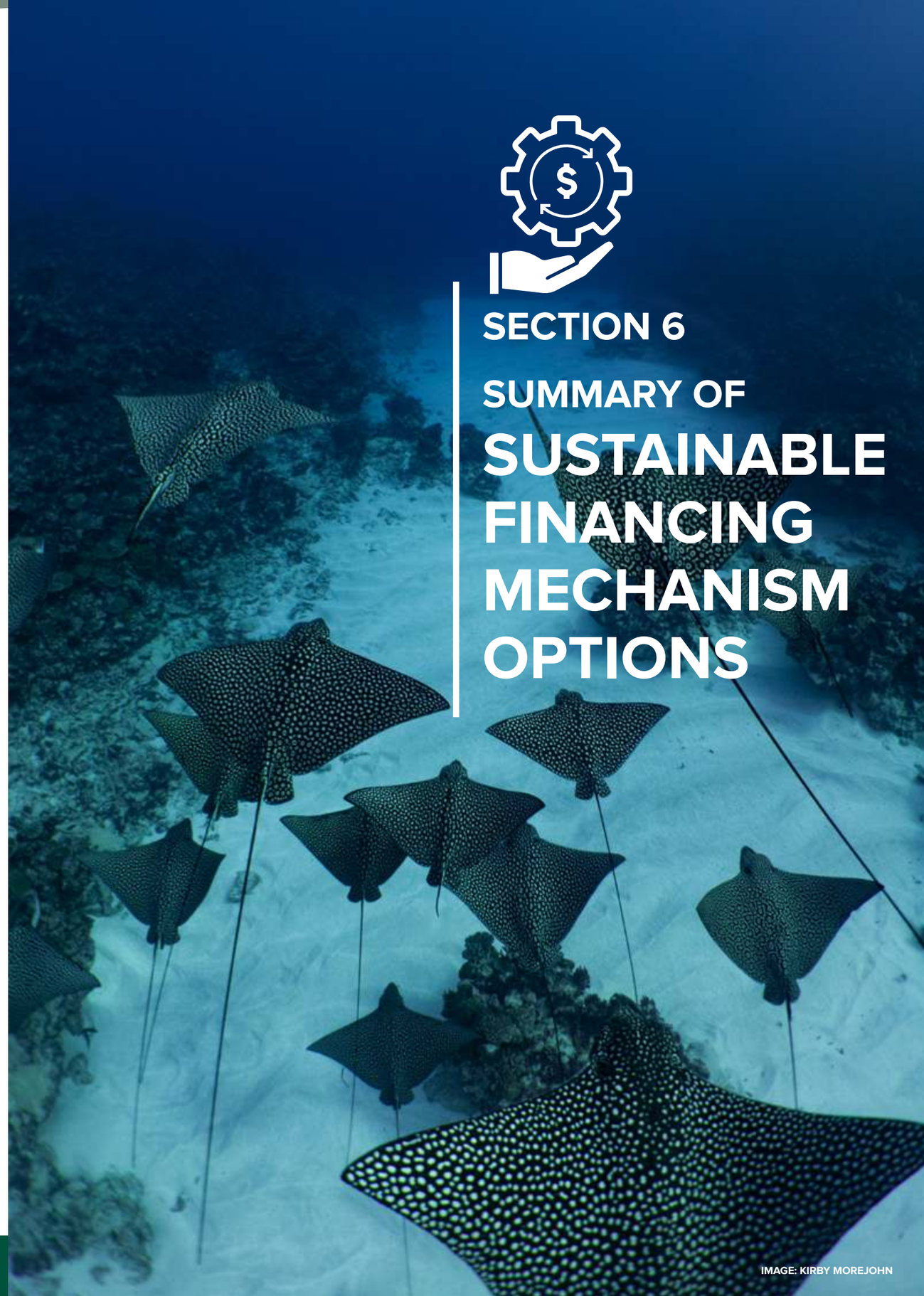
An indicative budget is shown below for the costs of operating a conservation trust fund with an annual budget of approximately NZD 6 million per year[4] There are certain minimum costs that a well-functioning conservation fund could expect to incur for administration even with a modest budget, but as programmatic budget increases, these administrative costs would likely increase at a declining rate as economies of scale are realized. Best practice for conservation trust funds is to keep administrative costs at 15-20 percent of the annual budget, but during the establishment and transition to regular operations these costs are often temporarily higher.

4 This 6m NZD annual revenue is an arbitrary figure, but represents what could potentially be expected if the Cook Islands implements some of the priority conservation finance options for Marae Moana.

CTF Annual Operating Costs (NZD)	
Office space	$10,000
Technology and equipment	$ 3,000
Personnel	
Director	$70,000
Administrative	$25,000
Financial manager	$60,000
Program Director	$55,000
Program Coordinator	$30,000
Travel budget	$50,000
Total	$313,000

It is worth noting that the annual operating costs, if not the design/establishment and transitional costs, can generally be self-supported through a conservation trust fund. Many conservation trust funds are established with endowment capital that generates investment gains and returns; a portion of these annual proceeds are used for administrative costs, while the remainder is available for programmatic disbursements and recapitalizing the fund.

A fund supported by an annual external revenue stream (e.g. a revolving fund supported by a departure tax) could similarly incur administrative costs in the 10-20% range, while leaving the remainder available for programmatic investments.



SECTION 6

SUMMARY OF SUSTAINABLE FINANCING MECHANISM OPTIONS

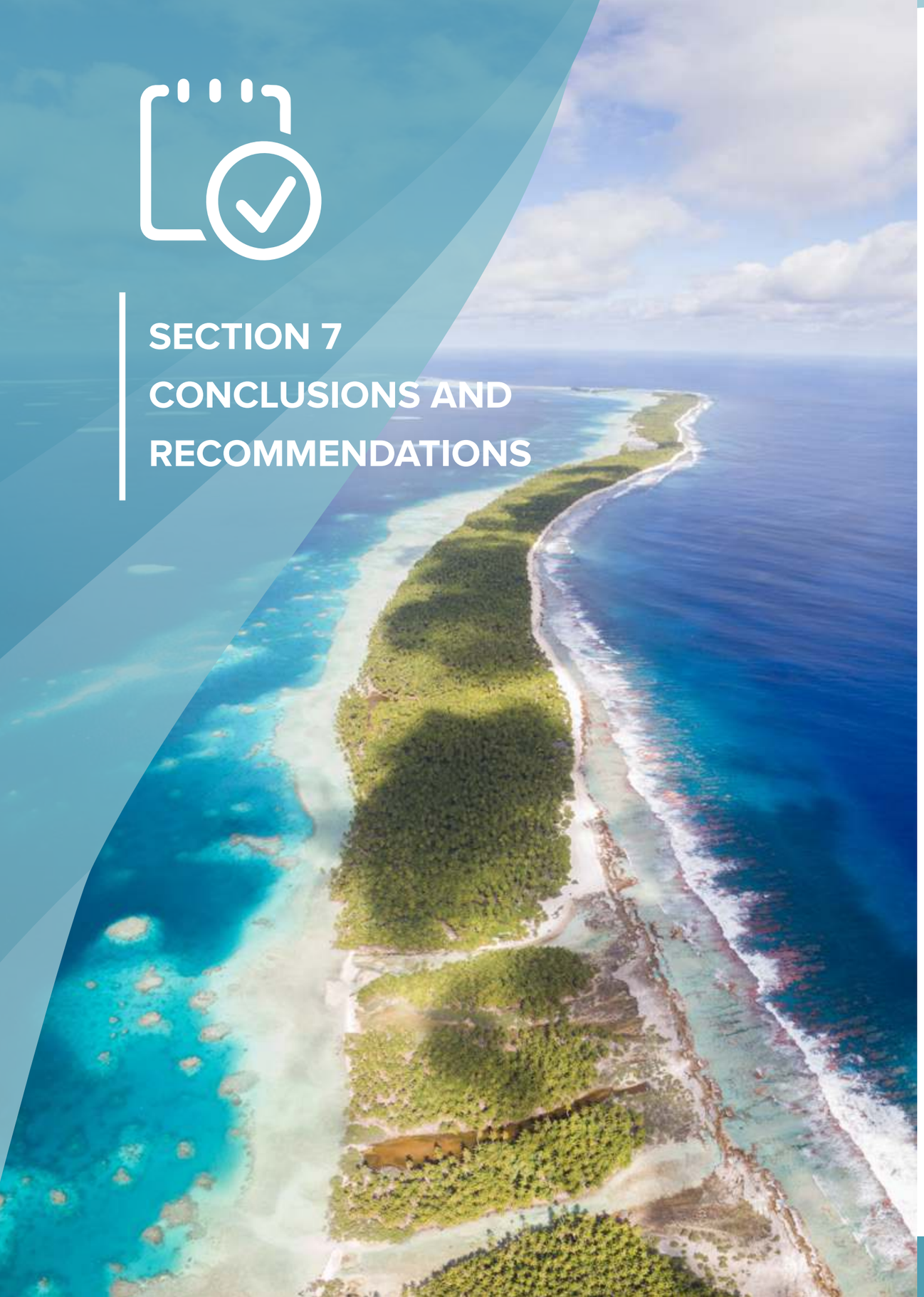
IMAGE: KIRBY MOREJOHN

6 SUMMARY OF SUSTAINABLE FINANCING MECHANISM OPTIONS

The following table summarizes the sustainable financing mechanisms options discussed in the previous sections, with information on advantages, disadvantages, risks, and achievability, among other issues.

Funding Source/ Financing Mechanism	Scale of Funding	Technical Complexity	Achievability (e.g., political will, technical considerations)	Advantages	Risks/ Disadvantages	Who pays
Taxes and fees in the tourism sector (arrival/ departure)	**HIGH**: Even modest departure taxes of NZ$25 could generate revenues in excess of NZ$4 million annually in new funding for MM	**LOW**: Could likely be integrated with airfares or other immigrations procedures for simple administration Providing exceptions to residents or other groups may add complexity	**HIGH**: May be among the options least likely to cause political opposition: would affect all Cook Islanders and businesses in a relatively equitable manner	Simple, easy to administer, may be a useful tool to manage tourism demand in the future, affects tourism industry relatively equally	Potential opposition from tourist industry or from residents who might be affected by tax, could affect tourism demand depending on price level Tourism markets can be highly sensitive to global/regional economic shocks	Primarily tourists through fees charged upon arrival/departure or directly through airfares, may also be applied to residents traveling off island
Taxes and fees in the tourism sector (bed taxes)	**MEDIUM**: Depending on the tax level, could generate modest amounts of revenues for MM	**MEDIUM**: Could be more difficult collecting taxes from wide range of lodging providers as opposed to limited set of airlines	**MEDIUM**: Likely to raise issues of fairness, equitable taxation, and concerns about new lodging modalities (e.g. AirBNB) not being equally affected	Links charges to tourists to the length of time they are using the resource May be useful to manage lodging in or near highly impacted sites	Likely to cause political opposition from hoteliers and other lodging operators who may feel their segment is disadvantaged in tax structure	Tourists through hotel and lodging operators
Fisheries sector value enhancements (Natural Currency Standard)	**MEDIUM**: Fishing license revenue is a moderate contributor to Cooks Islands GDP-- the NCS approach could make tuna fisheries a more substantial contributor to Cook Islands' GDP Depending on revenue sharing arrangements, revenues channeled in support of Marae Moana could be substantial	**HIGH**: Given the multi-faceted nature of the NCS approach (fisheries management enhancements, market + commercial development, benefit-sharing, etc.) there are significant structural changes required Deployment of a benefit-sharing mechanism would likely necessitate the establishment of a separate finance vehicle (CTF) to administer these revenues transparently and efficiently	**HIGH**: There appears to be currently strong political will for the NCS approach in the Cook Islands, including among Cook Islands Government and The Arangomana Questions remain about the structure of the potential revenue-share agreement	A key advantage of NCS is that it is premised on advancements in sustainability of the tuna fishery, which is wholly consistent with the vision and objectives of Marae Moana Another added advantage is that by making this revenue stream available to under-reached sectors of Cook Islands society, this can broaden the net of beneficiaries NCS represents a short-to-medium term opportunity to diversify revenue options for Marae Moana, beyond only a tourism focus.	There would be time and investment associated with designing and codifying a benefit-sharing mechanism The long-term viability of a revenue share may depend on how successful the Cooks Islands is in transforming its tuna fishery and capturing more value from a sustainable industry	The Cook Islands would incur short-to-medium term costs in making structural changes to its tuna fisheries. External investment would likely be required The Government would be committing to a reduced budgetary revenue take from its commercial tuna fishery

Funding Source/ Financing Mechanism	Scale of Funding	Technical Complexity	Achievability (e.g., political will, technical considerations)	Advantages	Risks/ Disadvantages	Who pays
Offsets and Environmental Compensation	**MEDIUM**: Significant fees in the range of 1% of cost of new development could be applied to investment in tourism, infrastructure, etc.	**MEDIUM**: A true biodiversity offsets system would require a clear understanding of the values that are impacted and where impacts can be offset elsewhere. A more general compensation system could reduce complexity, but funds should be applied strategically	**MEDIUM**: Technical design of a rigorous system may be challenging Political opponents to such a system might be among the more powerful in Cook Islands (e.g. developers and other interests)	Potentially generates the necessary revenue to achieve no net loss of biodiversity or other ecosystem services Potentially links rates charged to developers to level of impacts	Would directly affect the business and bottom line of developers, which may be a powerful political constituency Some compensation systems have not been used strategically or efficiently; true biodiversity offset system is potentially technically difficult	Developers, and indirectly Cook Islanders and tourists
External Donors and Philanthropy	**MEDIUM**: Packaged in a compelling manner, external donors may find an investment in a MM and Cook Islands sustainability compelling enough to drive multi-million-dollar contributions	**LOW**: Beyond packaging, marketing MM and any related Cook Islands initiatives, the primary complexity lies in cultivating and managing relationships with donors	**HIGH**: Should expect few political concerns as long as donor requirements are compatible with Cook Islands and MM vision	Potentially access short-term investment and resources to catalyze, design or establish any of the other options presented in this report. Relatively straightforward process to determine if there is donor interest	Some donors may have incompatible vision for Marae Moana; donor cultivation could take significant time and travel Donors may change strategic direction over time or otherwise change priorities Funding is likely to have a shorter time horizon unless invested in endowment	External public and private donors Administrative and management costs within Cook Islands should be largely covered by donors beyond an initial donor cultivation or project development phase
Multi-Donor Finance Deals	**MEDIUM**: Packaged in a compelling manner, multi-donor finance deals could attract significant investment to achieve ambitious MM or other Cook Islands vision	**MEDIUM**: Requires an iterative process of convening stakeholders and donors to arrive at common vision, targets, and timeline Single-close approach can mean that all donor commitments are realized or none	**MEDIUM**: With high-level (e.g. Prime Minister's office) buy-in, and internal alignment within the Cook Islands, an appropriate vision can be developed and presented to external stakeholders	Potentially access short- to medium-term investment and resources to catalyze, design or establish any of the other options presented here Convene multiple donors and stakeholders through a single deal Potentially generate media coverage of Cook Islands innovations in sustainability and contribute to MM/Cook Islands brand	Would require coordination and internal alignment on goals, targets, and timeline for achieving a concrete MM/Cooks Islands vision Development of deal over several years exposes project to risk of donors losing interest Potentially an "all-or-nothing" structure Funding is likely to have a shorter time horizon unless invested in endowment	External public and private donors There are likely to be significant design, administrative and management costs within Cook Islands during initial donor cultivation and project development phase
Marae Moana Trust Fund	**FLEXIBLE**: Trust funds can be set up to manage and administer funding at nearly all scales, although a target threshold size should be established. Trust Fund is a mechanism to manage revenues. Trust funds can make revenues if they have assets to invest or if they have fundraising capacity.	**MEDIUM:** Trust fund may take between 1-2 years to design, establish and operationalize Trust fund design requires a consultative process to endure broad stakeholder buy-in. Trust fund design requires establishment of all operational guidelines and recruitment of a qualified administrator and governing board.	**MEDIUM:** The Cook Islands has a robust legal framework for setting up these types of vehicles There appears to be some resistance to the concept of an independent fund that receives public revenues (e.g., from a departure tax)	Trust funds can receive and manage multiple types of revenues (e.g., public v. private $, endowments v. sinking funds, project grants, nature bond proceeds, etc.) High capacity trust funds can become engines for conservation finance, generating new funding opportunities	It may be desirable to raise initial capital from external donors, which could take time for donor cultivations, etc. Can be subject to market volatility, but can also be designed to enhance stability of funding.	External donor assistance may be helpful, but not necessary, to support establishment a Marae Moana Trust Fund Source of revenues for a CTF may vary and could include departure tax revenues.



SECTION 7
CONCLUSIONS AND RECOMMENDATIONS

7 CONCLUSIONS AND RECOMMENDATIONS

When compared to other ‘big ocean’ conservation initiatives globally, the Cook Islands and Marae Moana compare quite favorably in terms of sustainable financing options to support long-term conservation and sustainable development goals. We believe that the Cook Islands can catalyze a diverse set of revenue options that can be channeled to support all sectors of Cook Islands society to contribute to Marae Moana’s operations and long-term vision.

We believe that using this portfolio approach of a number of financing options reduces the risk of over-dependence on any particular type of revenue and makes Marae Moana less vulnerable to external or internal shocks.

Marae Moana’s annual funding requirements will inevitably depend on its final design and implementation. However, a preliminary cost model analysis indicates that meaningful action, comparable to other global efforts, can be achieved at reasonable cost. However, implementation of more robust frameworks may require upwards of NZD 1.8 million a year, and a ‘best practice’ framework, more still.

While costs compare relatively well in a global context, these appear more substantial in the context of the Cook Islands economy and budget, and therefore, implementation of Marae Moana will likely require funding from sources outside of regular government budget allocations

7.1 KEY RECOMMENDATIONS

1) Pursue an arrival/departure tax or green fee with appropriate branding

An arrival or departure tax, or other green fee, can be structured to require minimal administration, is applied directly to tourists, and ensures that the impacts of the tax affect everyone in the tourism industry equally. It is also a mechanism that has recently been deployed by neighboring countries such as Palau in a way that has generated significant revenue, had minimal effects on tourism demand, and even enhanced the country’s tourism brand.

The Cook Islands was an early leader in this area with the Environmental Protection Fund, but a lack of clear objectives for these revenues and lack of transparency in how they were distributed (among other issues) ultimately led this mechanism to become defunct. The Cook Islands can build from this prior experience to introduce a best-in-class mechanism that generates significant revenue with a specific focus on Marae Moana; transparently and efficiently administers and manages the distribution of this revenue; convenes stakeholders, including government, to ensure resources are deployed strategically in a way that is transparent to all, and; integrates with an over-arching marketing and branding strategy that communicates the importance of Marae Moana, and the purpose of the tax/fee, to tourists and local people alike.

2) Continue development of sustainable tuna fisheries.

While a sustainable tuna sector may only produce a moderate financing source for Marae Moana, there would be broader benefits to Cook Islands (and the Pacific region) if Marae Moana hosts a world-class sustainable tuna fishery.

Recent efforts by the Cook Islands to transform its tuna fisheries to meet 'best-in-class' environmental, socio-cultural and commercial standards is a forward-thinking initiative. These natural currency standard (NCS) aspirations are wholly consistent with the sustainable resource management goals of Marae Moana. Establishment of NCS across the entire tuna fishery could potentially increase economic benefits, via development of a localized tuna industry, differentiating the Cook Islands tuna brand and capturing more of the supply chain.

NCS requires the establishment and deployment of best available science- and technology-based approaches to ensure long-term sustainable harvesting of renewable tuna resources. This is directly responsive to Policy Objective 3 of the Marae Moana Policy: to sustainably develop the Cook Islands marine resources. Moreover, the Policy states that 'There shall be shared responsibility and management between agencies, Arongamana and other stakeholders involved in the fisheries industry.' The NCS approach is consistent with this policy objective and the benefit-sharing mechanism being explored by the NCS can potentially be a meaningful source of revenues to ensure that sustainable fisheries benefits are shared by all sectors of Cook Islands society.

3) Consider establishment of an independent conservation trust fund (CTF)

Development of a Marae Moana Trust Fund could provide a convening mechanism that could receive and administer a variety of revenue types, including those funds that may flow from a arrival/departure tax or green fee, a tuna revenue-share allocation, future environmental offset or compensation fees, as well as possible contributions from external donor sources.

A well-designed and managed CTF could be a powerful vehicle to embrace the 'single vaka' spirit of Marae Moana: a mechanism that coordinates with government priorities and programs, includes multiple sectors of society in its decision-making, and effectively administers funding and support to the broad sectors of Cook Islands society that are working to realize the vision of Marae Moana.

Our analysis of the Cook Island's legal framework suggests that there are viable options for establishing a private, independent CTF that could provide for both governmental and non-governmental participation and provide resources to broad sectors of society. A public CTF that is less independent of government is also a possibility but comes with the risk that a future administration would dissolve or repurpose the fund. Additionally, the potential to attract external donors would likely be significantly reduced with a public CTF.

While there would be start-up costs associated with design and establishment of a CTF, it is likely that over time such a mechanism would 'pay for itself' - the efficiency and transparency gains in fund administration would be significant over time, as well as the CTF's ability to develop grant/project management capacity for historically under-reached sectors of society (e.g., traditional leadership, island/community groups, etc.). Additionally, CTFs with capable leadership can pioneer new conservation finance opportunities to stimulate access to new funding sources.

7.2 OTHER RECOMMENDATIONS

In addition, other sustainable financing initiatives may generate less revenue potential but provide other important benefits.

- Explore setting policies to address the negative environmental impacts of development projects. Consider the use of environmental compensation fees to be assessed on developers and assess if these types of policies could apply to seabed mineral extraction plans, should those continue. A CTF could be structured to manage/administer some portion of the fees to be redirected back into Marae Moana conservation. Although this is not likely to be a major revenue stream in the near-term, this promotes best practices in environmental management and provides another tool to manage development in sensitive areas

- Explore the use of other tourism related fees (e.g. site access entry fees, dive fees, bed levies, etc.) for management of sensitive areas. These may be more politically challenging to implement and would generate modest revenues for Marae Moana. However, they can be effective tools to help manage and control tourism volume and pressure on key natural assets.

- Consider cultivating and pursuing relationships with external donors to secure additional financing that could accelerate any of the above activities. With appropriate branding and messaging, and concrete progress on MSP and other components of the original Marae Moana commitment, this could make a compelling package to attract additional investment. External funding could take a number of forms, but could be a welcome resource to accelerate any number of sustainable financing or other initiatives related to advancing Marae Moana.

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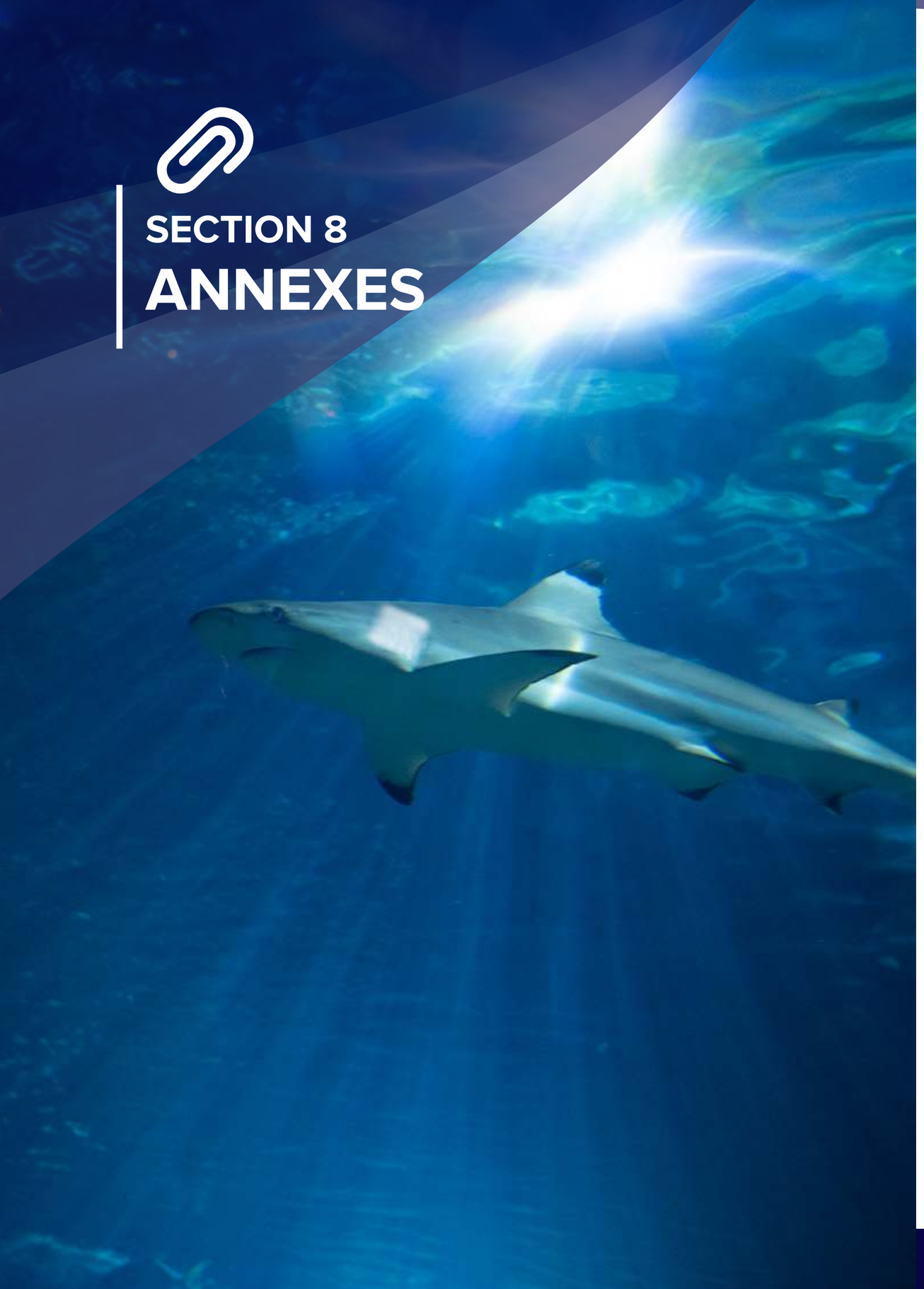

SECTION 8
ANNEXES

ANNEX 1: AGENDA FOR WORKSHOP IN RAROTONGA: SUSTAINABLE FINANCING MECHANISM FOR RIDGE-TO-REEF APPROACHES AND PROTECTED AREA MANAGEMENT WITHIN MARAE MOANA

Sustainable Financing Mechanism for Ridge-to-Reef Approaches and Protected Area Management within Marae Moana Thursday, July 11, 2019 | 9AM-4PM

Venue: Muri Beach Club Hotel, Rarotonga, Cook Islands

Workshop Objectives:

- Provide Marae Moana stakeholders with an overview of sustainable financing tools and strategies for marine conservation;
- Gain deeper understanding of the Marae Moana and Cook Islands context and develop a frame-work for tailoring sustainable financing solutions to meet Marae Moana's needs;
- Identify priority options for sustainable financing and potential next steps

Workshop facilitators:

- Chris Stone, Managing Director, Global Conservation Fund
- Rhona Barr, Starling Resources
- James Webb, Marama Consulting
- Michael McGreevey, Conservation International
- Andrew Schatz, Conservation International

1. **Marae Moana overview, current status (15min)**

2. **Introduction to consultancy: objectives and roles of Starling and Conservation International (CI) (45 mins)**

a. Source of funding, scope and timeline of consultancy
b. Roles and responsibilities
c. Outputs and products
d. Our approach
e. Key question: What questions do you want answered about how to finance Marae Moana?

Coffee break

3. **Cost Modelling for Marae Moana (90mins)**

a. Introduction to Cost Model & methodology – to include case study examples
b. Presentation/discussion on consultations to date
c. Discussion of expectations and aspirations for MM
d. MM Scenario development and comments
    1. Areas to be included;
    2. Sectors to be included;
    3. Aspiration levels

4. **Introductions and background on CI and conservation finance experience (30 mins).**
a. Introducing CI
b. Global Conservation Fund overview
c. Project examples

Lunch

5. **Overview of sustainable financing options (90 min).**
a. Status of Marae Moana in implementation
b. What is (and isn't) sustainable financing
c. Overview of types of sustainable financing
d. Overview of funding options for Marae Moana
e. Group feedback break-out session

6. **CTF overview (60 mins)**
a. CTF overview
b. Global examples
c. CTF Fund Management Roles and best practices
d. Current and prior Cook Islands funds
e. Cook Islands CTF structuring options
f. Break-out session: desired characteristics of a Marae Moana SFM

7. **Next steps: How can sustainable financing for Marae Moana move forward? (30 mins)**

ANNEX 2: LIST OF PARTICIPANTS IN WORKSHOP

NAME	Position	Organisation
Halatoa Fua	CEO	Cook Islands Tourism Corporation
Kate Ngatokorua	Policy Analyst	Ministry of Cultural Development
Sam Timoko	Vice-President	Cook Islands Voyaging Society
Maria Tuoro	Ridge to Reef Project Coordinator	National Environment Service
Paul Allsworth	President	Koutu Nui
Paul Lynch	Seabed Minerals Commissioner	Seabed Minerals Authority
Puna Rakanui	Clerk	House of Ariki
Talissa Koteka	GCF Comms Consultant, Climate Change Cook Islands	Office of the Prime Minister
Charlene Hoff	Policy and Research Officer, CPPO	Office of the Prime Minister
Joshua Mitchell	Director, United Nations and Treaties	Ministry of Foreign Affairs and Immigration
Lara Ainley	Senior Marine Ecologist, Pearl Support Division	Ministry of Marine Resources
Ben Ponia	Chief of Staff	Office of the Prime Minister
Fletcher Melvin	President	Chamber of Commerce
Jaime Short	Director, WATSAN	Infrastructure Cook Islands
Lafala Turepu*	Dvlpt Prog Manager, Dvlpt Coordination Division	Ministry of Finance and Economic Management
Natalie Cooke	Economic Policy Advisor	Ministry of Finance and Economic Management
Damien Beddoes	CEO	Cook Islands Superannuation
John Hosking	Secretary	Ministry of Transport
Wayne King	Director, Climate Change Cook Islands	Office of the Prime Minister
Kai Berlick		Ministry of Finance and Economic Management
Kevin Iro	Marae Moana Ambassador	Office of the Prime Minister
Louisa Karika	Deputy Director	National Environment Service
Metua Vaiimene	Director, Destination Development	Cook Islands Tourism Corporation
Jacqui Evans	Director, Marae Moana Coordination Office	Office of the Prime Minister
Heinz Matysik	Sustainable Financing Consultant	Ridge to Reef project
Keith Twyford	Capacity Needs Assessment Consultant	Ridge to Reef project
Andrew Schatz	Sustainable Financing Consultant	Ridge to Reef project
Chris Stone	Sustainable Financing Consultant	Ridge to Reef project
James Webb	Sustainable Financing Consultant	Ridge to Reef project
Michael McGreevey	Sustainable Financing Consultant	Ridge to Reef project
Rhona Barr	Sustainable Financing Consultant	Ridge to Reef project

ANNEX 3: ANALYSIS OF CONSERVATION TRUST FUND STRUCTURING OPTIONS IN THE COOK ISLANDS

CI was asked to conduct a broad assessment of options and experiences for the creation of a Sustainable Finance Mechanism ("SFM") to support the Marae Moana multiple use marine park ("Marae Moana"). In particular, CI conducted an options analysis for a potential Marae Moana SFM ("SFM Options Analysis"), which included the following elements:

- Identify potential SFM options, examining current and past experiences in the Cook Islands establishing long-term funding vehicles.
- Consideration of broader regional experiences with conservation trust funds and other SFM models;
- Assessment of identified SFM options against key design principles (Fund ownership, governance, administration, etc.) and other considerations (e.g., cost, timing, etc.).

Likewise, CI facilitated stakeholder consultation at a workshop to prioritize options for funding sources and options for a financing mechanism. As part of this work, CI was asked to circulate assessment outcomes and conduct local consultation meetings with agencies/community members to harness feedback and create a short list of options. As part of the consultation workshop, CI was asked to:

- Present to stakeholders an overview of the SFM Options Analysis,
- Outline preliminary assessment of cost and benefit considerations for each option shortlisted
- Stakeholders identify top two priority options for SFM design

Each of these outputs, the SFM Options Analysis and the Stakeholder Workshop involved significant legal and structural considerations, which are detailed below and in the attached documents: (1) a memorandum from Little & Matysik P.C., dated June 24, 2019, outlining legal options in the Cook Islands for structuring a MM SFM ("L&M Legal Memo"); and (2) the presentation entitled, "Potential Options for a Marae Moana Conservation Trust Fund," given by CI Legal Advisor Andrew Schatz at the Stakeholder Workshop on July 11, 2019 in Rarotonga ("MM CTF Options Presentation").

1. SFM Options Analysis

In the 18 years' experience of CI's Global Conservation Fund ("GCF"), we have generally followed the following parameters when assessing potential vehicles for a Sustainable Finance Mechanism, such as a Conservation Trust Funds (CTF).5 Where a fund is being designed to support conservation efforts inside a foreign (non-United States) country and will rely on significant in-country input or management, assuming all other factors considered in Section II are equal, GCF has long-preferred creating such a fund within the country. This preference is rooted in our desire to create a governance structure which readily incorporates key stakeholders, is more responsive to local conditions, builds local conservation finance capacity, and avoids currency exchange risks, among other benefits. Given that the Cook Islands government itself seeks to establish the MM SFM, we have primarily explored options for creating an SFM within the Cook Islands. Even with these general preferences, GCF still conducts a holistic review of all options considering the factors outlined below. In particular, competency, tax treatment, independence, administrative cost / burden, are all important factors to be considered.

5 A Sustainable Finance Mechanism is an entity or legal structure capable of managing and disbursing a large sum of money over a designated time period to promote conservation or environmental activities. A Conservation Trust Fund – a type of SFM – is a legally independent institution that provides sustainable financing for biodiversity conservation.

A. CTF Roles & Assessment Criteria

With Conservation Trust Funds, one or more legal entities will normally play each of the following roles in managing an SFM which provides long-term recurring financing for conservation management activities:

- *Own* the fund and related accounts.
- *Govern* the use of the fund, including making final decisions regarding expenditure of the fund.
- *Administer* the day to day activities relating to the use of the fund in accordance with the decisions of the governing body, including the disbursement of fund assets to the third parties implementing conservation actions.
- *Invest* endowment or sinking funds.[6]

Some key criteria to be considered in assessing the suitability of legal entities to play each role described above are detailed below. While not all of these issues will factor into the below options analysis (in particular, investment), they should all be considered throughout the design process for an SFM. Many of these considerations are detailed in the Conservation Finance Alliance's (CFA) Practice Standards for Conservation Trust Funds,[7] which sets forth best practices for establishing and designing CTFs.

<u>Ownership</u>:

- Entity mission: How does the entity's mission align with the purpose of the fund?
- Entity domicile: Is the entity domiciled in-country? How well developed are laws regulating the entity? Are there perception concerns with the country of domicile, including concerns that it is a tax haven, lacks political stability, or government poses a risk of interference with operations or nationalization?
- Transparency: Are there any legal requirements or organizational requirements for transparency?
- Ability to attract other donor and government funding: What is the potential for this option to attract funding from other donors?
- Tax treatment: Would the fund be subject to taxation due to ownership by the entity and transfers from the fund by the entity?
- Restrictions on Investing: Are there any legal or practical restrictions on investing the fund with sufficient quality investment options including options allowing for portfolio diversification?
- Restrictions on fund disbursements: Are there any legal or practical restrictions on the ability of the entity to make disbursements from the fund to potential recipients?
- Minimization of bankruptcy and political risk: Is there a substantial risk that the fund could be jeopardized in the event of the entity's bankruptcy? Is there a substantial risk that the fund could be subject to political risk?
- Costs: What are the costs of establishing the fund? What are the costs of maintaining the fund's existence (i.e. salaried employees, monitoring and evaluation, etc.)?
- Effort required for establishment: What level of effort would be required to prepare the documentation and undertake required administrative actions to establish the entity?

6 Endowment Funds include capital that is committed in a lump sum and/or on a periodic / revolving basis. The funds are invested in perpetuity with only investment income withdrawn to pay for fund costs or grant-making (without drawing down the principal). Sinking Funds can be characterized as funds whose entire principal and investment income is spent for finance activities over a period of several years until it is completely depleted and thus sinks to zero.
7 Conservation Finance Alliance, "Practice Standards for Conservation Trust Funds," available at https://www.conservationfinancealliance.org/practice-standards-for-ctfs

Governance:

- Does the governance structure allow for desired stakeholder representation in governance by including individuals from a variety of sectors (government, NGOs, business, academia, community)?
- Independence: Is the entity able to operate independent of government control? (Note: for sovereign wealth funds, there may be opposite considerations of the desire to incorporate civil society / community members)
- Does the governance structure (including any special advisory bodies) allow for desired governance competencies and expertise, including to: make fund spending decisions; provide rigorous oversight and possess significant technical know-how and control to monitor the fund's financial performance; and attract other donor financing?
- Governance capacity building: What opportunities will there be to build in-country governance capacity for conservation financing?
- In-country presence: How strong is the in-country presence of the governance structure?
- Costs: What are the costs of establishing any new governance structures? What are the costs of maintaining an effective governance structure?

Administration:

- Competencies and expertise: What are the competencies and expertise of the administrator, including in: 1) grant making; 2) fundraising and 3) monitoring and evaluation?
- Administrator capacity building: What opportunities will there be to build in-country administrative capacity for fund administration?
- Communications with third parties undertaking activities to be financed by the fund: What is the administrator's capacity to communicate regularly with third parties undertaking such activities?
- Tax treatment: Would transfers to and from the administrator be subject to taxation?
- Costs: Do administrative costs to adhere to industry standards for fund administration (<15%)? Are they controlled and monitored?
- Effort required for establishment: What level of effort would be required to prepare the documentation and undertake required administrative actions to establish fund administration.

Investment:

- Investment return and risk: What levels of return could be expected and what level of risk would be involved from investing the fund?
- Currency Exchange Risk: Would there be any currency exchange risk involved in investing the fund?
- Investment Management Options: Which investment management firms would be available for overseeing the investment of the fund's assets?
- Costs: What costs would be associated with establishing the investment arrangements and retaining professional investment advisory services?

B. Assessment of Cook Islands SFM Options

To better assess options for a Cook Islands SFM, CI engaged the law firm of Little & Matysik P.C. In particular, Little & Matysik was asked to provide an assessment of public and private options for establishing a SFM within the Cook Islands, which would be used to inform a Stakeholder Workshop held in Rarotonga in early July 2019, where CI could solicit additional feedback from the Cook Islands government, civil society, and community members. The law firm evaluated options against a variety of key design principles (i.e. fund ownership, governance structure, administration, tax advantages / disadvantages) as well as other considerations (e.g. cost, timing, process, etc.). CI staff held multiple phone conversations with Heinz Matysik, Principal at Little & Matysik in June 2019 prior to the law firm drafting the L&M Legal Memo, along with follow-up conversations and in-person meetings in Rarotonga in July 2019 prior to the workshop.

As noted in detail in the L&M Legal Memo (and expanded upon in the MM CTF Options Presentation), Little & Matysik identified four potential legal structures for hosting a SFM in the Cook Islands: (1) a Statutory Fund; (2) Charitable Trust; (3) Foundation; and (4) Incorporated Society. With the exception of an Incorporated Society8, the remaining three all present viable MM SFM options to varying degrees. Notably, all three can enjoy tax-exempt status in the Cook Islands. Mr. Matysik also provided additional background on current and past long-term finance vehicles within the Cook Islands, which the CI team investigated further through desktop research and in-person meetings with relevant parties and government officials in Rarotonga. A greater understanding of these experiences should help inform the selection of the optimal SFM structure.

1) Statutory Fund

A Statutory Fund is a legal entity / fund established by legislation introduced by the Office of Prime Minister and the Cabinet. One key feature is that the fund can be specifically designed to meet the desired purpose of its creators (i.e. a Marae Moana SFM). For example, the legislation can dictate the governing body composition (including whether it is independent or not from government), transparency requirements, define its tax-exempt status, among other structural elements. Having been created by the government, it might have greater credibility with foreign donors than other options.

Some disadvantages include a potentially rigid structure defined by legislation, which could hinder the operation of the MM SFM if the needs of the fund evolve over time. This burden can be mitigated through subsidiary legislation (regulations) that could handle operational and administrative matters, instead of amending the legislation at a later date. A Statutory Fund will also take time to draft the law and pass through Parliament.

- Examples of Statutory Funds within the Cook Islands include the Environmental Protection Fund (EPF), Superannuation Fund, and the Workers' Compensation Scheme Fund (WCSF). As described in the MM CTF Options Presentation and the L&M Legal Memo, each of these provides some useful lessons learned. In particular, the EPF and WCSF are two government managed funds, which illustrate the importance of ring-fencing specifically designated funds for their intended use, while creating a robust governance structure that can last the length of time.
- The EPF, which was designed to conserve and protect the natural environment, provides for a model similar to a potential MM SFM, particularly if supported by a departure tax / green fee. In that case, the government created the EPF pursuant to the International Departure Tax Act Amendment (1994), which designated NZD 5 from the Departure Tax towards the EPF. However, most of the funds were consolidated into general revenue until 1998 when a separate account was created to ring-fence the funds for environmental conservation. While an Environmental Council later approved EPF funded projects, the fund was eventually discontinued. Similarly, the Workers Compensation Scheme Fund was created pursuant to the Workers Compensation Ordinance (1964), requiring employers to make

8 An Incorporated Society is a legal entity established under the Incorporated Societies Act 1994 with its own separate legal personality with a limitation on members' liability. An incorporated society is typically organized as a club or society or members (with a minimum requirement of 15 members), who specifically sign up as members and provide for the election of officers who run the society. While this structure is often used for local sports clubs, it is not well suited for a Sustainable Finance Mechanism.

annual payments into the fund for Employers Liability Insurance to compensate workers suffering a work-related injury. In or around 1995-96, the government withdrew more than $1 million from the fund to pay for other activities during a financial crisis.

- By contrast, the Superannuation Fund is an independent fund created by statute in 2000 to collect a share of earnings from workers and employers in the Cook Islands to pay for death benefits and pensions for retirement. The fund operates with a board of 5 national stakeholders and an administrator who maintains records of contributors. The Board is responsible for collecting payments and overseeing distributions, while appointing a Trustee to hold and invest the funds.

2) Charitable Trust

A Charitable Trust must be used exclusively for Charitable Purposes (i.e. those considered beneficial to the Cook Islands community). Charitable Trust creators have some flexibility in creating their desired purpose / structure through a Trust Instrument / Deed, which sets forth its objects, governance and other rules. While eligible, a Charitable Trust must apply for tax exempt status with the Revenue Management Division (RMD) of the Ministry of Finance and Economic Management. The establishment process is relatively quick.

Charitable Trusts have some disadvantages in that they are not a separate legal entity like a corporation with their own legal personhood. They cannot own property or enter into contracts in their own name. Instead, individuals do so in trust for the charity. Further, trustees may have personal liability for their actions on behalf of the trust. Since charitable trusts are neither registered nor subject to regulation, they often lack transparency, which may be a concern for international donors among others. However, transparency and measures to promote accountability can be built into trust documents. Whereas property is held in the names of the Trustees, who have fiduciary duties to the trust, it is necessary to identify Trustees willing to carry out such duties. This can be mitigated by hiring a corporate Trustee, although that will add additional administrative costs. A Charitable Trust must also file annual returns.

One such example is the Disaster Emergency Trust Fund, created in 2011 by Cabinet decision. The fund was established to enable a swift and coordinated response by the Disaster Response Executive once a State of Emergency or Disaster is activated. Notably, the fund provides for ring-fencing; the Deed of Trust limits the use of funds to emergency responses and only after a State of Emergency or Disaster is declared.[9] The fund is managed by a fund management committee composed of four government trustees.

3) Foundation

Foundations have typically been established in the Cook Islands by "off-shore" companies and persons seeking to generate revenue while seeking to protect their assets. Nonetheless, there are charitable foundations (including those established for environmental purposes), which would need to register with the Ministry of Justice and receive a tax-exempt letter from the RMD. Like Charitable Trusts, the objects can be set forth in the governing documents (a foundation instrument) and rules governing administration and management, while being overseen by a council (the governing body). Foundations are relatively transparent (required to maintain financial records and register with the government), which may be more attractive to international donors. The establishment process is also relatively quick.

Potential disadvantages of a foundation include some additional regulatory burden. Foundations are regulated by the Financial Supervisory Commission (FSC), which requires among other things maintenance of financial records and annual registration filings. A local trustee company is required to file an application for registration and act as the registered agent for the foundation. While a foundation could house the MM SFM, it may suffer from perception concerns that these entities are primarily used to protect the financial assets of offshore clients.

Note on Taxation**:** All three structures are eligible for tax-exempt status within the Cook Islands. However, if the funds were invested (as an endowment or sinking fund), such funds would be unlikely to avoid international taxation on any investment income without additional measures. For example, in the United States, a non-profit legal entity can receive an "equivalency determination" from an accountant or tax lawyer, concluding that the non-profit is the functional equivalent of a United States public charity and therefore is entitled to the same tax-exempt benefits on US-sourced investment income as a US public charity. This is a fairly time intensive process, but may ultimately be worthwhile considering the alternative to paying 30% tax on US-sources of income.

Summary of Options: All three legal structures present viable options for hosting a MM SFM. All three afford significant flexibility in designing a MM SFM to the needs or desires of the Cook Islands. The fund creators (whether they be the government, civil society, international donors, third parties or a combination of the above) can dictate the fund mission and set up a structure, governing rules, and transparency rules, largely as they please. They all may enjoy tax exempt status on income earned in the Cook Islands, although not necessarily internationally sourced income.

Both Statutory Funds and Charitable Foundations are their own legal entity, which provides the members of its governing body with limited liability. By contrast, a Charitable Trust is not its own legal entity, cannot own property, and the trustees of a Charitable Trust may be held personally liable for the Trust's actions, thereby exposing them to greater personal risk. Further, there would likely be little regulatory oversight for a Charitable Trust, which might also have less transparency than the other two options.

The funds themselves offer varying degrees of flexibility in operations. A Statutory Fund might be considered the most rigid in that it is set by statute, and would require a legislative amendment if it sought to change its core purposes. However, the legislation can be drafted to give administrative agencies flexibility to modify or handle operational and administrative matters via subsidiary legislation (regulations). Meanwhile a Charitable Foundation and Charitable Trust would have greater flexibility in modifying their objectives, and potentially more flexible administration.

Because Statutory Funds may only be created through the legislature this could be a time intensive and obviously more political process. By contrast, both a Charitable Trust and a Charitable Foundation can be created relatively quickly (assuming the fund creators can agree on its objectives and governance rules).

We note that based on past experience in the Cook Islands, a Statutory Fund was considered by many stakeholders to be perhaps the most attractive of the three options – perhaps more so if supported by public funds. A Statutory Fund would necessarily require buy-in from all sectors of government and would be debated publicly, which might afford it with greater credibility within the Cook Islands.

Moreover, since such an SFM would be officially approved by the Cook Islands government, it might be viewed as having more credibility from international donors than a foundation (which may have some perception concerns) or a charitable trust. Still, depending on the SFM's future governance structure and independence of decision-making processes, international donors might be more reluctant to donate to a government-controlled fund.

9 See also Cook Islands Government, Policy Governing The Establishment And Operation Of The Cook Islands Disaster Emergency Trust Fund (CI DE-TF), November 2011,

In sum, all options have unique differences, but afford reasonable options for hosting a MM SFM. Regardless of which options is chosen, the success of a MM SFM will ultimately depend on its core characteristics (ownership, governance, administration, investment), which have to be decided by the Cook Islands people.

C. Public and Private Fund Structuring Options

Additional consideration should be given towards the role that government will play in both the creation and operation of the MM SFM. Depending on political wishes, the SFM could be established as either a "public" or "private" fund. Each carry their own advantages and disadvantages, which are explored in greater detail the Final Report. By contrast, this discussion focuses on how such private or public funds could be structured to incorporate many of the best governance practice standards for conservation trust funds. These include transparency, competency, diversity of stakeholder representation, independence, use of advisory committees, and executive staff. While independence from government is considered a best practice standard in order to minimize political interference and reduce the influence of any one stakeholder,[10] we recognize that there may be greater desire for government oversight and control over an SFM which could be funded in large part by public revenue through a green fee or other financial flow.

A "public" fund could be established either as an entity housed entirely within the government or controlled by a majority of government representatives. Under the former, a Statutory Fund could mandate that the fund be established within a particular agency. Under the latter scenario, a Statutory Fund could establish a governing body either independent or directly accountable to the government, but would maintain a majority of stakeholders from the public sector.

The Environmental Protection Fund (EPF) constituted a public fund, which was controlled by the government. Created as a statutory fund in 1994, it was controlled by the Treasury and consolidated into general revenue. Although a separate Environmental Fund Committee was created to help manage the funds, it ultimately became defunct.

In 1998, the funds were moved to a dedicated EPF account. After 1999, fund disbursements were later reviewed and approved by an Environment Council until the EPF was disbanded in the 2000s. It represents a cautionary tale for a public fund, with stakeholders expressing concerns over a lack of transparency, insufficient legislative guidelines for project selection, unstable governance, and consolidation into general revenue, among other issues. The Workers Compensation Scheme Fund represents another public fund controlled by the government. In operation since the passage of the Workers Compensation Ordinance (1964), it is managed by MFEM and administered by the Ministry of Internal Affairs. The Disaster Emergency Trust Fund presents a hybrid example of a trust fund governed by a board of four trustees (all public sector representatives), but administered by the MFEM through the Financial Secretary office.

By contrast, a "private" fund could be established independent of the government, while still maintaining stakeholder (including government) input and potential oversight. This generally accords with best practices for CTFs, particularly for those that receive significant sources of foreign donor funds. A private fund could be established through the legislature as a Statutory Fund. For example, the Superannuation Fund was created by statute, but acts independent of the government. It has 5 board members, 4 of whom come from the private sector.[11]

10 See CFA, Practice Standards for Conservation Trust Funds, at 14 (Governance Standard 2)

11 These include the Financial Secretary and representatives from the Workers Association, Chamber of Commerce, private sector employers, and contributors.

It further has an independent CEO, officers and employees, administrator, trustee, and investment manager. While a Statutory Fund might be housed independent of government control, it would nonetheless receive significant government input in its creation.

Private funds can also be established as Foundations or Charitable Trusts. These institutions are generally independent of government formation, although the legislature (or the cabinet, in the case of the Disaster Emergency Trust Fund), can define the fund to take a particular form, such as a Trust Fund.

As with any fund, public or private, the governance structure and governing body would be established by the entity or collection of individuals creating the fund. Thus, the legislature would be responsible for defining the composition of a Statutory Fund. Likewise, the key stakeholders establishing a Charitable Trust or Foundation would define the governance structure in the entity's governing documents (i.e. Trust Instrument / Deed; Foundation instrument).

Regardless of form, an SFM would be wise to adopt certain key measures to increase transparency, accountability to the people of the Cook Islands, enhance public and donor trust in the fund, and protect its core mission. The governing body should include a wide variety of stakeholders, including possible representatives from key government ministries, civil society, donors, the private sector, community members, or otherwise. This diversity of stakeholders provides greater buy-in, legitimacy, and different perspectives for the fund without allowing one voice to dominate. Further, an SFM should aim to promote transparency in its operations, such as annual reporting or other public-facing measures.

A public (and private) fund could also install certain measures to make donors feel more comfortable. Donors could be given greater say over the use of their funds, including rules providing veto rights over how the funds are spent or at least requiring a donor's consent or non-objection. Other funds with a government dominated governing body (50% + 1 majority) have limited the duties of the governing body to decide on key institutional issues, such as establishing SFM policies, hiring an Executive Director, and approving new funds. Meanwhile, they establish subsidiary bodies or committees composed of a majority of non-governmental representatives, who are in turn responsible for making all operational decisions regarding the use of funds for a specific project / initiative.

2. Consideration of Broader Regional experiences with conservation trust funds and other SFM models

As part of our legal analysis, we considered regional experiences in the Pacific with establishing conservation trust funds and other SFM models. Several of these were shared and presented during the consultative workshop.

For purposes of this report, we want to highlight the Tuvalu Trust Fund as a potential model for Marae Moana. Created in 1987 by a deed of trust, the Tuvalu Trust fund was designed to provide financial stability for the government and people of Tuvalu. Supported with funds from both Tuvalu and foreign contributors (Australia, New Zealand, United Kingdom), the fund has resulted in payments of USD 154 (NZD 246.4) million in the past 30 years.

The fund is managed by a Board of Directors from the three largest donors: Tuvalu (chair), Australia, and New Zealand, providing a level of independence from the Tuvalu government, while ensuring key input as well. The fund is supported by two advisory committees.

The Tuvalu Trust Fund Advisory Committee analyzes the national budget, advises on expenditures, and counsels the government on economic matters and policy, including the social impact of the fund on the people of Tuvalu. Meanwhile, an Investment Committee (composed of financial experts) advises the Board on investment selection and policy.

Assets are invested overseas with an Australian financial manager. A Fund Monitor, a separate independent entity, oversees and reports on investment performance. Administrative matters are handled by a Secretariat, who is responsible for coordinating all functions and activities of the fund, while providing reports to the government of Tuvalu. The fund itself generally meets best practice standards for conservation trust funds,[12] and similar to the Superannuation Fund might be seen as a potential model for a MM SMF.

A detailed accounting of additional SFMs and CTFs in the region will be discussed in greater detail in CI's final report presented to the Cook Islands.

3. Conclusions

Following the workshop and internal discussions with various agencies and stakeholders on the island, it was apparent that additional discussion was necessary among Cook Islands stakeholders to decide on the type of funding mechanism that might be desired. While all three types of legal entities (Statutory Fund, Charitable Trust, or Foundation) represent viable vehicles for an SFM, it is ultimately up to the Cook Islands government and its people as to what should be the core characteristics for such a fund. With that in mind, they can more readily select the appropriate vehicle and design it with key criteria (i.e. transparency, accountability, diversity of stakeholders) in mind to achieve the long-term conservation of Marae Moana.

ANNEX 4: ON-ISLAND INTERVIEWS HELD BY LOCAL CONSULTANT, JUNE 21ST – JUNE 28TH

	Date	Name	Position	Organization
1	21/6/19	Garth Henderson	Financial Secretary	MFEM
2	24/6/19	Jacqui Evans	Marae Moana Director	MMCO/OPM
3	24/6/19	Ben Ponia	Secretary	POM
4	24/6/19	Nga Puna	Director	NES
5	25/6/19	Tamarii Tutangata	General Manager	CIIC
6	25/6/19	Temarama Anguna	Secretary	MOA
7	25/6/19	Danielle Cochran	Secretary	MOE
8	25/6/19	Pamela Maru	Secretary	MMF
9	26/6/19	John Hosking	Secretary	MoT
10	26/6/19	Ian Hayes	Senior Economist	MFEM
11	26/6/19	Halatoa Fua	CEO	CIT
12	26/6/19	Jackie Rongo		Korero O Te Orau
13	27/6/19	Anthony Turua	Secretary	MOC
14	28/6/19	Cook Island Voyaging Society		
15	28/6/19	Puna Rakanui		House of Ariki
16	28/6/19	Tepaeru Herman	Secretary	MFAI

12 Conservation Finance Alliance, "Practice Standards for Conservation Trust Funds," ***available at*** https://www.conservationfinancealliance.org/practice-standards-for-ctfs

ANNEX 5: TOURISM WILLINGNESS TO PAY – VALUATION SCENARIO AND ADDITIONAL EXPLANATORY QUESTIONS

Valuation Scenario and Question

Legally designated in 2017, Marae Moana is a large-scale multiple-use marine park which extends over the entire the Cook Islands, an ocean area of 1.9 million km^2. It is currently the largest commitment by a single country for integrated management and conservation from ridge to reef to ocean. Marae Moana includes remote atolls, high volcanic islands surrounded by fringing reefs and native fauna associated with underwater mountains; it is home to rich marine biodiversity, including rare seabirds, beaked whales, manta rays, and several threatened shark species.

In order to increase funding and improve management and monitoring of Marae Moana, the Cooks Island Government is considering implementing a departure fee, the price of which would be included within the price of your original air ticket. 100% of this fee would be paid to the Marae Moana Coordination Office in charge of coordinating park activities, and would be used for management of Marae Moana.

We estimate that the required budget for improved management and monitoring of Marae Moana would be some <<NZD 1.5M>> per year. <<INSERT DEFINED CHANGES IN MANAGEMENT UNDER MSP>>.

Please consider the following question. I'd like to ask you to think seriously about this before answering, bearing in mind that any potential additional expense would represent money not available for other expenses you might have or things you might wish to buy.

- Taking into account
  - Your income and expenses
  - The amount you have already spent on your trip; and
  - That fees go directly to Marae Moana Coordination Office and used for management of Marae Moana only.

Q1. If an additional fee of __<<INSERT VALUE: i.e. 10/25/50/100>>__NZD were added to the cost of your airfare, would you still have chosen to visit the Cook Islands? (Y/N)

Q2. On a scale of 1-5, where 1 is very unsure, and 5 is very sure, how sure are you about your answers to the previous question?

Q3. Please give a brief reason for your answer to Q1.

Additional questions on Conservation Attitudes to be included:

a. Do you belong to or contribute to an environmental organization or club (Y/N)
b. On a scale of 1-5, where 1 is very poor, and 5 is excellent, how would you rate your overall experience in the Cook Islands?
c. On a scale of 1-5, where 1 is strongly disagree, and 5 is strongly agree, to what degree do you agree with the following statements:
   - "The marine environment does not need to be protected"
   - "Tourism should contribute to the conservation of Cook Island marine parks
   - "Entrance fees charged by the parks are an effective way to fund conservation"