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## CENTRAL AMERICA

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## EXECUTIVE SUMMARY

This Regional Strategy Paper forms part of the continuous process of management of European Commission cooperation with Central America (covering the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama). It is a key element in the improved programming process introduced by the reform of the management of external assistance, which aims to ensure greater coherence between the EU's strategic priorities and the appropriate policy mix for each partner country or region. The strategy is based on Central America's own development agenda as well as on the Commission's cooperation objectives. In addition, it builds on the regional strategy for Central America covering the period from 2002 to 2006.

Over the period 2007–2013 the Commission's cooperation programme with Central America will focus primarily on the priority of regional integration. The final selection of projects and corresponding amounts will be based on the outcome of detailed identification and preparatory studies carried out by the Commission in close cooperation with the relevant Central American authorities.

An indicative allocation of € 75 million has been earmarked for Central America in the period 2007-2013 under the financing instrument for development cooperation (DCI). These resources will be supplemented by projects funded from specific EC budget lines and programmes financed under the Central American and Latin American regional programmes. The indicative programme's resources will be complemented by projects funded from other thematic budget lines and programmes financed under the Central American country programmes and Latin American regional programmes

### 1. EU AND EC COOPERATION OBJECTIVES

#### 1.1 Global objectives

In accordance with **Article 177 of the Treaty Establishing the European Community**, the Community's development cooperation policy shall foster the sustainable economic and social development of the developing countries, the smooth and gradual integration of these countries into the global economy and the fight against poverty. The Community's policy in this area shall contribute to the general objective of developing and consolidating democracy and the rule of law, and to that of respecting human rights and fundamental freedoms.

In November 2005 the Council, the representatives of the Governments of the Member States, the European Parliament and the Commission approved "***The European Consensus on Development***", providing for the first time a common vision that guides the action by the EU, at both Member State and Community levels, on development cooperation. It states that the prime objective of Community development policy is the eradication of poverty in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs), along with the promotion of democracy, good governance and respect for human rights. The Consensus also stresses the importance of partnership with the developing countries and of promoting good governance, human rights and democracy with a view to

more equitable globalisation. It reaffirms the commitment to promote policy coherence for development, based on ensuring that the EU takes account of the objectives of development cooperation in all its policies which are likely to affect developing countries and that these policies support development objectives. It reiterates the principle of ownership of development strategies and programmes by partner countries and advocates enhanced political dialogue plus a more prominent role for civil society in development cooperation.

## 1.2. Specific objectives in Latin and Central America

On the basis of Article 179 of the same **Treaty Establishing the European Community**, a new Development Cooperation Instrument (DCI) was adopted in December 2006. Central America is eligible to participate in cooperation programmes financed under the DCI (European Parliament and Council Regulation (EC) No. 1905/2006 of 27 December 2006 establishing a financial instrument for development cooperation).

The **2004 Guadalajara Summit**<sup>1</sup> between Latin America, the Caribbean and the European Union put the emphasis on **multilateralism**, **regional integration** and **social cohesion** (reducing poverty and combating inequalities and exclusion) which are the main priorities for policy dialogue and cooperation. These objectives are to be turned into specific programmes of action in Central America through country-level initiatives for social cohesion and regional-level initiatives for regional integration.

In its **December 2005 Communication** on “A reinforced European Union-Latin America partnership” the Commission restated its aim of a strategic partnership with the entire region and stressed the need for policy dialogues, targeted cooperation, promotion of trade and investment and closer alignment of cooperation with the political agendas and needs of recipient countries.

In the specific case of Central America, cooperation has been shaped by the **San José Dialogue**, launched in Costa Rica in 1984, which remains the principal channel for political dialogue between the two regions. This annual dialogue was originally set up to support the peace process and democracy in the region. It was confirmed in 1996 and 2002 and expanded to include other issues, such as economic and social development.

The **Regional Development Cooperation Framework Agreement** signed between the six Central American countries and the Commission in 1993 came into effect in 1999. This “third generation” agreement covers cooperation in a broad range of sectors and provides for the establishment of a Joint Committee to oversee its implementation along with sub-committees for detailed examination of specific sectors under the Agreement.

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<sup>1</sup> [http://europa.eu.int/comm/external\\_relations/ca/polpdca\\_12\\_03\\_en.pdf](http://europa.eu.int/comm/external_relations/ca/polpdca_12_03_en.pdf)

In **December 2003** a new **Political Dialogue and Cooperation Agreement** was signed by the EU and Central America, which, once ratified, will institutionalise the San José Dialogue and expand cooperation to include areas such as migration and counter-terrorism. It also opens the door to a future Association Agreement, the common strategic objective of both parties, as established at the EU-Latin American Countries Summit in Guadalajara of May 2004, including a free trade area. The two regions decided that a future Free Trade Agreement between them shall be built on the outcome of the Doha Development Agenda and on the realization of a sufficient level of regional economic integration. At the **Vienna Summit in May 2006**, and based on the positive outcome of a joint evaluation of the regional economic integration in Central America carried out during 2005-2006, the Heads of State and Government of the European Union and of Latin America and the Caribbean decided to launch negotiations of an Association Agreement between the EU and Central America, including a free trade area. On that occasion, Central America reaffirmed its commitment to enhance the economic regional integration, including the establishment of a customs union.

## **2. CENTRAL AMERICA - REGIONAL ANALYSIS**

### **2.1. Political situation**

In the late 1970s and early 1980s Guatemala, El Salvador and Nicaragua were racked by a series of internal disputes, largely as a result of economic and social inequalities and repressive political regimes and fuelled by the policies pursued in the region by foreign powers. These conflicts also affected Costa Rica and Honduras due to the presence of armed groups operating outside the countries concerned and large numbers of displaced persons. Faced with a deteriorating situation and the threat of full-scale war, several initiatives promoting solutions based on dialogue and negotiations were taken. Consequently, the Contadora Group was created in 1983, consisting of Venezuela, Colombia, Mexico and Panama, with a Support Group, consisting of Brazil, Argentina, Peru and Uruguay, subsequently reinforcing the peace process. In parallel, but complementary to these efforts, the San José Dialogue between the European Community and Central America was initiated in 1984.

Encouraged by these developments, the Presidents of Central America initiated the “Esquipulas negotiations”. Subsequently, on the principle that peace, democracy and development are inextricably linked, they adopted a peace plan which put an end to different factors behind the conflict and included the demobilisation of irregular armed groups and their reintegration into civilian life, as has progressively been achieved in Nicaragua, El Salvador and Guatemala.

It must be emphasised that active European involvement made a significant contribution to resolving the conflicts by peaceful means rather than by military force. In the 1990s there was a general consensus in favour of negotiated solutions. The progress achieved in peace-building and democratisation has greatly transformed the region, as evidenced by the

replacement of a widespread authoritarian tradition by normal elections, more robust parliaments and the creation of forums for participation by civil society.

However, despite the varying degrees of progress achieved in the countries concerned, the authority of some governments remains under threat and democracy is subject to ups and downs. The rule of law remains weak in most countries and political polarisation is an obstacle to building the essential consensus. From the human security perspective, CA experiences a startling series of interlocked threats, including rising levels of social violence, high levels of violence against women, migratory pressure, organised crime and drug smuggling. There also is a serious lack of confidence in the administration of justice. Although some countries have taken steps to combat the problem, the persistence of corruption, in both the public and private sectors, is a serious hindrance to development in certain countries. The various forms of social exclusion undermine the basis of coexistence. The combination of widespread violence and perceived impotence of governments to cope with it and impunity, create an environment where the fear of violence becomes a generalised routine, and pervasive dimension of social life throughout the region. These deficiencies, in societies where the social and institutional fabric is still weak, reflect the vulnerability of the region.

## **2.2. Economic and social situation**

Further to a decade of relative vigorous economic development during the 1990's, GDP growth in Central America has averaged some 4.2% over the 2003-2005 period. This is an improvement on the period 2000-2002, but falls short of the recent overall performance of the Latin American region due to the structure of natural resource endowments and the current world market situation. Central America's imports and exports of goods expanded in 2003/2005 as did the transfer of private capital to the region, primarily made up of remittances from migrants, which exceed foreign direct investment in Central America.. The export sector has grown in recent years, especially in the light of expansion of the "*maquila*" industry which, however, is facing increasing competition from Asian producers on the US markets, in particular in the textiles sector. The growth rate of this sector dropped from 19.4% in 2003 to 4.4% in 2004. This trend continued in 2005. Additionally, the reduction in the added value growth of the *maquila* during 2000-2005 (-3,7% in 2004, -6.7% in 2005) indicates that this sector is diminishing the important role played during the nineteen, especially in Costa Rica.

The United States remains Central America's main trading partner (45,1% of total imports and exports in 2005), followed by the EU (8,9% in 2005). Central American intra-regional trade accounted for 27% of the total exports and 13% of the total imports in 2003. Although there has been some degree of diversification in the region's exports, traditional products such as coffee, bananas and sugar still constitute a large proportion, particularly to Europe. The CA share of total EU imports and exports is rather limited (close to 0.3% in 2005), with exports from Central America being mainly agricultural goods and imports from the EU predominantly industrialised goods. The traditional commercial surplus posted by CA has progressively increased since 2001, and reached about 1 billion EUR in 2005. Central



America's trade with the EU is highly concentrated in a few countries<sup>2</sup>. In general, EU exports to the CA Isthmus are less focused on a specific country; however Costa Rica and Panama absorbed together 55% of the total EU export in 2005.

Central America benefits from the EU's unilateral tariff preferences granted through the Generalised System of Preferences (GSP), which, since 1990, have resulted in suspension of duties on agricultural and industrial exports to the EU. The GSP drugs regime has been replaced in 2005 by the new GSP Plus scheme which will run until 2008, which will permit continued preferential market access for countries committed to promoting sustainable development and good governance. Since January 2006, a new tariff-only system has been introduced for the banana exports. All the countries of Central America are members of the World Trade Organisation (WTO).

General macroeconomic stability throughout Central America has been backed up by improved fiscal performance, in part assisted by debt reduction initiatives in Nicaragua and Honduras under the Heavily Indebted Poor Country (HIPC) initiative. Although the balance of trade and capital account deficits worsened in 2004, foreign direct investment increased by 2.6% to some US\$2 billion. However, improving the tax system remains a serious challenge for the region. Tax collection remains very low in some countries (e.g. 10,5% of GDP in Guatemala in 2005). This limits seriously possibilities of social spending in order to build social cohesion. Several Central American countries face widespread tax evasion and weak performance in tax collection. More comprehensive macroeconomic data can be found in Annex 1.

Income distribution in Central America is marked by strong national and regional variation. Per capita income ranges from below US\$1 000 in Nicaragua and Honduras to about US\$2 000 in Guatemala and El Salvador and above US\$4 500 in Costa Rica and Panama. With the exception of Costa Rica, income distribution is highly unequal with the poorest 40% of the population receiving between 10% and 14% of total income. Nevertheless, between 1990 and 2000 human development indicators increased in all Central American countries except Costa Rica (see Annex 1 for social indicators).

Serious educational problems persist in the region. Although illiteracy has diminished over the years in the majority of the countries, it has been falling at a slow rate and still affects 27% of the population over 15 years old, especially women. Central American youths' schooling does not even last five years, while Asian youths receive average schooling of 8.6 years. The region suffers from limited educational opportunities for children at an early age (pre-school), little continuity in the educational system (high drop-out rates in secondary schools) and the poor impact of higher education on the development of vanguard technological know-how.

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<sup>2</sup> (especially Costa Rica, which accounted for over 64% of EU imports from CA in 2005).

In spite of general advances in life expectancy during the last four decades, there are still noticeable contrasts between the Central American countries (for example 77.7 years in Costa Rica compared to 65.9 years in Guatemala). One major challenge in this field is control of transmissible diseases, where considerable progress has been made thanks to regional coordination, but tighter control of malaria and dengue is still pending. Significant differences also exist in the degree of coverage offered by the health services (from universal access in Costa Rica to low or very low coverage and extremely discriminatory provision of services in Honduras and Guatemala).

In the Central American region, the HIV/AIDS epidemic is serious with about 37 500 deaths reported in the period from 1998 to 2003. Official HIV prevalence estimates are highest for Honduras (1.6%), followed by Panama (1.5%), Guatemala (1%), El Salvador (0.6%), Costa Rica (0.6%) and Nicaragua (0.2%). However, these estimates almost certainly understate the real situation, which is worsening.,

According to the ILO, unemployment in the Central American region stands at around 1.5 million persons or 8% of the total labour force of some 18.8 million. Some 60% of workers are employed in the informal economy and in rural and indigenous production activities. A high proportion of the labour force has low levels of schooling.

Food security remains a problem in Central America with malnutrition rates ranging from 20% in El Salvador and 25% in Nicaragua to 30% in Honduras and 50% in Guatemala, where in some districts they soar to 80% according to the World Food Programme.

The International Organisation for Migration (IOM) estimates that some 2 million Salvadorans and 1.2 million Guatemalans live in the USA. The estimates of the number of Nicaraguans in Costa Rica range from 225 000 to 400 000 persons. Significant numbers of Guatemalans and Salvadorans can be found in Belize. Central America is also host to migrants in transit from South to North America, as is the case for Mexico. Migration from Central America to the European Union is not significant, mainly because of the proximity of the USA. Remittances form an important part of income in Central America.

Although Central America is not a major drug producer, it is an important transit region for South American drugs en route to the USA and Europe. This has had an impact on both drug consumption and drug-related crime in the region, which has brought an increase in money-laundering activities. The region continues to be affected by large-scale cocaine trafficking and abuse. Surveys indicate high levels of abuse of pharmaceutical medications containing psychotropic substances in certain countries in Central America and the Caribbean. In 2004 law enforcement agencies in several countries in the region reported increased seizures of cocaine, as well as stricter controls over precursor chemicals. There are, however, indications that drug trafficking organisations are adapting their methods in order to overcome law enforcement efforts. In parallel, there has been a growing wave of violent crime committed by juvenile members of gangs known as “*maras*”. So far their activities have been concentrated in Honduras, El Salvador and Guatemala with some spillover into southern Mexico. Security has become one of the priorities for cooperation and dialogue at

sub-regional level, as well as in relations with other countries affected directly or indirectly by these phenomena (USA, Colombia, etc.).

### **2.3. Environment and sustainability**

Central America constitutes a biological, cultural and economic bridge. The geography of the region is highly diverse, varying from high mountainous areas to plains, resulting in temperate climate in some areas and dry and wet tropical climate in others. There is great ecological diversity of worldwide interest. This 2% of the world's territory holds nearly 12% of the world's biological diversity. The region has the second largest barrier reef chain in the world - some 1 600 km along the south-eastern coasts of Mexico, Belize, Guatemala and Honduras. The region also has humid tropical forests, semi-arid woodlands, prairies and mountain forests. It possesses 8% of the world's remaining mangroves. However, the region is affected by increasing, and in some cases, irreversible environmental degradation, with the relentless erosion of arable land, deforestation and the depletion or pollution of water resources and threats to both terrestrial and marine biodiversity.

Among the root causes of this situation are inadequate environmental policies and legislation, institutional weakness and destructive farming practices such as burning fields prior to sowing, coupled with the effects of poverty and the persistence of polluting or harmful methods of production. Furthermore, the increased urbanisation of recent decades, largely as a result of migration from the countryside to towns and cities, and the persistence of poverty and social inequalities, apart from increasing the burden on already overstretched public services in urban areas, have pushed up the figures for crime and violence – including domestic violence – to alarming levels in most countries in the region, while destitution is increasing among broad sections of the rural population. The most economically depressed rural and urban populations are found in zones of high natural disaster risk, in contrast to higher income groups. Such risks include droughts in southern Honduras, volcanic eruptions in El Salvador and Nicaragua, flooding in Honduras, Nicaragua, Guatemala and El Salvador, and landslides and flooding in urban and urban peripheral neighbourhoods. Natural disasters closely and intricately linked to climate variability have increased in frequency and intensity over the last few decades.

Annex 4 contains a summary of the **Regional Environmental Profile (REP)** prepared in the context of the pre-programming exercise for this strategy. It highlights the critical technical issues that need to be tackled as being water, environmental contamination and natural resources management. In addition, it underlines the progress made over the past decade on establishing environment-related institutions, policies and programmes and the significant amount of donor funding in this sector. Details of the recommendations made by the REP are given in section 4.1.

### 3. OVERVIEW OF THE CENTRAL AMERICAN REGIONAL INTEGRATION PROCESS AND AGENDA

Since the revitalisation of the Central American integration process in the early 1990s, the process of regional integration has made relatively steady progress on the political, economic and social fronts. Historically the Central American regional development agenda has centred on the process of political and economic integration; however, during the last 10 to 15 years these initiatives have also been complemented by numerous regional development treaties, strategies and programmes in the fields of sustainable development, social integration and democratic security, among others, which indicate a clearer commitment to and interest in a higher level of cooperation and integration in the region.

**Economic integration** has, since the 1960s, been one of the main pillars of the integration process in Central America. Currently, the economic integration sub-system includes Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua as parties to the 1993 Guatemala Protocol. Panama has signed this Protocol, but is not party to the economic integration sub-system. This process is mainly inter-governmental (based on the decision taken by the Ministers of Economic Integration), while a Secretariat for Central American Economic Integration (SIECA) provides technical support. The process of economic integration was boosted in 1996 when El Salvador and Guatemala decided to accelerate the process of forming a customs union. Honduras and Nicaragua opted to join this process in 2000 and Costa Rica came on board in 2002. In 2002 these five Central American countries approved a Plan of Action for Central American Economic Integration covering: normative aspects such as a uniform customs code, dispute settlement and services and investment; harmonisation of customs duties; free movement of goods; trade negotiations; trade facilitation and the implementation of a customs union.

Major achievements have been to put in place legal instruments and other measures for deepening sub-regional trade including: a) establishment of a dispute settlement mechanism; b) trade facilitation by eliminating most of the 60 obstacles to trade identified at the beginning of 2002; c) progress with modernisation of customs and border crossing formalities; and d) reduction in the list of exceptions for the products excluded from free movement between SIECA members. These measures contributed to pushing intra-regional trade above US\$3 billion for the first time in 2002, the highest share recorded by any integration agreement in Latin America and the Caribbean. There is ample anecdotal evidence of increasing intra-regional investment in sectors such as: financial services, particularly in banking; hotels and restaurants; retail chains and shopping malls; airlines; and the food and beverage sector, among others.

The process of forming a customs union between Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua is under way. Tangible progress has been made on customs integration in three ways: i) integrated border crossings where procedures take place only once (as opposed to the current two-step approach - one per country); ii) a single building for housing customs and immigration officials from two countries (but still requiring two steps); and iii) peripheral customs facilities where one country establishes an office on the territory

of another (e.g. in a port) and merchandise is cleared all the way through to the country of destination.

These customs measures are moves towards trade facilitation but are not directed towards a customs union, which would include removal of border crossing controls altogether. One of the difficult issues to tackle is tax collection in ports of entry to the customs union and revenue distribution. First, common collection assumes a common external tariff (otherwise importers can choose the country with the lowest tariff as the stated destination). Second, governments currently also collect sales and consumption taxes at the ports of entry. Such taxes are not harmonised, but differ significantly. Reform towards harmonisation, possibly including the introduction of value-added taxes, is desirable, but difficult to implement. Third, there is the issue of control. The intensity of smuggling varies, depending on the country. In a customs union this could have undesirable fiscal effects for the countries exercising greater control.

Advances towards a common external tariff are currently perforated by free trade agreements entered into by individual countries (or subgroups of countries), such as with Mexico, Canada, Chile, Panama and the Dominican Republic. This will be further complicated by the individual schedules negotiated with the USA under the CAFTA Agreement (Costa Rica has not yet ratified it). Although significant progress has been made towards forming a customs union, compatibility of the different accords concluded with third countries is a challenge to increased economic regional integration. It is clear that without renegotiation with third parties, a custom union could not materialise in the immediate future.

At the Vienna EU Latin America and Caribbean Summit, which was held in May 2006, Central America confirmed its commitment to implement the decisions taken by the SIECA Heads of States on 9 March 2006 in Panama (including the creation of a Custom Union), as well as to seek ratification of the Central American Treaty on investment and services, and to develop a jurisdictional mechanism that could secure enforcement of regional economic legislation throughout the region. This decision is based on the positive results of the Joint Assessment process on economic regional integration in Central America which was held during 2005-2006.

As regards the **institutional set-up**, the 1991 Tegucigalpa Protocol effectively constitutes the foundation stone of the Central American Integration System (SICA), which includes Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama, as well as Belize, which joined in December 2000, and the Dominican Republic, which became an associate member in 2003.

A set of quite ambitious guidelines established by the Panama II Central American Presidential Declaration of 12 July 1997 aims at rationalising and strengthening the regional integration framework. These reforms include: closer coordination between all parties, unifying the different secretariats in a single Secretariat-General, working towards a single legal instrument reviewing and rationalising the statutes, cost and functioning of Parlacen

(the Central American Parliament) and the Central American Court of Justice in the process, and adopting an automatic financing mechanism plus a single budget.

Since the adoption of the Panama II Declaration, the process of regional integration has moved ahead steadily with more frequent meetings at Presidential and other levels coupled with the launching and/or furthering of a series of initiatives that have required concerted regional action. These initiatives range from political, economic, commercial, social and environmental to questions of security (e.g. the regional response to Hurricane Mitch; the “Madrid Proposal” for the transformation and modernisation of Central America, etc.). However, this progress has not been backed up by similar progress on implementing the institutional reforms adopted in Panama in 1997 or advancing on this issue. The slow progress with carrying out this reform is acting as a brake on implementation of the regional initiatives and achievement of the regional integration objectives agreed at the highest level. In this regard, a number of critical issues require attention. These include:

- The persisting serious problems with coordination, follow-up, execution and evaluation of presidential and ministerial decisions, identified in the Panama II Reform Guidelines;
- The need to consolidate the legal base of the institutional set-up and to amend the statutes of the CCJ and Parlacen in order to streamline their cost and operation. The system must have a clearly defined legal base outlining the powers and mandates of each instance so that roles cannot be misinterpreted. It is also essential to ensure that the powers/mandates of regional institutions are focused primarily on matters of a regional nature;
- The need to establish an automatic financing mechanism for the regional institutions, to be defined by the Ministers of Finance, and an audit or financial control mechanism. The guidelines attached to the Declaration also propose the introduction of a single budget drawn up by the Secretariat-General;
- The need to ensure administrative efficiency, by attempting to unify sectoral integration secretariats in a single Secretariat-General and by providing all concerned with clear mandates together with adequate financial and human resources. A number of secretariats do not have the necessary resources to carry out their mandates;
- The strength of regional integration also depends to a large extent on achieving the broadest possible participation by member countries in the regional institutions and the effective participation of the key players (governments, civil society and regional entities) in the process. In this regard, it must be underlined that Costa Rica, Guatemala and Panama are not members of the CCJ and Costa Rica is not a member of Parlacen. Panama is examining possible participation in the Central American Customs Union, but Belize does not participate because it belongs to CARICOM.

Finally, in terms of the government/regional institution/civil society interface, there is consensus in the region that efforts must be made to promote greater awareness and understanding of their respective roles and responsibilities and to facilitate this process.

Formalised civil society is recognised as a party to the process of regional integration by the decision (Tegucigalpa Protocol) to establish a Consultative Committee (CC-SICA). CC-SICA now exists, but is not currently funded under SICA and is deemed not to be broadly representative.

### **Other priorities at regional level**

Central America has also established the policy basis and institutional provisions for enhanced regional cooperation in the following areas:

- Promotion of **human development, economic growth with social justice** and promotion and protection of the **environment** on the basis of the 1994 Alliance for Sustainable Development (ALIDES). The region's strategic focal areas for environmental management are set out in the Central American Regional Environmental Plan (PARCA) and include: water; clean production technologies; institutional development for environmental management; and forests and biodiversity. The basic sustainable development principles adopted by the region also underpin the approach adopted by the Stockholm Consultative Group in May 1999 in support of the reconstruction process following the disaster caused by Hurricane Mitch in late 1998.
- Inclusion of the **social agenda** among the priorities of the integration process. Social integration has recently been promoted, with noteworthy progress achieved in cross-border social security cover in emergency cases, as well as coordinated campaigns to prevent the spread of vector-borne diseases. Progress has also been made on programmes relating to food security and education.
- All Central American countries have a national HIV/AIDS programme, including strategic plans to prevent and control the HIV/AIDS epidemic, development of surveillance systems, access to voluntary counselling and to HIV testing, behaviour change and condom distribution campaigns targeted at high-risk groups and promotion and defence of the human rights of people living with HIV/AIDS.
- In the field of **labour policy**, the region recently reaffirmed its commitments to the ILO principles and fundamental labour rights in a declaration made on 30 June 2005 by labour ministers and representatives of employers and employees in support of the development of employment and "*trabajo decente*". The fundamental aims of this programme include promotion of international labour norms, job creation, expansion of social protection and strengthening social dialogue. It must be added that the new EU GSP+ trade incentive for the period from 2006 to 2008 will be granted to countries which – inter alia – are committed to international environmental, human and labour rights standards. This is a stimulus for Central America to ratify and put in place a number of ILO conventions (the six Central America countries have been included in the list of the beneficiary countries).

- The Framework Treaty on **Democratic Security** in Central America was signed in December 1995 and is a key element in the establishment of a new security vision for the region, based on a wider and more comprehensive concept than a purely military approach. Recent initiatives on security have focused on issues such as preventing and combating trafficking in light arms and measures to reduce and prevent crime, such as the Central American detention order.
- **Vulnerability.** Disaster prevention and preparedness is an important regional policy. CEPREDENAC, a technical secretariat within SG-SICA, which has benefited from a measure of international cooperation, is the regional body mandated for this sector. Similarly, food security including nutrition has also been the focus of a regional strategy supported by multilateral donors such as the PAHO, FAO and EU.
- The 2001 Plan Puebla Panama (PPP), a multi-country development initiative aimed at accelerating **physical integration and sustainable development** in seven countries (five Central American countries, Belize and nine southern Mexican states). The PPP is divided into eight main areas: electrical interconnection, development of telecommunications services, roadway integration, sustainable development, human development, natural disaster prevention, trade facilitation and tourism.
- With respect to trade, as mentioned earlier (see par. 1.2) the negotiations for an Association Agreement with the EU, including a Free Trade Agreement, is seen by the region as a high priority and a mean to strengthen economic links and investments. In addition, over the past two years, and especially in 2003, CA has made a significant effort in negotiating a new Free Trade Agreement with the USA (CAFTA), which was signed in May 2004 and also includes the Dominican Republic. Central America also has important trade agreements with Mexico and Canada.
- There is growing interest in Central America in increasing regional cooperation in the **energy sector** in order to reduce the impact of the rising price of oil, improve the efficiency of the system and explore the possibility of harnessing alternative sources and technologies, including the promotion of renewable energy.

### **3.1. Principal obstacles and challenges to sustainable integration in Central America**

The main medium-term development challenges currently facing the Central American region can be grouped together into four broad categories:

- **Strengthening democracy**, above all in terms of the lack of protection of fundamental freedoms, impunity, and the lack of transparency in public sector management and the functioning of the electoral system and political party structures, all of which put at risk the democratic progress achieved to date.



- The development and stability of the CA region, as well as the success of regional integration will depend on the CA capacity to cope **with traditional and non-traditional human security threats**.
- **Economic vulnerability**, which results in a lack of competitiveness on the part of the Central American countries due to a structural make-up that obliges them to rely heavily on exports of primary commodities and “*maquiladora*” industries and on remittances, imported energy sources and tourism, which are subject to fluctuation in line with global market trends;
- **Lack of social cohesion**, borne out basically by the high levels of poverty and extreme poverty, highly unequal distribution of wealth and income, and limited provision of essential social services and access to them, such as health and education, for a significant portion of the population. Budget constraints are reinforced by limited tax administration, and widespread tax evasion. The persistence of these phenomena leads to a vicious circle of poverty, the search for alternative options for survival (migration, criminality, etc.), social conflict and economic stagnation;
- **Environmental vulnerability**, determined by the natural conditions of the region, which expose it to frequent natural disasters (earthquakes, hurricanes, floods and droughts) that have been accentuated over the past few decades due to the growing irrational use of natural resources, including water and forests, coupled with poor environmental management (i.e. contamination).

These groups of problems are closely inter-related. However, they are not evenly spread throughout the region, as demonstrated by the varying levels of social exclusion. With the exception of Costa Rica, poverty affects practically half of the region’s population (or more in some cases). The informal labour market absorbs some 40% of the labour force and the level of social expenditure is insufficient to redress this balance and raise the level of human capital.

In addition to the abovementioned development challenges, the region also faces the need to further its regional integration agenda, which is an essential tool for preventing conflict, consolidating democracy, good governance and fostering sustainable development. Despite the evident political will for regional integration, progress has on occasions been limited by the following challenges:

- ***Institutional weakness***: Significant work remains to be done to improve the coordination, legal base, financing, mandates, organisation and technical competence and human resources of the various technical secretariats.
- ***Different visions and levels of interest regarding integration***: The countries of the region do not display the same level of interest or the same willingness to make commitments. Even if the possibility of a multi-speed integration process is accepted, in certain cases the priority appears to be the link with foreign markets and the

development of these links on an individual basis. Furthermore, the procedures to put into practice the “two-speed” principle have not been clearly defined.

- ***Intra-regional economic disparities:*** Concerns about the consequences of integration stemming from unequal economic development in each country are giving rise to reservations regarding the measures, effects and procedures of the integration process in certain countries. Consequently, in addition to a comprehensive, realistic and long-term vision, based on firm commitments and political willingness and capacity for integration, it is necessary to find measures and programmes designed to reduce economic inequality and to promote an equitable distribution of income, both on a regional scale and within each country. To achieve this, the development of efficient and transparent tax systems is an issue which must be addressed in most countries in Central America.
- ***Lack of financing mechanisms to strengthen and develop the integration system:*** SICA does not have an adequate system of financing, which seriously limits its initiatives and its capacity to carry out its mandate. An overdependence on international cooperation is leading to serious inefficiencies in its operations.
- ***The binding nature of the regulations and resolutions:*** The embryonic nature of common legislation and binding instruments, together with the weakness of enforcement mechanisms, threatens to damage the legitimacy of the process through lack of practical application of measures and decisions.
- ***Social ownership of the integration process:*** In most of the countries concerned, large sections of society are as yet isolated from the integration process, either due to a lack of effective means of participation or because the benefits of participation are not apparent or they are not sufficiently aware of the potential of their contribution.

#### **4. OVERVIEW OF PAST AND ONGOING EC COOPERATION, COORDINATION AND COHERENCE**

##### **4.1. Overview of past and ongoing cooperation, lessons learned**

###### **Recent trends in EC cooperation at regional level**

Following a period of relatively wide “sectoral dispersion” of aid in the 1980s and 1990s, in a context of alternate political and economic ups and downs in the integration process, the EC cooperation with Central America at regional level has progressively focused on a more limited number of priorities, with a longer term perspective and special emphasis on support to the integration process. This new approach started in the late 90s on the basis of a series of specific appraisals of the region’s development needs, a number of evaluations (see below),

and joint decisions taken by the EC and the Central American governments at political level<sup>3</sup>.

As a consequence, the 2002-2006 Regional Strategy Paper narrowed down the priority sectors to three:

- (1) Support for the process of regional integration, implementation of common policies and institutional consolidation;
- (2) Strengthening the role of civil society in the regional integration process; and
- (3) Reducing vulnerability and improving environmental management.

Out of an overall indicative allocation of €74.5 million for the RSP for 2002-06, some €40 million is currently being channelled into direct support for the process of regional integration which, in fact, can be seen as the principal focal sector of the strategy. By contrast, during 1984-2000 only 5% of the estimated total of €450 million for regional cooperation with Central America (in the broadest sense) was allocated by the Commission directly to support the regional integration process.

This support is closely tied to the approach adopted by the EU at the EU-Latin America and Caribbean Summit in Madrid 2002, and reiterated in Guadalajara in 2004, when it insisted that Central America must deepen its integration process in order to be eligible for a full Association Agreement with the EU.

Finally, the RSP for 2002-06 is complemented by a number of regional cooperation programmes, partly financed by thematic budgetary lines, in areas such as promotion of human rights, food security, natural disasters preparedness and local development in border zones, including water basin management. The region also benefits from key support from a series of EC regional programmes for Latin America, such as ALFA, Alþan (higher education), @lis (information society), URBAL (cooperation between cities and local administrations), AL-Invest (private sector), ALURE (rational use of energy), OBREAL (the Observatory of EU-LA relations) and EUROSociAL (social cohesion). Cooperation in the field of youth (within the Youth programme), as well as support to regional integration by contributing to dialogue and collaboration on macroeconomic issues in Central America (via the REDIMA II project)<sup>4</sup> have also to be mentioned. Specifically to Research and Development Policy, it should be noted that the EU Research Framework Programmes encourage international cooperation with Central American countries and value the potential of expertise and know-how that exists in that region.

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<sup>3</sup> Decisions taken at the San José Dialogue Ministerial Meeting held in Florence in 1996.

<sup>4</sup> Managed through the UN's ECLAC (<http://www.eclac.cl/redima/>)

The Central American countries are also eligible for European Investment Bank financing under the “ALA III” mandate covering the period 2000-2007. Under these arrangements, the EIB funds are utilized to finance investments in countries signatories to cooperation agreements with the EU. There are no amounts allocated per country. Current activities in Central America, for a global amount of about €65 million, include energy interconnection at regional level, financing for small and medium-scale ventures and reconstruction schemes and/or private-sector development initiatives in areas affected by Hurricane Mitch. A fuller overview of EC cooperation with Central America and a summary of the principal cooperation programmes at regional level are given in Annex 2.

### **Lessons learned**

In recent times, the EC has not carried out yet any comprehensive ad hoc evaluation of the regional cooperation in Central America, inter alia because most of the initiatives called for by the RSP for 2002-06 are still being implemented<sup>5</sup>. However, a number of recommendations may be derived from a series of analyses taken into account at the time of preparation of the RSP for 2002-06. In short, these analyses underline, inter alia, that:

- The EC support to sub-regional integration processes is relevant and is boosted by a very real demand for regional cooperation;
- Support for regional integration in the form of strengthening institutions and civil society in Central America should be the EC priority. Community support should concentrate on creating a regulatory framework and management and monitoring tools aimed at facilitating greater mobility of people, capital and goods;
- The effectiveness of inter-state cooperation through regional integration bodies could be improved by the prior requirement to establish common regulations and legislation. Any initial verification of the relevance of regional cooperation should give fuller consideration to the capacities and willingness of all the players, national and regional, private and public.

### **Other indications**

Other useful indications may be drawn from the 2005 evaluation of the regional strategy for Latin America covering the period 1996-2006<sup>6</sup>, from the mid-term review of the RSP for 2002-06, and from the preparatory work carried out for this strategy paper in 2004 and 2005 (the pre-programming mission and the Regional Environmental Profile). The 2005 evaluation underlines the following points of particular interest for this strategy:

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<sup>5</sup> The results of an evaluation of the EU-CA cooperation at regional level during 1996-2006 are expected to be available in 2007.

<sup>6</sup> This evaluation covers regional cooperation during 1996-2001 and the Regional Strategy Paper for 2002-2006.

- the relevance for the EC to reinforce integration at sub-regional level as an intermediate goal on the way to deeper integration in Latin America and as a means to promote a strategic association with the EU;
- as regards social cohesion, the sustainability of the EC action would benefit from adapting the action to the specific situation at country level and in each sub-region;
- another recommendation is to strengthen the legitimacy and credibility of the EC action at regional level by means of increased consultation and involvement of civil society.

The **mid-term review** of the strategy conducted in 2003 concluded that although there had been some changes in timing (both advances and delays), there was no need to revise the substance of the RSP for 2002-06, because the principal focal areas remain the key challenges for the region. In addition, the analysis carried out by the 2007-2013 **pre-programming mission** confirmed the continued relevance and forward-looking nature of the 2002-2006 RSP.

The 2005 **Regional Environmental Profile** for Central America recommends that, even though environmental matters are homogeneous in the region and the related problems are shared by all countries, it would be better to develop action in this field locally and to network action of general interest, such as harmonising the legal and institutional framework and information exchange, which will have to be pursued at regional level. In this context, the European Commission is in the process of launching a €20 million regional programme for the reduction of vulnerability and environmental degradation that will focus on disaster prevention, water and environmental management. Accordingly, the REP emphasises that the most critical tasks for the region are to increase the awareness and change the behaviour of individual players on the ground, and this **should cut across all EC cooperation programmes, and a risk reduction approach must be adopted in development planning.**

Finally, as regards the **thematic initiatives at regional level**, a key issue will be to enhance coherence between the action carried out at regional and national level and to support the regional integration process more clearly. To this end, action should include a component aiming at strengthening the capacity of the regional institutions and dialogue with civil society.

#### **4.2. Information on programmes of the EU Member States and other donors**

An overview of the main international cooperation programmes is contained in the attached donor matrix (Annex 3). The analysis of the main donors at regional level shows a clear comparative advantage for the EC in supporting the regional integration process.

As regards the EU, Spain is one of the most prominent EU Member States in the Central American region. Its main areas for cooperation in this region include strengthening public administration, health, education, sustainable development and natural resources and environmental management, disaster prevention and reducing ecological vulnerability, tourism, micro-enterprise and fisheries. Germany has been/still is present, with sub-regional approaches in themes such as the creation of employment and (sustainable) industrial competitiveness; renewable energies; micro credits; prevention of catastrophes and watershed

management. Italy, the Netherlands, Sweden and Finland also provide significant amounts of cooperation through regional programmes. Over the past few years the substantive part of funding provided by these donors has been directed to environmental management and natural resources, in particular by Sweden which plans to put even more emphasis on this area of regional integration over the period 2004-2008.

#### Other donors

The Inter-American Development Bank (IDB) remains the most important provider of multilateral lending to the Central American region. Its regional programme focuses on three basic spheres: economic growth and infrastructure; human development; and sustainable development. Its support centres on three key regional initiatives, namely the Madrid 2001 Regional Consultative Group, the Plan Puebla Panama (PPP) and the Free Trade Agreement negotiated between Central America and the United States (CAFTA) in 2003/2004. Infrastructure initiatives in the context of the PPP, in particular road and electricity inter-connection, have absorbed the bulk of the IDB's lending. Its support for regional integration and trade capacity building in the context of CAFTA is also important.

In the area of HIV/AIDS, national HIV/AIDS programmes are being consolidated regionally through a US\$8 million loan provided by the World Bank to assist the region in developing better access to high-quality diagnosis, a regional surveillance system for the epidemic, better prevention and control practices and mechanisms to reduce the vulnerability of mobile populations to HIV/AIDS.

The new USAID strategy for Central America and Mexico for 2003-2008 has the overarching regional goal of a more democratic and prosperous Central America and Mexico, sharing the benefits of trade-led growth broadly among their citizens. It narrows the focus of USAID investment to a limited number of "performance arenas" established in the Millennium Challenge Account: ruling justly, economic freedom, and investing in people.

### **4.3. Policy mix analysis**

Analysis of the EC policies and instruments and their possible impact on Central America shows that the most relevant, in particular trade, agriculture, environment, health and consumer safety, internal market, taxation, competition, justice, information society, research and conflict prevention, are consistent and coherent with this strategy. The European Commission recently introduced an impact assessment tool, applicable to all major proposals, which contributes to improving the coherence of the measures in preparation by linking all Commission services potentially interested in various scenarios to obtain the expected result. Furthermore, in a number of areas, coherence is obtained through the mainstreaming of certain principles, for example gender.

However, officials and civil society in Central America have voiced concerns about a number of issues, notably:

- The prevention of long-term investment due to the insufficient GSP trade mechanism;
- Restrictions to trade as a result of strict consumer protection policy in the form of sanitary and phytosanitary controls;
- Possible negative impact of the EU's immigration policy on remittances from emigrants which are essential to the macroeconomic balance;
- The perceived protectionist nature of the common agricultural policy;
- Central American banana producers have maintained a united front vis-à-vis the EU banana import regime, which they consider discriminates against their production in favour of ACP and EU banana producers;
- The difficulty with involvement of non-state players through a grant selection system which requires improvements;
- The lack of coherence and sustainability of projects financed by some horizontal and thematic budget lines.

A more indepth analysis of policy coherence focusing on the Central American region can be found in Annex 5.

## 5. PROPOSED EC RESPONSE STRATEGY

### 5.1. Cooperation objectives and grounds for the choice of sectors

As decided at the 2004 Guadalajara EU-Latin America and Caribbean Summit, an EU-CA Association Agreement, including a Free Trade Agreement, is the fundamental common strategic objective of both regions. At the 2006 Vienna Summit Leaders decided to open the negotiations for such an Association Agreement.

In this context, the 2007-2013 Regional Strategy for Central America will centre on **one main objective: to support the process of political, economic and social integration in the context of preparation of the future Association Agreement** between the EU and Central America.

The EC support for regional integration is intended to strengthen political and economic relations between the EU and Central America and thereby facilitate negotiation and implementation of the future Association Agreement based on the mutual interest of both regions. To support regional integration three groups of potential measures can be considered:

- The first group will entail **strengthening the institutional system for the process of Central American integration;**
- The second group will focus on **reinforcement of the regional economic integration process;**
- The third group will cover aspects of **strengthening regional security.**

## 5.2. Response strategy in the focal sectors

### i) Strengthening the institutional system for the process of Central American integration

The objective of this component is to support the reform of the integration system established by Central America's own agenda by means of reinforced capacity, improved coordination, legal bases, effective financing mechanisms, mandates, organisation and improved technical competence and human resources amongst the various players involved. In this context, cooperation may be directed towards regional institutions, inter-governmental coordination systems and national entities involved in the integration process. It must be stressed that this support will be limited to these institutions' involvement in questions strictly related to regional integration.

### ii) Support for the economic integration process

The main objectives of this component will be to support the creation of a regional customs union and to reduce non-tariff obstacles to intra-regional trade with the prospect of a possible future common market.

This group of measures will include **creation of the Central American customs union**; support for specific aspects of the economic integration process such as custom and trade facilitation, and the acceptance of international standards such as the WCO Framework of Standards to Secure and Facilitate Global Trade, sanitary and phytosanitary (SPS) measures, development of a regional approach to technical regulations on goods and to standardisation based on international standards to promote free movement of goods and avoid technical barriers to trade (regulatory harmonisation and mutual recognition), services and investment and intellectual property rights; and the development and implementation of other harmonised and common policies and legislation within the Central American region that will contribute to the creation of a common market. For the latter, initiatives that could be considered range from fiscal policy (for instance, support to tax administration to improve the collection of taxes and facilitate transparency and effective exchange of information), and labour legislation to environmental measures, inter alia.

With a view to channelling the support to the economic integration process:

- the joint assessment of regional economic integration in Central America carried out by the ad hoc Joint Working Group in 2005 and 2006 has provided a clear picture of the region's challenges in order to reach higher levels of economic integration;
- the conclusions of the Final Joint Report of the Joint Working Group, as well as further needs arising from the process of negotiating and implementing an Association Agreement will also be systematically taken into consideration in the design of support programmes under this strategy.



### iii) Regional governance and security matters

The third group of measures will cover aspects of **strengthening regional governance** in the context of mitigating the impact of the free movement of goods, capital and persons due to increasing regional integration, in particular in the process of the creation of a Custom Union and the development of an internal market.

Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community will carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions.

Specific provision will be made in all three components of this response strategy for **participation of civil society** in preparation and implementation of the programmes in support of the regional integration process and to enhance the social ownership of the integration process and the visibility of the EC action.

#### 5.3. Cross-cutting issues

Cooperation between the two sides should be based on the objective of broad participation by civil society and the principles of social equality – including as regards gender, respect for minorities and different cultures, especially indigenous peoples, conflict prevention and environmental sustainability. Details can be found in the Regional Indicative Programme.

#### 5.4. Justification and main risks

This approach is consistent with the conclusions of this analysis, with the current programme and with the main lessons learned, which suggest that the EC cooperation should continue to focus on a limited number of added-value sectors. As underlined by the donor matrix, the Commission is essentially the key supporter, with the aid of grant funds, of the process of establishing a customs union, developing and implementing common policies and strengthening regional institutions through the SG-SICA and the SIECA. In this context, this regional strategy has to be seen as a continuation of the RSP for 2002-06 as the two groups of measures on institutional building and on reinforcement of the economic integration process will build on the outcomes of the current programme.

Finally, recent events in the region have revealed an increase in illegal movements across borders which require a multi-national approach and cooperation, an area in which the EU has gained unique experience.

The commitments made by both regions at the highest political level are not the only reason for choosing this approach. At the same time, regional integration has to be seen as a long-standing objective for cooperation between the EU and Central America in order to promote

political stability and sustainable socio-economic development in the region and reduce vulnerability. In this context, as this analysis shows, a clear awareness has emerged of the importance of regional integration in terms of strengthening the region's position on the global markets and in external negotiations as well as in defending Central America's own development agenda and permitting it to join forces to face new common challenges. A more efficient institutional system and deeper integration will also be a means to contribute to tackling other challenges which the region faces, as identified in the previous sections, such as:

- **Strengthen democracy.** Regional integration in Central America has proved to contribute to political stability and to enhancing regional dialogue and cooperation between the countries in order to reinforce democracy and the rule of law in the region.
- **Decrease the economic vulnerability and dependence of the region.** At the same time, swifter implementation of the economic integration agenda would contribute to diversifying intra-regional trade, stimulate competitiveness, attract foreign investment and guarantee smoother integration of Central America into the world market.
- The prospect of negotiation of an Association Agreement between the EU and Central America is also expected to stimulate faster **convergence of the different visions and levels of interest regarding integration.** Closer cooperation and economic integration at regional level, together with a higher level of social cohesion, would also contribute, at a later stage, **to reducing intra-regional economic disparities.**

#### **Main risks associated with the response strategy**

- Lack of political commitment and willingness to deepen regional integration; possible changes in governments and political attitude towards regional integration; lack of social legitimacy and credibility of regional integration process;
- Slowdown in implementation and application of common provisions; low capacity effectiveness of inter-state cooperation and of regional institutions; lack of financial resources for regional integration;
- Macroeconomic stability. Economic slowdowns due to unfavourable external conditions (oil prices, US demand, prices of commodities);
- Different vision of definition of security policies.

The negotiation and implementation of the future Association Agreement between the EU and CA, which is also aimed to impulse the integration process in the Isthmus, is expected to contribute diminishing the root causes of a part of the risks associated with the response strategy.

#### **5.5. Coherence and complementarity**

- i) Coherence between the country strategies and regional strategy for Central America

**Regional integration** as such, covering both the regional institutional framework and economic integration, will be addressed mainly by this regional strategy. The bilateral country strategies for Central America will also include specific provisions aiming at strengthening the national capacities for dealing with the commitments taken on at regional and international level. As regards strengthening the economic integration process, the aim is to promote and reinforce the legislative and legal frameworks adopted by Central America with a specific impact on the creation of a customs union and, more generally, of an internal market, by encouraging free movement of persons, capital, services and goods. Assistance to the productive sector will thus be covered by specific actions at country level, coherently with the regional framework.

Support for increasing **social cohesion**, the other key challenge facing the Central American region, as echoed at the Guadalajara Summit, will be provided mainly through the country-level strategies, as will also be the case for sectoral initiatives in areas such as education, health, rural development and decentralisation. In this sense, the largest share of the resources under the 2007-13 programme for the region (countries and regional provisions) will be allocated to improving the level of social cohesion in Central America.

As regards **regional governance and security matters**, this RSP will concentrate on intra-state cooperation and possible common regional provision for developing an area of security and free movement in Central America in the context of a customs union and, more generally, on the creation of an internal market. The 2007-13 CSPs for El Salvador, Guatemala and Honduras will include a more specific component to tackle the increasing violence among young people as well as to promote youth on the basis of an integrated approach based on preventive measures and taking fully into account human rights.

**Environmental challenges.** The Regional Environmental Profile clearly indicates that this sector should be cross-cutting. The 2007-13 CSP for Honduras includes a specific sector on the environment. In addition, the €20 million EC regional programme for the reduction of vulnerability and environmental degradation will be implemented during the first part of the period covered by this regional strategy. If needed, the possibility of launching a new EC initiative in this area should be opened up at the time of the review of this strategy, in principle in 2010, on the basis of the experience from this programme. Additionally, as underlined by the donor matrix, at regional level the environmental sector should benefit from substantial support from other key donors. Finally environment will be integrated into the chosen focal sectors of the present RSP (mainstreaming): i) the component dedicated to strengthening the regional integration institutional system includes possible specific support to the part of the system dedicated to regional cooperation in the field of environment; ii) the component aiming at strengthening economic integration includes, inter alia, developing and implementing harmonised and common policies that will contribute to the creation of a common market (including environmental measures).

ii) Coherence with the Regional Programming for Latin America

The coherence of this strategy with both the Regional Programming for Latin America and the country strategies for the individual Central American Republics is ensured through its fundamental focus on regional integration. This approach permits: a) the Regional Programming for Latin America to concentrate on horizontal issues and areas where the transfer of knowledge between the EU and Latin America is of critical importance; and b) the Central American country strategies to focus on nation-building policies such as governance, rule of law, social cohesion and sectoral programmes, including decentralisation and local development.

The priority sector selected for cooperation, i.e. regional integration, fully complements the country strategies proposed for the individual Central American countries. In some cases it will depend on the strength of national institutions involved in the process of regional integration, and sufficient flexibility has been provided at regional level to address specific national needs that are essential to the regional goals. The proposed regional strategy also complements the principal regional thematic programmes (PPDHAC etc.) and the Latin American regional programmes, including AL-INVEST, @LIS, URBAL, ALFA, ALBAN and EUROSOCIAL among others. Whenever possible, the EC activities under this RSP should contribute to providing a coherent policy and methodological framework to promote synergies and facilitate cross-fertilisation with the action taken under each of these programmes.

### iii) Complementarity with EU Member States and other donors

With the exception of the European Commission, the Inter-American Development Bank (IADB) and Spain, the remaining donors active in Central America (mainly United States, United Nations and World Bank) have an agenda that barely includes the regional dimension. As indicated by the donor matrix, the EC is the key donor supporting the regional integration institutions and process, via the SG-SICA and the SIECA. This leadership is recognised by the EU Member States. In addition, the exclusion of new EC support for the environment should limit the possibility of duplication and inconsistency with the EU Member States.

The IADB is the other main donor in support of integration, but the diversity of sectors addressed, with particular emphasis on interconnection of the infrastructure systems, shows that they complement the EU contributions. Regular contacts are maintained between the EC and the IADB and should include a specific dialogue on regional integration. Finally, it must be added that the only effective coordination mechanism in the region is in the IADB-backed infrastructure plan with two main infrastructure systems - electricity and roads - being covered within the framework of the Plan Puebla Panama. Although there are no institutionalised mechanisms for local donor coordination, Central America is analysing the possibility of launching pilot initiatives for harmonising and aligning cooperation at regional level and, in this context, the EC could analyse the possibility of supporting this process.

## 6. INDICATIVE WORK PROGRAMME

The indicative work programme has been developed on the basis of the foregoing analysis and in consultation with the regional authorities, the EC Delegations in Central America headed by the Delegation in Nicaragua and EU Member States represented in the region. The indicative work programme will be subject to annual review involving the same players, during which special attention will be paid to the indicators and expected outputs of the strategy and on the basis of which any changes may be made.

### 6.1. Main objectives

The overall objective of the 2007-2013 Regional Strategy for Central America will be to support the process of political, economic and social integration in the context of preparation of the future Association Agreement with the EU.

### 6.2. Priority sectors and target beneficiaries

The principal measures that are to be considered will include:

#### 6.2.1. *Strengthening the institutional system for regional integration*

The objective of this component of the strategy is to strengthen the institutional system for the process of Central American integration. It will serve to strengthen the Central American Integration System (SICA) as a whole by developing greater coordination and effective implementing capacity on the part of all involved in the process. It must be stressed that this support will be limited to these institutions' involvement in questions strictly related to regional integration.

#### 6.2.2. *Consolidating the customs union and related harmonised and common policies*

The objective of this component of the strategy is to consolidate implementation of the Central American customs union in line with the Central American Plan of Action for Economic Integration, as well as with the decisions taken by Presidents in Panama, in March 2006. In addition, it aims to support the development of intra- and extra-regional trade, services and investment, intellectual property rights, sanitary and phytosanitary (SPS) measures develop a regional approach to the regulatory approach and common approach on standardisation activities based on international standards (free movement of goods) and avoid technical barriers to trade, to, and at developing and implementing other harmonised and common policies that will contribute to the creation of a common market. For the latter, initiatives that could be considered range from fiscal policy, notably taxation, and labour legislation to environmental measures, inter alia. Support will be channelled to the economic integration process, taking into consideration the findings of the joint assessment of regional economic integration in Central America being carried out by the ad hoc Joint Working Group, which is expected to provide a

clear picture of the region's requirements. In addition, further needs arising from the process of negotiating and implementing an Association Agreement, once launched, will be systematically taken into consideration in the design of support programmes under this component.

### 6.2.3. *Strengthening regional governance and security matters*

The objective of this component of the strategy is to strengthen regional governance by supporting cooperation between national authorities (such as customs, police, , judiciary, interior, etc.) in Central America in order to mitigate the impact of the free movement of goods, capital and persons due to increasing regional integration, in particular in the process of the creation of a Custom Union and development of an internal market.

Within the DCI area of cooperation on governance, democracy, human rights and support for institutional reform, in particular related to co-operation and policy reform in the fields of security and justice, the Community will carry out measures which shall fully respect OECD-DAC guidelines, taking also into consideration relevant European Council Conclusions.

The programmes associated with this focal area should contribute to crime prevention, and could encompass activities such as: improvement of mutual knowledge of the Member States' legal and regulatory systems; joint customs surveillance operations; development of a regional customs information system on movements across borders; regional cooperation projects between police and judicial authorities; exchanges of best practices for criminal profiling and for preventing and fighting against illegal trafficking; and studies on how to strengthen further the effectiveness of law enforcement at regional level. Priority shall be given to trans-regional cooperation, on the basis of a clear regional added value and political will (capacity building, strengthening the institutional and legislative framework and policy design).

Coherence will be ensured with related support provided in the areas of security, good governance and social policy in the context of individual country strategies.

### **6.3. Target beneficiaries**

Entities involved in cooperation in the abovementioned areas will include the principal SICA bodies (SG-SICA, the Central American Court of Justice and the Central American Parliament), the SICA technical secretariats, inter-governmental bodies and committees, national entities and members of civil society involved in the process of regional integration. This could include initiatives responding to regional integration policies, to be implemented at country level under the supervision of the regional institutions.

#### **6.4. Expected results**

The indicators related to the abovementioned objectives will be specified when the individual support programmes are prepared and would include a statistical sub-module when necessary. However, in general:

- For the institutional aspects, indicators could include declarations, agreements, decisions and action plans carried out in line with the timetables proposed;
- For the customs union and related common policies, indicators could include: adoption of relevant regional legislation; the level of intra-regional trade in goods and services; the number of obstacles to intra-regional trade; the share of intra-regional direct investment in total direct investment; and the existence and implementation of regional legislation and associated norms international standards;
- For regional security, indicators could include indices of seizures and crime as well as a broad range of social or human development indicators.

The policy measures to be adopted by the region will include effective implementation of its own regional integration agenda. This will comprise, in particular: carrying out institutional reform of the key regional integration institutions and guaranteeing the necessary financial and human resources for the process of integration; implementing the regional plan of action for economic integration, including the Central American Customs Union; harmonising or developing common legislation in the areas covered; and maintaining and strengthening democratic processes, the rule of law, security and macroeconomic stability.

#### **6.5. Type of assistance to be provided**

As in the case of the current 2002-06 RSP, this indicative programme will be mainly implemented by means of “classic” projects. Based on the experience built up to date, a mix of different mechanisms can be envisaged, all adapted to the types of stakeholders, thematic areas and resource transfer needs. They could include:

- promotion of policy dialogue;
- institutional capacity-building and training of personnel;
- encouraging cooperation and mutual assistance between national authorities, including by means of cooperation networks and twinning;
- support for regional integration efforts as well as regional coordination and harmonisation of the legal frameworks and sectoral approaches;
- support for the formulation of common regional policies;
- projects and programmes to support implementation of those common policies;
- support for the efforts of civil society;
- direct transfers of know-how from the European Union institutions and other relevant European organisations;
- identification of synergies and multiplier effects between the different initiatives being promoted in the region (from micro to macro);
- promotion of exchanges and dissemination of information, experience and best practice between the Central American countries and with the EU.

For the moment, the conditions for financing regional activities by means of budgetary support are not yet met. The regional institutional set-up lacks an autonomous financial system with an independent regional supervisory body, similar to the EU Court of Auditors. The EC could consider this possibility should the situation evolve in the future, for example on the basis of an institutional reform, including the provision of automatic resources and a single budget at regional level.

## **6.6. Cross-cutting issues**

Cooperation between the two sides should be based on the objective of broad participation by civil society and the principles of social equality – including as regards gender, respect for minorities and different cultures, especially indigenous peoples, conflict prevention and environmental sustainability. All action prepared in these areas must take into consideration the following cross-cutting issues:

Equal opportunities and exclusion: All action under this strategy will take into consideration equal participation by men and women and access for indigenous communities, in order to combat exclusion and marginalisation. In particular, gender equality will be promoted at regional level (policy making, pilot initiatives, exchange of good practices) as a complement and in coherence with the EC Country Strategy Papers for 2007-13. These foresee specific actions in this area; additionally a Gender profile is annexed to the CSPs for Central America.

Environmental sustainability: The repercussions of natural disasters and the fragility of the environment are serious obstacles to sustainable development in Central America. Issues concerning management of natural resources, including water, forests and biodiversity, are particularly important. Criteria should be developed to evaluate the environmental impact and sustainability of all action. In this context, whenever appropriate, the Commission will encourage Strategic Environmental Assessments (SEA) of the regional policies and other common action to be taken at regional level in order to devise measures to avoid/reduce any negative impact on the environment and optimise any positive impact. Initiatives should be consistent with the priorities of EC environmental policy and with future measures aimed at reducing the vulnerability of the region to natural disasters and preserving its environment. In the context of the 2002-2006 regional strategy for Central America, in 2005 the European Commission approved a €20 million regional programme for the reduction of vulnerability and environmental degradation that will focus on disaster prevention, water and environmental management. Its results and the lessons learned could feed into implementation of the component addressing institutional strengthening and capacity-building (see section 6.2.1). The link between the DIPECHO programme and this regional initiative should be promoted. In addition, risk management should be mainstreamed into all action at regional level, in particular under the component for reinforcing the institutional system for regional integration.

Support to civil society: The three priority sectors for cooperation will include a specific component aiming at promoting participation by civil society in the integration process and



social ownership of the process, including: programmes on discussion and dissemination of information, training and awareness-raising measures to facilitate appraisal of the integration process by local stakeholders. Efforts would also be needed to strengthen existing networks, coordination mechanisms and civil society organisations to improve their capacity to participate effectively in formulating and implementing initiatives, including preparing common policies. The need to encourage participation by representatives of indigenous peoples and minority ethnic groups in these measures and to enhance the visibility of the EC action should also be borne in mind.

Migration, justice and home affairs: EC action at regional level should address factors that make people vulnerable to human trafficking and insecurity, including illegal migration, with particular emphasis on vulnerable groups (women and children, indigenous peoples). Measures in this area should be based on an integrated approach founded on respect for human rights and calling for a coordinated policy response, including the area of freedom, security and justice, development, employment, gender equality and non-discrimination.

Others issues which should be appropriately addressed by the RSP: decentralisation, promotion of information technology, the fight against corruption, promotion of and respect for human rights (such as children's rights, indigenous people, core labour standards, etc.) and HIV/AIDS and sexual and reproductive health. Combating HIV/AIDS has been mainstreamed as a cross-cutting issue in the programming process by analysing, in the context of the CSPs for the CA region, the government's policy agenda on HIV/AIDS and sexual and reproductive health in particular, as well as the importance of the theme in the partner country.

#### **6.7. Financial envelopes and activities under other EC budgetary instruments in the region**

The principal financial instruments that could be used to finance implementation of the EC-Central America Indicative Work Programme are the different Commission thematic programmes, as follows:

The Regional Indicative Programme covers financial and technical assistance and economic cooperation, with a provisional figure being presented for each sector as indicated in the RSP. The allocation for Central America in the period 2007-2013 has been set to €75million.

The work programme for Central America consists of two Regional Indicative Programmes, one from 2007 and 2010, with indicatively four sevenths of the total resources to be allocated for regional cooperation in the isthmus, the other from 2011 to 2013, with three sevenths of the resources. Before launching the second RIP, a mid-term review of the RSP will be conducted. The second RIP is only tentative as the results of the mid-term review could call for changes. The component "Consolidating the Customs Union and related harmonised and common policies" will be conditioned by the satisfactory implementation of the two programmes: "Support to the CA Custom Union" ALA/2001/003-214 which is

currently being implemented (EC contribution: 8M EUR) and the programme on Customs Union foreseen in the framework of the 2006 Programming (EC contribution: 7 M EUR).

The final selection of projects and corresponding amounts will be tailored to the needs and objectives and based on the outcome of detailed identification and preparatory studies carried out by the Commission. Funding of the indicative work programme is conditional upon the availability of funds in the annual Commission budget. Additional funding in the form of loans may be sourced from the European Investment Bank.

b) Other thematic programmes and horizontal instruments to finance specific issues including areas such as human rights and democracy, environmental and natural resource conservation, drugs and decentralised cooperation. In particular:

Human rights and democracy: This could cover continuation of the Multi-annual Programme for Democracy and Human Rights in Central America (PPDDHAC) (e.g. promotion of an HR agenda in collaboration with the Central American armies), as well as other priorities for the region such as the fight against human trafficking, especially children and women, promotion of international labour standards and the fight against violence to women.

Environmental and natural resources conservation: Further resources should be directed to disaster prevention and preparedness at regional level, especially with the aim of contributing to reducing the risk to the most vulnerable populations and improving local planning in vulnerable border zones. Special focus should be given to improved water basin management and application of environmentally friendly technologies, in line with the 2005 regional programme on vulnerability.

Decentralised cooperation and co-financing for non-State actors: As mentioned in connection with the cross-cutting issues, special emphasis should be placed on promoting participation in the integration process and social ownership of the process by civil society.

Within the Stability Instrument, if relevant, possible actions at regional level could include i) assisting, through legislative and administrative capacity, the government and civil society in their regional actions against armed violence and the illicit spread of small arms and light weapons, related ammunition and remnants of war; ii) supporting governments in their regional efforts to comply with international obligations in the fight against terrorism and proliferation. Priority shall be given to trans-regional cooperation, on the basis of a clear political will to address these problems.

Further details on the possible use of other budget lines are given in Annex 5 (policy mix and other instruments).

## **6.8. Indicative work programme**

The table set out below provides an indicative overview of the schedule for implementation of the work programme. The definitive allocation and annual breakdown for RIP 2 will be determined in the light of the joint assessment of economic integration and implementation

performance under RIP 1 based on monitoring and evaluation reports and the mid-term review of this strategy (in principle in 2010); it should also take into account the results of the negotiations for a bi-regional Association Agreement.

	RIP 1				RIP 2	Total
	2007	2008	2009	2010	2011-2013	
1. Strengthening the institutional system for regional integration	15 MEUR				5 MEUR	20 MEUR
2. Consolidating the customs union and related harmonised and common policies		25 MEUR			22 MEUR	47 MEUR
3. Strengthening regional governance and security matters			4 MEUR		4 MEUR	8 MEUR
Total	15 MEUR	25 MEUR	4 MEUR		31 MEUR	75 MEUR (100%)

## **7. ANNEXES**

**Annex 1      Central America: Economic and Social Indicators**

**Annex 2      EC-Central America: Summary of Cooperation**

**Annex 3      Donor Matrix**

**Annex 4      Regional Environmental Profile**

**Annex 5      Policy Mix and Other Instruments**

**Annex 1**  
**CENTRAL AMERICA: ECONOMIC**  
**AND SOCIAL INDICATORS**

# SOCIAL INDICATORS

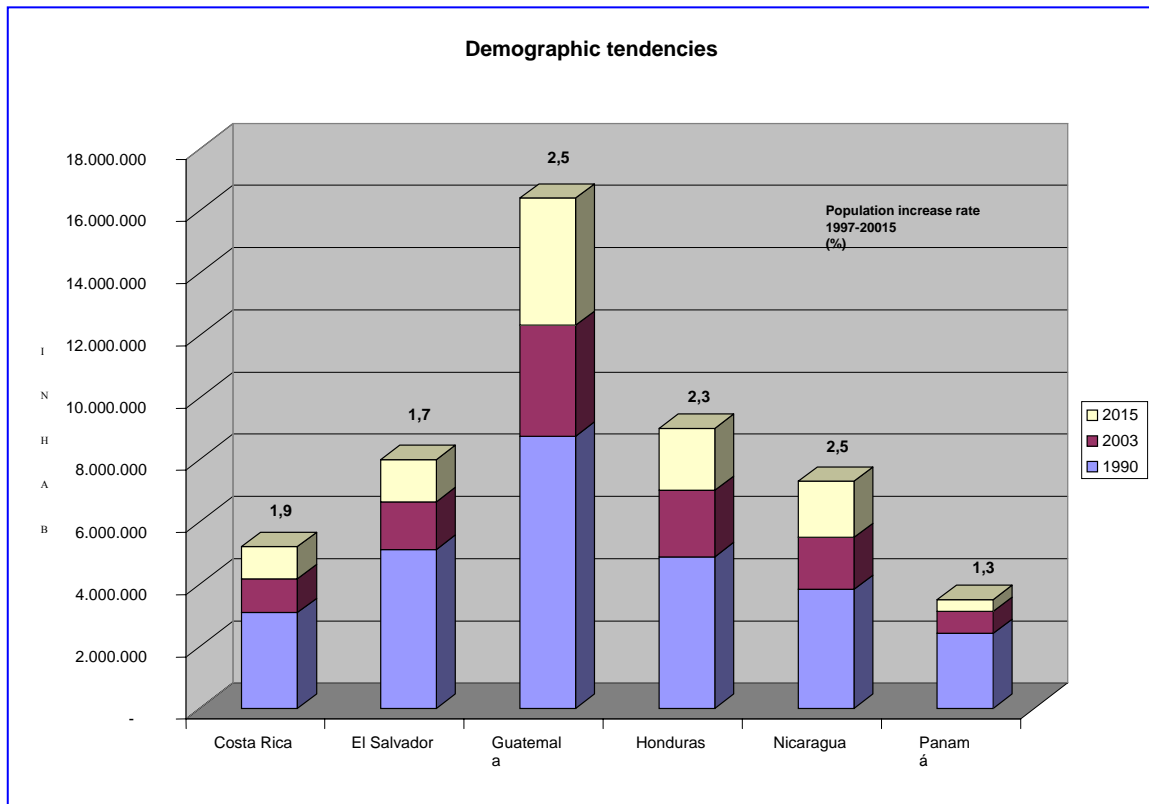
Table 1  
TOTAL POPULATION

Country	1990	2000	2001	2002	2003	2004	2005
Costa Rica	3 076	3 925	4 008	4 089	4 167	4 245	4 322
El Salvador	5 110	6 276	6 397	6 518	6 638	6 757	6 875
Guatemala	8 908	11 225	11 501	11 788	12 084	12 389	12 700
Honduras	4 879	6 485	6 656	6 828	7 001	7 174	7 347
Mexico	83 226	98 881	100 373	101 847	103 301	104 735	106 147
Nicaragua	3 960	4 957	5 059	5 162	5 268	5 375	5 483
Panama	2 411	2 948	3 004	3 060	3 116	3 172	3 228

Source: CEPAL, *Anuario estadístico de América Latina y el Caribe, 2004*

Graph 1

## DEMOGRAPHIC TENDENCIES (1990 – 2015)



### Economically active population in urban or rural sectors

	1998			2000/2001			Total
	rural	urban	Rural Factor	rural	urban	Rural Factor	
Costa Rica	746.831	629.709	1,19	629.518	1.023.803	0,61	1.653.321
Panamá	369.073	714.507	0,52	371.738	715.411	0,52	1.087.149
El Salvador	909.386	1.493.808	0,61	928.027	1.568.338	0,59	2.496.365
Honduras	1.115.673	1.053.574	1,06	1.214.483	1.223.513	0,99	2.437.996
Nicaragua	746.263	915.521	0,82	795.514	1.159.274	0,69	1.954.788
Guatemala	2.379.170	1.828.776	1,30	2.710.850	1.955.701	1,39	4.666.551
							14.296.170

### Rate of employment by gender

	1998			2000/2001			Total
	Mn	Women	Rate	Men	Women	Rate	
Costa Rica	928.056	448.484	2,07	1.068.789	584.532	1,83	1.653.321
Panamá	693.821	389.759	1,78	702.688	384.461	1,83	1.087.149
El Salvador	1.465.681	937.513	1,56	1.511.173	985.192	1,53	2.496.365
Honduras	1.458.986	710.261	2,05	1.567.968	870.029	1,80	2.437.997
Nicaragua	1.101.003	560.781	1,96	1.271.072,00	683.716	1,86	1.954.788
Guatemala	2.685.501	1.522.445	1,76	3.011.540	1.655.011	1,82	4.666.551

## INDICATORS OF HUMAN DEVELOPMENT (Data inform 2004)

	Life expectancy at birth	Illiteracy rate. (Adults)	Gross enrolment rate	GDP per capita	Index of life expectancy	Educatiopn Index	GDP Index	IDH results 2003
Costa Rica	78,0	95,8	69,0	8.840	0,88	0,87	0,75	0,834
Panamá	74,6	92,3	73,0	6.170	0,83	0,86	0,69	0,791
El Salvador	70,6	79,7	66,0	4.890	0,76	0,75	0,65	0,720
Honduras	68,8	80,0	62,0	2.600	0,73	0,74	0,54	0,672
Nicaragua	69,4	76,7	65,0	2.470	0,74	0,73	0,54	0,667
Guatemala	65,7	69,9	56,0	4.080	0,68	0,65	0,62	0,649
Central America	71,2	82,4	65,2	4.842	0,77	0,77	0,63	0,722
Developing Countries	64,6	76,7	60	4.054	0,66	0,71	0,62	0,663
World	66,9	nd	64	7.804	0,70	0,76	0,73	0,729

<b>Social public expenditure per capita, as a percentage of the GDP and percentage of public cost 1998-1999 (1997 US\$)</b>			
	Expenditure per capita (1997 US\$)	Social public expenditure as a percentage of the	
		GDP	Public cost
Costa Rica	622	16,8	43,1
El Salvador	82	4,3	27
Guatemala	107	6,2	46,2
Honduras	57	7,4	34,3
Nicaragua	57	12,7	37
Panamà	642	19,4	38,6



# ECONOMIC INDICATORS

TABLE 1

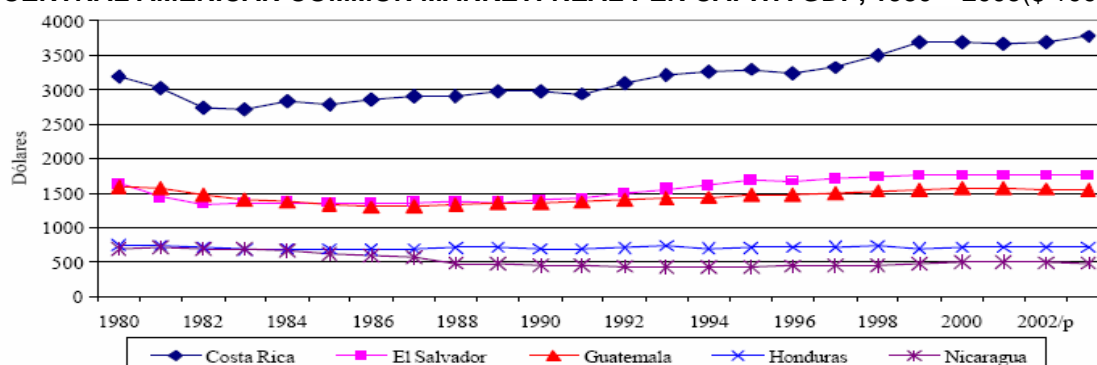
## CENTRAL AMERICA: ECONOMIC GROWTH, 1998 – 2004

<i>Indicator</i>	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
<b>Real Gross Domestic Product (annual rate of variation)</b>						
1998	8,3	3,8	5,1	3,3	3,5	7,4
1999	8,0	3,4	3,9	-1,5	7,0	4,1
2000	1,8	2,2	3,6	5,7	4,2	2,7
2001	1,0	1,7	2,3	2,6	3,0	0,6
2002	2,9	2,2	2,2	2,7	1,0	2,2
2003	6,4	2,0	2,0	3,5	2,3	4,7
2004 <sup>a</sup>	4,1	1,8	2,6	4,3	4,0	6,0
<b>Real GDP pro capita (annual rate of variation)</b>						
1998	5,6	1,6	2,4	0,5	0,7	5,3
1999	5,6	1,3	1,1	-4,1	4,2	2,1
2000	-0,6	0,2	0,9	3,0	1,4	0,8
2001	-1,0	-0,2	-0,2	0,0	0,3	-1,3
2002	0,9	0,3	-0,4	0,1	-1,6	0,4
2003	4,4	-0,1	-0,5	0,9	-0,3	2,2
2004 <sup>a</sup>	2,2	0,0	0,1	1,8	1,9	4,1
<b>Internal gross investment [ gross Formation of fixed capital (% of GDP)</b>						
1998	21,7	17,9	18,5	29,0	23,7	24,6
1999	19,3	17,1	18,8	31,3	30,2	27,5
2000	18,9	17,5	16,9	27,4	26,6	29,5
2001	19,2	17,5	16,5	24,6	25,1	27,1
2002	20,0	17,6	17,0	22,6	24,9	19,8
2003	20,2	17,6	16,0	23,7	24,2	22,8
2004 <sup>a</sup>	18,6	16,8	17,0	27,2	24,8	21,8

SOURCES: Data de CEPAL, <sup>a</sup>Preliminary values

Graph 1

**CENTRAL AMERICAN COMMON MARKET: REAL PER CAPITA GDP, 1980 – 2003(\$ 1995)**



Fuente: CEPAL con base en cifras oficiales.

Table 2

**CENTRAL AMERICAN COMMON MARKET: PARTICIPATION OF SOME ECONOMIC SECTORS IN THE GIP, 1970-2003 (% GDP)**

	1970-74	1975-79	1980-84	1985-89	1990-94	1995-99	2000-03
<b>Costa Rica</b>							
Primary	22,8	19,4	19,3	11,6	11,8	11,3	10,5
Agricultura	22,8	19,4	19,3	11,6	11,7	11,2	10,4
Secondary	24,3	27,6	26,4	25,4	25,1	25,9	26,3
Industry	19,5	21,8	21,7	21,1	21,1	22,2	22,4
Services	52,9	53,0	54,3	56,5	56,1	55,1	56,5
<b>El Salvador</b>							
Primary	18,4	17,1	19,2	17,9	16,1	13,5	12,1
Agricultura	18,1	16,9	18,9	17,6	15,7	13,1	11,7
Secondary	30,8	30,8	25,4	25,0	25,3	25,7	27,4
Industry	27,8	26,5	21,8	21,1	21,7	21,9	23,5
Services	50,8	52,0	55,4	57,1	55,7	54,7	54,7
<b>Guatemala</b>							
Primary	27,9	26,7	25,5	26,0	25,5	24,2	23,2
Agricultura	27,8	26,5	25,2	25,7	25,2	23,7	22,6
Secondary	17,5	18,8	19,0	17,6	16,8	16,0	14,8
Industry	15,8	15,9	16,0	15,6	14,7	13,7	12,9
Services	54,6	54,6	55,5	56,5	57,7	59,8	62,0
<b>Honduras</b>							
Primary	33,2	26,8	26,3	25,7	26,0	25,6	24,4

Agricultura	31,0	25,0	24,6	24,2	24,6	23,9	22,8
Secondary	17,1	18,4	18,0	17,9	18,4	17,8	18,4
Industry	12,8	13,6	12,9	13,6	13,6	14,1	15,0
Services	40,0	43,9	46,3	46,5	45,7	47,1	49,8
<b>Nicaragua</b>							
Primary	27,0	27,1	25,1	23,6	25,7	20,8	21,6
Agricultura	23,9	24,9	24,4	23,0	25,0	19,9	20,5
Secondary	25,5	26,8	28,2	28,2	25,6	21,6	21,9
Industry	21,2	22,3	25,5	24,8	22,5	17,2	17,6
Services	47,5	46,1	46,7	48,2	48,7	48,5	48,2

Source: CEPAL data.

**Table 3**  
**CENTRAL AMERICA: FISCAL INDICATORS OF THE CENTRAL GOVERNMENT,**  
**1998 – 2003 (in % of GDP)**

	1998	1999	2000	2001	2002	2003a/
<b>Total Income/GDP</b>						
Costa Rica	12,7	12,5	12,5	13,5	13,4	14,0
El Salvador	11,7	11,3	12,1	11,9	12,5	13,3
Guatemala	10,3	11,0	11,0	11,1	11,4	11,1
Honduras	19,3	20,0	18,7	19,9	19,6	19,6
Nicaragua	17,4	19,6	18,8	17,3	19,6	21,1
Panamá	15,9	16,7	18,2	17,7	16,9	15,9
<b>Total Expenditures/GDP</b>						
Costa Rica	15,1	14,7	15,5	16,4	17,6	16,9
El Salvador	13,6	13,5	14,3	15,5	15,7	15,6
Guatemala	12,5	13,8	12,8	12,9	12,4	13,4
Honduras	20,4	23,6	23,7	25,2	24,3	25,5
Nicaragua	18,5	22,5	23,5	24,6	20,9	23,1
Panamá	19,0	17,4	19,3	19,4	18,9	19,3
<b>Fiscal Deficit/PIB</b>						
Costa Rica	-2,5	-2,2	-3,0	-2,9	-4,3	-2,9
El Salvador	-2,0	-2,1	-2,3	-3,6	-3,1	-2,3
Guatemala	-2,2	-2,8	-1,8	-1,9	-1,0	-2,3
Honduras	-1,1	-3,6	-4,9	-5,3	-4,8	-5,9
Nicaragua	-1,1	-2,9	-4,7	-7,2	-1,3	-2,0
Panamá	-3,2	-0,7	-1,1	-1,7	-2,0	-3,4

Source: CEPAL

a/ = Preliminary data

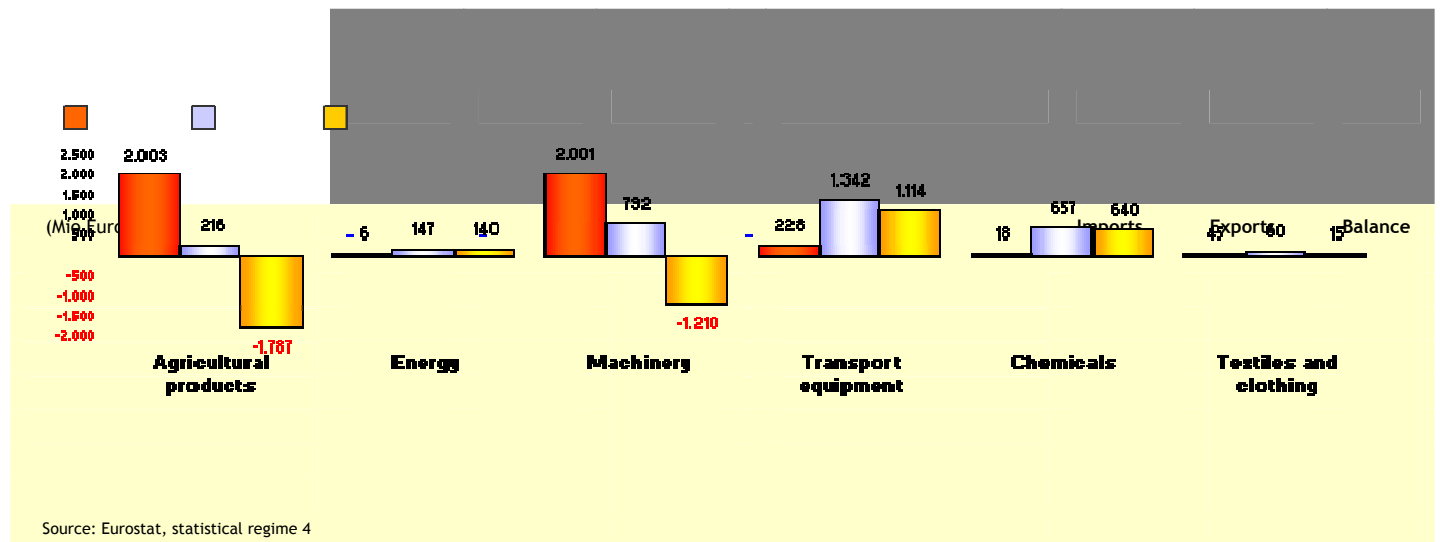
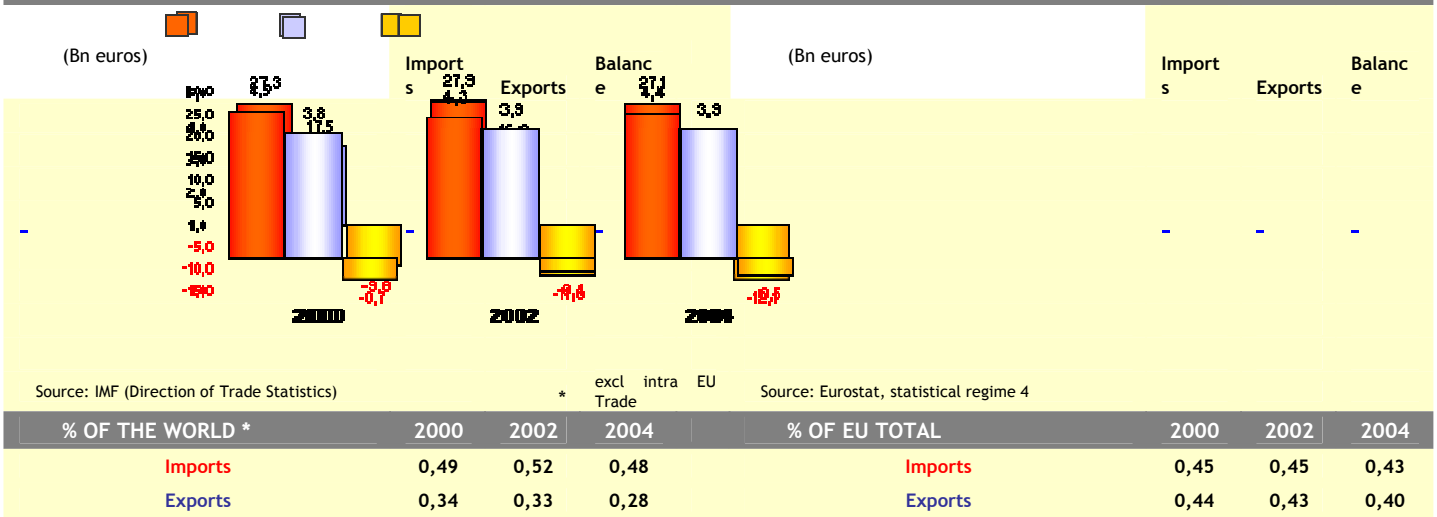
**Table 4**

**MAIN INDICATORS ABOUT CENTRAL AMERICAN COUNTRIES – SERVICES AND  
MERCHANDISE TRADE**

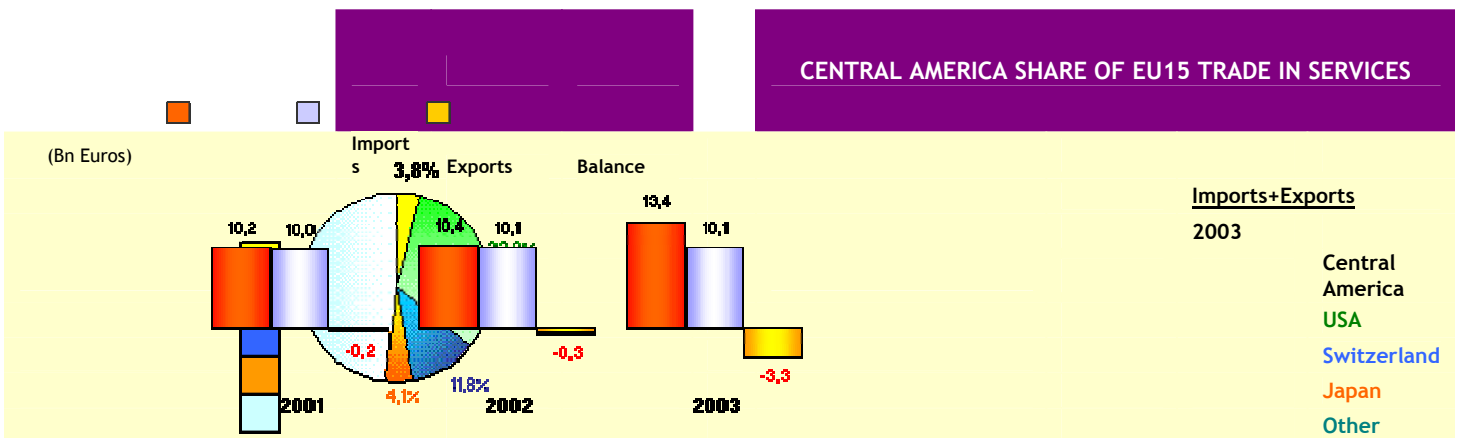
CENTRAL AMERICA										
Population	2003	39,1	(1000 inhabitants)							
Area		489	(1000qkm)							
Gross domestic product	2004	69	Bn euros	Exports-to-GDP ratio:	21,6	% in 2004				
GDP per capita	2003	1.769.000	Euros							
(IMF, World										
Economic Outlook)					<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>		
Real GDP (% growth)					1,0	2,9	6,4	4,2		
Current account balance (% of GDP)					-4,5	-4,7	-5,1	-5,1		

CENTRAL AMERICA MERCHANDISE TRADE WITH THE WORLD

EU25 MERCHANDISE TRADE WITH CENTRAL AMERICA

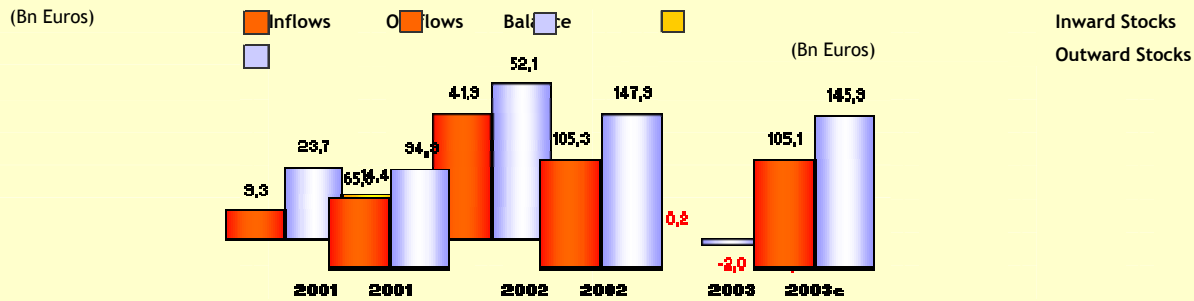


CENTRAL AMERICA SHARE OF EU15 TRADE IN SERVICES



Graph 2

EU25 FOREIGN DIRECT INVESTMENT WITH CENTRAL AMERICA



Source: Eurostat

2003, estimated FDI stock = stock 2002 + flows 2003

Table 5

CENTRAL AMERICAN COUNTRIES: GDP PER CAPITA (2004) AND REAL GDP (%GROWTH)

COSTA RICA	GDP PER CAPITA 2004			
	3506 EUROS			
REAL GDP (% GROWTH)	2001	2002	2003	2004
	1	2,9	6,5	4,2
EL SALVADOR	GDP PER CAPITA 2004			
	1807 EUROS			
REAL GDP (% GROWTH)	2001	2002	2003	2004
	1,7	2,2	1,8	1,5
GUATEMALA	GDP PER CAPITA 2004			
	1570 EUROS			
REAL GDP (% GROWTH)	2001	2002	2003	2004
	2,3	2,2	2,2	2,6
HONDURAS	GDP PER CAPITA 2004			
	832 EUROS			
REAL GDP (% GROWTH)	2001	2002	2003	2004
	2,6	2,7	3,5	4,2
NICARAGUA	GDP PER CAPITA 2004			
	633 EUROS			

<b>REAL GDP (% GROWTH)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	3	1	2,3	4
<b>PANAMA</b>	<b>GDP PER CAPITA 2004</b>		<b>3637 EUROS</b>	
<b>REAL GDP (% GROWTH)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	0,6	2,2	4,7	6
<b>MEXICO</b>	<b>GDP PER CAPITA 2004</b>		<b>5231 EUROS</b>	
<b>REAL GDP (% GROWTH)</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<i>n. a.</i>	0,6	1,6	4,4

Source: Eurostat, statistical regime n.a.: non available

Table 6

**CENTRAL AMERICAN COMMON MARKET: INTRA\_REGIONAL AND TOTAL EXPORTS 1999-2003**

(data in millions \$ and %)

Year	Intra-CECM Exports (1)	Total Exports (2)	% of intra-CECM exports (1):(2)
1999	2.450	11.627	21,1
2000 <sup>a</sup>	2.617	11.512	22,7
2001 <sup>a</sup>	2.829	10.185	27,7
2002 <sup>a</sup>	2.945	10.247	28,7
2003 <sup>a</sup>	3.088	11.274	27,3

Source: SIECA (Secretaría de la Integración Económica Centroamericana) (2004), *Boletín estadístico* 12.2, Guatemala: SIECA.

<sup>a</sup> Preliminary data.

Graph 3

**CENTRAL AMERICAN COMMON MARKET: INTRA-REGIONAL EXPORT STRUCTURE, 2003 (in %)**

Source: SIECA (Secretaría de la Integración Económica Centroamericana) (2004), *Boletín estadístico 12.2*, Guatemala: SIECA

**Table 7**  
**CENTRAL AMERICA: INDICATORS OF THE BALANCE OF PAYMENTS, 1998 – 2003**  
(in million dollars)

	1998	1999	2000	2001	2002a/	2003a/
<b>Balance of the current account</b>						
<b>Istmo Centroamericano</b>	-3 572,3	-4 425,6	-4 046,0	-3 547,2	-3 786,9	-4 279,8
Centroamérica	-2 556,3	-3 266,8	-3 356,6	-3 373,7	-3 694,6	-3 871,8
Costa Rica	-520,7	-681,1	-706,9	-736,6	-959,6	-969,7
El Salvador	-90,7	-239,3	-430,5	-150,3	-411,8	-733,6
Guatemala	-997,2	-1 015,1	-1 049,0	-1 252,9	-1 234,9	-1 050,6
Honduras	-128,1	-240,9	-245,7	-302,4	-218,7	-258,3
Nicaragua	-819,6	-1 090,4	-924,5	-931,5	-869,7	-859,6
Panamá	-1 016,0	-1 158,8	-689,4	-173,5	-92,3	-408,0
<b>Balance of the balance of trade</b>						
<b>Istmo Centroamericano</b>	-5 081,7	-4 696,3	-5 400,8	-6 318,0	-7 701,9	-8 058,8
Centroamérica	-4 424,4	-4 057,5	-5 111,5	-6 520,8	-7 644,0	-8 229,4
Costa Rica	-165,5	1 038,3	453,4	-91,8	-596,5	-336,7
El Salvador	-1 454,5	-1 538,7	-1 974,5	-2 182,9	-2 111,2	-2 443,0
Guatemala	-1 562,8	-1 549,2	-1 707,9	-2 165,3	-2 892,7	-3 194,8
Honduras	-407,3	-814,3	-839,8	-1 053,9	-997,8	-1 159,7
Nicaragua	-834,3	-1 193,6	-1 042,7	-1 026,9	-1 045,8	-1 095,2
Panamá	-657,3	-638,8	-289,3	202,8	-57,9	170,6
<b>Balance of current transfers</b>						
<b>Istmo Centroamericano</b>	3 191,5	3 606,5	4 001,4	4 934,0	5 762,8	6 548,1
Centroamérica	3 032,9	3 435,4	3 824,4	4 707,9	5 513,2	6 306,8
Costa Rica	113,2	102,2	92,2	147,9	169,0	197,4
El Salvador	1 526,8	1 581,5	1 797,1	2 298,3	2 022,8	2 117,1
Guatemala	705,3	714,8	868,2	996,8	1 976,2	2 461,9
Honduras	487,6	736,9	746,9	929,2	968,7	1 091,6
Nicaragua	200,0	300,0	320,0	335,7	376,5	438,8
Panamá	158,6	171,1	177,0	226,1	249,6	241,3
<b>Financial and capital accounts</b>						



<b>Istmo Centroamericano</b>	3 756,0	5 301,8	4 172,3	4 233,7	3 762,0	4 881,5
Centroamérica	2 844,9	3 952,4	3 560,1	3 416,2	3 609,7	4 626,5
Costa Rica	371,1	1 161,2	554,7	749,7	1 122,6	1 311,1
El Salvador	393,9	447,1	385,0	-27,4	288,3	1 049,8
Guatemala	1 239,8	889,7	1 703,3	1 726,7	1 256,7	1 600,2
Honduras	250,1	454,4	192,0	302,1	282,2	27,1
Nicaragua	590,1	1 000,0	725,1	665,1	660,0	638,4
Panamá	911,1	1 349,4	612,2	817,5	152,3	255,0
<b>Global balance</b>						
<b>Istmo Centroamericano</b>	183,7	876,2	126,3	686,5	-24,9	601,7
Centroamérica	288,6	685,6	203,5	42,5	-84,9	754,7
Costa Rica	-149,6	480,1	-152,2	13,1	163,0	341,3
El Salvador	303,2	207,8	-45,5	-177,7	-123,5	316,2
Guatemala	242,6	-125,4	654,4	473,8	21,8	549,6
Honduras	122,0	213,5	-53,7	-0,3	63,5	-231,2
Nicaragua	-229,5	-90,4	-199,4	-266,4	-209,7	-221,2
Panamá	-104,9	190,6	-77,2	644,0	60,0	-153,0

Source: CEPAL, sobre la base de cifras oficiales

a/ Preliminary data

b/ including mistakes and omissions

**Table 8**  
**CENTRAL AMERICA: DEFICIT OF THE BALANCE OF CURRENT ACCOUNT, 1998 - 2004**  
(in percentage of the GDP)

Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
1998	3,7	0,8	5,4	2,8	19,2	9,3
1999	4,2	1,9	5,6	4,4	24,8	10,1
2000	4,4	3,3	5,4	4,6	20,0	5,9
2001	4,5	1,1	6,0	4,7	23,1	1,5
2002	5,4	2,9	5,3	3,3	21,7	0,8
2003	5,3	4,9	4,2	3,7	20,8	3,2
2004 <sup>a</sup>	4,7	4,5	4,1	6,5	22,3	0,3

Fuente: CEPAL (2004), *Balance preliminar de las economías de América Latina y el Caribe 2004*, Santiago: CEPAL, diciembre.

<sup>a</sup> Preliminary data

**Table 9**  
**CENTRAL AMERICA: REMITTANCES OF WORKERS, 1996-2003**  
(in percentage of the GDP)

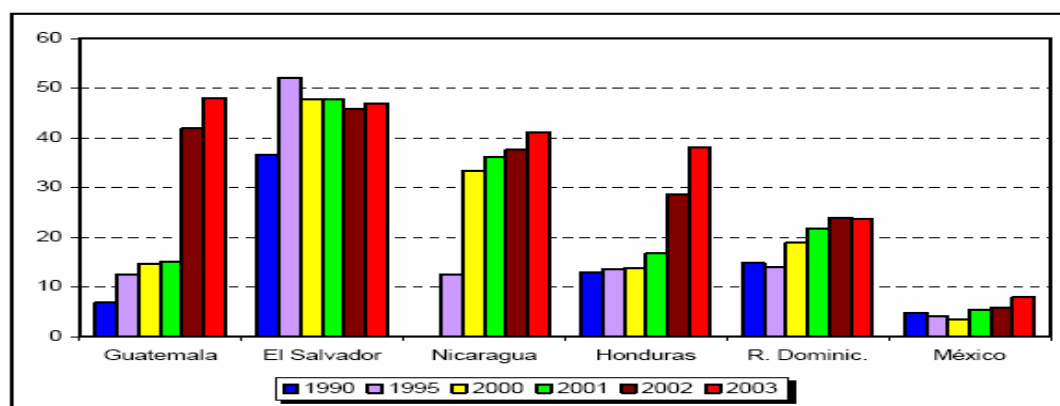
Year	Costa Rica	El Salvador	Guatemala	Honduras	Nicaragua	Panama
1996-2000	0,5	12,8	2,5	4,3	5,8	1,3
2001	0,6	13,8	2,8	6,3	8,4	0,7

2002	0,8	13,5	7,3	11,1	9,4	0,8
2003 <sup>a</sup>	...	14,1	8,6	15,0	10,2	...

Fuente: BID (2004), *Situación económica y perspectivas del Istmo Centroamericano y República Dominicana*, Washington D.C.: BID, Departamento Regional de Operaciones II.

<sup>a</sup> Preliminary data

**Graph 4**  
**CENTRAL AMERICAN COMMON MARKET: REMITTANCES AS PERCENTAGE OF THE EXPORTS OF GOODS AND SERVICES 1990 – 2003**



Fuente: BID, con base en Banco Mundial, FMI y CEPAL.

Nota: Las exportaciones incluyen a la maquila bruta.

**Table 10**  
**Indicators related to the Millennium Declaration (1999 – 2003)**

	proportion of population below \$1 per day	Prevalence of underweight children (under-five years of age)	Net enrolment ration in primary education	Primary Completion Rate	Ratio girls to boys in primary, secondary and tertiary educat.	Under 5 mortality rate	Proportion of 1 year old children immunised against measles	Proportion of births attended by skilled health personnel	HIV prevalence among 15-24 year old pregnant women	Prop. of pop. with sustainable access to improved water source
<b>COSTA RICA</b>										
1999	9,60%	5	13	88	87	n. a.	90	93	n. a.	92
2000	7,50%	5	12	19	90	107	93	89	n. a.	98
2001	7%	n. a.	13	90	n. a.	n. a.	97	92	n. a.	98
2002	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
<b>EL SALVADOR</b>										
1999	n. a.	n. a.	n. a.	89	n. a.	n. a.	99	n. a.	n. a.	n. a.

2000	n. a.	n. a.	n. a.	88	n. a.	40	n. a.	n. a.	n. a.	77
2001	31,1	12	88,9	87	97,2	40	82	n. a.	0,4	77
2002	n. a.	12	n. a.	n. a.	n. a.	39	93	90	n. a.	77
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	0,7	n. a.
					<b>GUATEMALA</b>					
1999	10	24,2	81	n. a.	n. a.	n. a.	83	n. a.	0,9	n. a.
2000	15,7	n. a.	84	n. a.	92	49,4	n. a.	n. a.	n. a.	92
2001	16	24,2	85	58,7	92,5	n. a.	91	40,6	0,85	n. a.
2002	21,5	21,9	n. a.	59	n. a.	49	92	n. a.	n. a.	92
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
					<b>HONDURAS</b>					
1999	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	98	n. a.	n. a.	89,2
2000	n. a.	n. a.	87,4	70	n. a.	43	98	n. a.	n. a.	88
2001	23,8	16,6	87,4	69,5	n. a.	42	95	55,7	1,5	88
2002	n. a.	n. a.	n. a.	n. a.	n. a.	40	97	56	n. a.	n. a.
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	1,8	n. a.
					<b>MEXICO</b>					
1999	n. a.	7,6	100,4	98	n. a.	n. a.	95	n. a.	n. a.	n. a.
2000	n. a.	n. a.	100,7	99	n. a.	30	n. a.	n. a.	n. a.	88
2001	9,9	n. a.	101,3	99	n. a.	30	95	n. a.	0,1	88
2002	n. a.	1	n. a.	n. a.	101,3	29	96	86	n. a.	n. a.
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
					<b>NICARAGUA</b>					
1999	n. a.	n. a.	79,8	71	n. a.	n. a.	99	n. a.	n. a.	n. a.
2000	n. a.	n. a.	81,2	71	n. a.	43	99	n. a.	0,1	77
2001	45,1	9,6	81,9	70	105,3	45	99	66,9	0,1	77
2002	n. a.	11	82	74,7	n. a.	41	98	67	n. a.	n. a.
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	0,2	n. a.
					<b>PANAMA</b>					
1999	n. a.	7	91	n. a.	n. a.	n. a.	n. a.	64	n. a.	n. a.
2000	14	8	92	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	90
2001	n. a.	n. a.	n. a.	n. a.	n. a.	25	97	n. a.	n. a.	n. a.
2002	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.
2003	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.	n. a.

Source: World Bank "Millennium Development Goals", UNDP (HDI), UN Statistics Division.

n.a.: non available

## **ANNEX 2. EC-CENTRAL AMERICA – SUMMARY OF COOPERATION AND EIB**

### **Overview of the EC Cooperation with Central America**

For the period from 1984 to 2000, total Commission funding of regional cooperation programmes with Central America, in the broad sense of the term, amounted to some €450 million. This support responded to the various initiatives undertaken by the region itself and was in accordance with the priorities stemming from the atmosphere of hostility and mistrust which prevailed in the region in the late 1980s and the early 1990s. In this context, the paramount objective of Community cooperation was to promote reconciliation between the governments of Central America and among the various groups within each country. A flexible approach allowing for a response to emergencies, the main criterion of relevance was appropriate response was adopted and prominence was given to strengthening existing regional organisations, as well as promoting opportunities for exchange and dialogue in specific sectors.

Other areas of intervention included support for small and medium sized enterprises through the Central American Bank for Economic Integration (BCIE), the reintegration of returned refugees and exiles, the promotion of human rights, food security, promotion of exports, the cooperative sector, fisheries, air transport, telecommunications, mother and infant health care, and research on basic needs. In 1999 the Regional Programme for the Reconstruction of Central America (PRRAC) was approved by the Commission in the aftermath of Hurricane Mitch, with a budget of €250 million for the period 1999-2006.

This approach led, in practice, to a wide sectoral dispersion of cooperation with only some 5% of the total amount targeted to direct support for the integration process. However, in the late 1990s, an appraisal of the region's development needs was carried out, which pointed to the need to concentrate on fewer priorities and with a longer term perspective. Accordingly, in the context of the San Jose Dialogue Ministerial meeting held in Florence in 1996, it was decided to focus cooperation on three issues: consolidation of the rule of law, support for the social sectors, in particular health and education, and the integration of Central America into the global economy. Subsequent analysis undertaken in the context of the "Central America 2020" study, recommended that the sectors to be developed in the medium term should be on the basis of progress on the regional integration agenda and should only be provided to sectors and organisations with an established framework and with confirmed co-financing in order to guarantee the viability of the measures.

### **Regional Programme for Central America 2002-2006**

The 2002-2006 Regional Strategy (RSP) for Central America, which is based on a Memorandum of Understanding signed with the region in 2001, established three focal sectors for cooperation: 1) Support to the process of regional integration, implementation of common policies and institutional strengthening (60%); 2) Strengthening the role of civil society in the process of regional integration (10%); and 3) Reducing vulnerability and

improving environmental management (30%). Under the 2001 Memorandum of Understanding, an indicative €74.5 million was allocated to this programme.

In 2000, the Commission allocated €10 million from the RSP to an **El Salvador-Honduras Trans-border Development Programme**, which has a total budget of some €30 million. The principal focus of the programme is municipal and local development and decentralisation in some 70 municipalities in the border zone between the two countries.

In 2001, a **Customs Union Support Programme** (€8 million) was approved as a central part of the active support to the process of regional integration in Central America. This project aims to assist the Central American Economic Integration Secretariat (SIECA) implement the Central America Customs Union. The main areas of support include the provision of an inter-connected customs information system and the provision of support to the Central American School for Customs and Tax Administration. At the same time a €0.2 million technical assistance project in support of the General Secretariat of the Central American Integration System (SG-SICA) was approved.

In 2003, a €15 million **Programme of Support to Central American Integration (PAIRCA)** was approved. It aims to support capacity building of the principal regional integration institutions in Central America and the involvement of civil society in the process of regional integration. This project will provide institutional strengthening to the Secretariat-General of the Central American Integration System (SG-SICA) as well as for the reform of the Central American Court of Justice (CCJ) and the Central American Parliament (Parlacen). In addition, support will be provided to SIECA for the development of statistical information systems. The strengthening of the role of civil society in the process of integration will be carried out through the building up the capacity of the Consultative Committee of SICA (CC-SICA) and developing sectoral and other initiatives involving civil society actors including universities, NGOs, unions and private sector organisations.

In early 2005, a €10 million **Programme of Support to the Design and Application of Central American Common Policies (ADAPCCA)** was approved. It aims to strengthen the formulation and implementation of harmonised of common policies related to the customs union. This project will cover a range of areas including sanitary and phyto-sanitary policies, norms and standards, services and investment policies, intellectual property rights, competition policy and dispute settlement, building upon the Central American Customs Union.

The second project approved in 2005 is the €20 million **Regional Programme for Vulnerability Reduction and Environmental Management**. This programme will focus on institution building (namely supporting CEPREDENAC, CCAD and CRRH the regional institutions responsible for disaster prevention, environment and water resources respectively) and the provision of human resources development and financing of pilot activities focussed on water management issues.

An additional €7 million will be allocated to the field of customs union/common policies support in 2006. It is expected that this programme will address the consolidation of the Central American Customs Union, eventually including the establishment and/or strengthening of a common customs administration or authority as well as specific issues that may be identified in the context of the Ad Hoc Working Group on Regional Economic Integration.

In conclusion, it can be stated that under the Regional Programme for Central America, some €40 million out of a total of €74.5 million is being channelled in direct support to the process of regional integration, which can be seen as the principal focal sector of the strategy.

### **Other Key Regional Cooperation Programmes**

A number of other key regional cooperation programmes serve to complement the focus of the programmes described above. They include:

**The Multi-annual Programme for Democracy and Human Rights in Central America (PPDDHAC):** This €11 million programme, approved in 2001, includes two regional programmes and six country programmes aimed at the promotion and dissemination of human rights values and the instruments that guarantee human rights. One regional programme, which addresses the fight against impunity and strengthening the rule of law through international law and human rights, is implemented by the Centre for Justice and International Law (CEJIL). The other programme, implemented by Institute for Human Rights (IDDH), addresses armed forces training in human rights focussing on Guatemala, El Salvador, Honduras and Nicaragua.

**Regional Food Security and Nutrition Programme for Central America (PRESANCA):** This €12 million programme, which will run for five years was approved in late 2003 and is to be implemented by the Social Integration Secretariat (SISCA) of the SICA General Secretariat (SG-SICA). Its main aim is to improve the food security and nutritional status of the most vulnerable population in the region. It will do this through strengthening regional, national and local food security and nutrition policies, improving analysis and crisis management capabilities, and the provision of funds for specific needed interventions.

**Fourth DIPECHO Programme for Central America:** Fourth DIPECHO Programme for Central America: This €6 million programme aims to contribute to reducing the risk of the most vulnerable populations to natural disasters through improved preparedness of local populations in Guatemala, El Salvador, Honduras and Nicaragua. 90% of this programme is implemented by 14 international NGOs, with the remainder covering operations administered by CEPREDENAC in Guatemala and by PAHO at regional level.

**Central America Border Zone Development Programme (ex-FOEXCA):** This €40.5 million project, implemented by the Central American Bank for Economic Integration (BCIE), is a reallocation made in 2003 of unused funds from the 1989 FOEXCA export promotion programme. They are now destined to improve local planning in vulnerable

border zones, focussing in particular on improved water basin management and the application of environmentally friendly technologies.

**Regional Programme for the Reconstruction of Central America (PRRAC):** This €250 million programme for reconstruction of Central America following the October 1998 Hurricane Mitch responds to the needs presented at the 1999 Stockholm Consultative Group for the Reconstruction and Transformation of the region. The programme, which commenced in 2001 and will run for eight years addresses rehabilitation and improvement of basic water supply and sanitation systems, primary health care systems and facilities, environment and schools in Honduras, Nicaragua, El Salvador and Guatemala.

### **Regional Programmes for Latin America**

- [AL-INVEST](#) provides help to small and medium-sized companies which operate internationally, by encouraging European firms to invest in Latin American enterprises seeking such co-operation;
- [ALFA](#) focuses on the promotion of co-operation in higher education between the two regions;
- The objective of [URB-AL](#) is to establish direct and lasting links between European and Latin American cities;
- [ALURE](#) encourages the optimal and most rational use of energy;
- [@LIS](#) aims to promote the benefits of using information technologies and tries to bridge the so-called digital divide.
- [Alban](#), which was launched in May 2002, aims at the reinforcement of the European Union - Latin America co-operation in the area of Higher Education and covers studies for postgraduates as well as higher training for Latin America professionals/future decision-makers, in institutions or centres in the European Union.
- [OBREAL](#): The Observatory of EU-LA relations, approved by the EU Member States of the European Union on 18 September 2003, aims at creating a network of non profit-making institutions from Latin America and the European Union. The network identify and develop all the opportunities offered by the partnership between the two regions, by exploiting expertise in European Union - Latin America institute networks with a view to creating a better understanding of the regional and sectoral problems pertaining to policymaking.
- EURO SociAL, launched on 25 May 2004, is a five year programme of €30 million with which the European Commission will assist Latin American countries to

develop and implement social policies that will contribute to reducing the gap between the rich and the poor in the region. EUROsocial aims to strengthen social cohesion by developing, among those responsible for preparing public policy, the necessary capacity to take into account the social dimension. Focus will be given to health, education, administration of justice, employment and taxation policies.

## **EUROPEAN INVESTMENT BANK**

EIB financing of projects in Asia and Latin America (ALA) dates back to 1993 when the Council of Ministers of the European Union (EU) broadened the mandates entrusted to the EIB under EU development aid and cooperation policy to include these regions. During its more than 10 years' experience in ALA, the EIB has financed major projects of mutual interest to the EU and the countries Latin America in sectors as diverse as energy and water supply, telecommunications, industry, sanitation and SMEs.

The Central American countries are eligible for EIB financing under the ALA III mandate covering the period from 01.02.2000 to 31.01.2007. Under these arrangements, the EIB funds are utilized to finance investments in countries signatories to cooperation agreements with the EU. There are no amounts allocated per country. Current activities in Central America, for a global amount of some 65 million, include energy interconnection at regional level, financing for small and medium-scale ventures and reconstruction schemes and/or private-sector development initiatives in areas affected by Hurricane Mitch.

A new EIB external mandate will cover the period 2007 – 2013 (coinciding with the new financial perspective) It provides for a total volume of lending for the seven-year period 2007 – 2013 amounting to EUR 27,8 billion, of which EUR 2 billion would be withheld until 2010, pending the results of a mid-term review. EUR 2,8 billion have been set aside for Latin America.

The key feature of the new EIB mandate is the enhanced contribution of EIB financing towards EU priorities thus improving the quality of its external activity. This will be achieved in particular by strengthening the policy dialogue between the Commission and the EIB, as well as strategic planning and coherence between EIB and Commission external action. Improved complementarity between community assistance policies, programs and instruments, and EIB financing will be sought.

Furthermore, the EIB should further upgrade its co-operation arrangements with other IFIs and European bilateral institutions in order to ensure reasonable sharing of risks and coherent project and sector conditionality and to maximise synergies and efficiency.



**Annex 3**  
**Donor Matrix**

Donor	Area of intervention at regional level	Relevant projects	Amounts US\$	Regional counterpart
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<b>IADB</b>	Three axes: economic, sustainable development and human development	<b><i>See detailed information further in this section</i></b>	800 M \$	SICA, national and private sector institutions
<b>USAID</b>	Trade (CAFTA), Environment	Biological corridor, climate change	~10,0 M \$ ~47,0 M \$	SIECA, CCAD (NASA)
<b>World Bank</b>	Small <i>trust funds</i> , GEF (with other donors)	Several	na ~70 M\$	CCAD, BCIE
<b>UNDP</b>	Regional planning Environment	"State of Region" Report Implementing Agency for several GEF projects	na see WB	
<b>Norway</b>	Environment	Several	22,8 M\$	CCAD, CATIE, TIERRA
<b>Switzerland</b>	Environment	Environmental legislation	1,0 M \$	CCAD
<b>Canada</b>			na	
<b>Japan</b>			na	
<b>Republic of Korea</b>	Integration		0,15 M \$	SICA

<b>EU Member States</b>	Stakeholder and main characteristics	Role in regional development	Capacity and interest to participate in the future dynamics	Possible actions to incentivate participation in a possible EU/CA strategy
<b>Germany</b>	Health Environment Social Education development	Biological corridor  Several	na	CCAD  BCEI
<b>France</b>			na	
<b>United Kingdom</b>	Markets and Trade Governance Mitigating Climate Change	SME Development Political Parties Disaster Risk Reduction	0.5m  0.5m  in preparation	RUTA   CEPREDENAC
<b>Spain</b>	8 lines	Several	4,5 M 2006	SICA

			7,5 M 2007 8 M 2008	
<b>Italy</b>	Environment	Energy and environment	na	
<b>Netherlands</b>	Environment	Environmental management	3,5M	CCAD
<b>Sweden</b>	Environment	Several	7.0M	CCAD, CATIE
<b>Finland</b>	Environment	Energy and environment	3.0M	CCAD
<b>Denmark</b>	Environment	Environmental Regional programme	In preparation	CCAD



## Inter American Development Bank regional programme (October 2004)

Axis and sector	Project	Programme	Amount IADB US\$	All sources
<b><u>Economic axis</u></b>				
<b><i>Trade facilitation</i></b>	Reduction of technical barriers		495.000	
	Customs modernization	<b>PPP</b>	<b>2.015.000</b>	
	Harmonization of agricultural products standards		510.000	
<b><i>Harmonization and regulatory framework</i></b>	Harmonization of the public debt market		600.000	
<b><i>Improvement of infrastructures</i></b>	Integration of the Central American road network	<b>PPP</b>	<b>600.000.000</b>	2.500.000.000
	Central American Electricity Integration System	<b>PPP</b>	<b>120.000.000</b>	320.600.000
	Mexico-Guatemala electricity inter-connection	<b>PPP</b>	<b>43.300.000</b>	55.800.000

<b>Capacity-building to negotiate and implement trade agreements</b>	Trade agreements	310.000	
	Coffee sector	3.000.000	
	Special trade facilities for Guatemala, Nicaragua, Honduras		13.000.000
<b>SMEs quality</b>	Small rural producers	495.850	
	Small forest enterprises	1.684.200	
	Entrepreneurial associations	5.000.000	
	Training of financial analysts for SMES	760.000	
	<b>Total</b>	<b>778.170.050</b>	

<u>Sustainable Development Axis</u>				
<i>Institutional strengthening</i>	SD Mesoamerican Initiative		150.000	
<i>Watershed management</i>	Lempa River		21.800.000	
<i>Biodiversity</i>	Mesoamerican Biological Corridor		745.000	
<i>Prevention of natural disasters</i>	Risk management and information		795.000	
	Environmental risk in low income cities		210.000	
	Environmental risk in low income cities		75.000	
<b>Total</b>			<b>23.775.000</b>	
<u>Human Development Axis</u>				
<i>Epidemiological control</i>	AIDS control among population in movement	<b>PPP</b>	<b>300.000</b>	
	AIDS control in Garifuna population		140.000	
<i>Nutrition</i>	Analysis and investment in nutrition		443.000	
<i>Education</i>	Innovation in social programmes (CAPP)		150.000	



	Use of the Internet in education	300.000	
<b>Professional training</b>	Demand and services for professional training	1.400.000	
<b>Science and technology</b>	Innovation in social programmes	150.000	
<b>Social inclusion</b>	Political and social inclusion of afro-descendent women	90.000	
	Strengthening of associations against poverty	200.000	
	Global instrument for reduction of poverty	50.000	
	<b>Total</b>	<b>3.223.000</b>	
<b>Total</b>		<b>805.168.050</b>	
<b>PPP Total</b>		<b>765.615.000</b>	2.876.400.000,0 0

#### **Annex 4. Central American Regional Environmental Profile - Summary**

In the context of the pre-programming analyses carried out to prepare the Central American Country and Regional Strategies, a Regional Environmental Profile of the region including individual country annexes was undertaken by a team of two environmental experts who conducted a combination of desk analysis and field visits to Central America between the 24<sup>th</sup> of November and the 9<sup>th</sup> of December 2004. The mission visited Nicaragua, El Salvador, Guatemala, Costa Rica and Honduras, where interviews have been conducted with the representatives of the EU, major donors, governmental institutions and NGOs active in this field. The aim of the mission was to prepare an overview of the state of the environment in the region, to review the institutional and legal framework for the environment and to develop recommendations for mainstreaming environmental concerns in priority development areas for Central America.

The basic conclusions of the Regional Environmental Profile are that throughout the region, the environmental problems are the same, with local variations, and are characterized by a degradation affecting more and more persons. Starting with the natural disasters that affected the region 5-6 years ago, a growing concern has developed that nature conservation will not solve the whole problem. In fact, today the focus is more and more on the contamination aspects and its consequences for the social, economic and natural factors.

The main problem seen by all persons met concerns water. Depending on the background of the person, the focus lies more on watershed management, drinking water production and distribution, agricultural and industrial (including for energy) needs, sanitation and water treatment, social conflicts, etc., but always putting water at the heart of the problem. The case of El Salvador is particularly dramatic: being a small country, the high population density and the limited water resources lead to a large dependency on the care taken by the neighbour countries of the resource. Here the concept of “shared watersheds” takes all its meaning, even in the often forgotten sense of “shared underground watershed”. The large attendance at the 3<sup>rd</sup> “Central American Convention on Water” is significant in this respect. Not only is water availability a concern, its quality too. Contaminated water (rivers or lakes) is more and more a health risk and economic development hindrance. As recently cities have attracted most of the population and their development was poorly planned, the infrastructure to deal with water has not followed. Unfortunately the negative effects of inadequate water management are often displaced in time and space, which lead to poor attention to the problem. Next to the lack of knowledge about the exact water resources and its cost, the legal framework for water is inappropriate and any attempt to change it is blocked by opposing interests.

Linked to water contamination, is undoubtedly the excessively poor solid waste management reported in the whole region. If solid water management is a local problem, this problem is repeated throughout the region. Solid waste is poorly collected, if it is done, usually receives no particular treatment and is often dumped in inappropriate places. The use of agrochemicals without any proper knowledge leads equally to water and soil contamination. Most of the large cities of Central America have grown rapidly which leads to a strong atmospheric contamination, particularly affected are Tegucigalpa, San José and San Salvador. Around 70% of this contamination is produced by vehicles.

Even if the last natural disasters have attracted attention to the poor state of natural resources management, very little has been done to change the situation. Sustainable and rational forest management is lacking everywhere with very few local and limited exceptions. This is not only due to a lack of knowledge and to weak institutions, but also to the advance of the agricultural frontier, and to the perception of forests as a “productive” sector. Today, most of the preserved forests are located in protected areas, hence the importance of their conservation.

Changing the “physical” environment cannot be done without changing the actors having an influence on it. Good governance from the institutions to good behaviour of the individuals is needed. The Central American Commission on Environment and Development (CCAD) plays an important role in this, even if this institution is not yet out of its infancy, with the exception maybe in the field of biodiversity. The challenge for the CCAD is to establish itself in a sustainable fashion, with its proper resources, hence being less dependent on foreign aid and political influences in the execution of its mandate. There is no doubt that its objective of harmonizing the legal framework is a priority and will need to involve other national ministries such as those in charge of the environment. Other regional bodies, like the CEPREDENAC (disaster prevention) or CRRH (water resources) need to receive more attention. At the national level, the institutions dealing with environmental matters depend heavily on foreign aid to execute their tasks, even if this field is more subject to donations and grants, a national contribution should always be a prerequisite. The use by the private sector of sound environmental practices should be encouraged. All projects should have their “environmental practices manual” next to its manual of procedure. Changes in attitude have to take place throughout the society in order to internalise the existing environmental conscience and to take a definitive step toward actions.

Environmental matters are an international concern; the environment itself is homogeneous in Central America and the related problems are shared by all countries. Thus measures in

favour of the environment will continue to be internationally supported and more and more integrated at the level of the region. Nevertheless, actions in the field have to be locally developed but networked where actions of a general interest, like harmonizing the legal and institutional framework and information exchange, will have to be pursued at regional level. The execution of environmental activities in the field (e.g. sanitation infrastructure or land husbandry) is mostly related to property aspects. Without a secure system of property rights throughout the region, the impact of the activities will be reduced. In order to reverse the adverse environmental trends, contribute to the sustainable development of the region and to ensure proper living conditions to the population, it is recommended to:

1) Tackle the main technical issues:

a) Support the **water sector**, aiming to:

- Ensure sustainable water supply and sanitation,
- Support the development of knowledge and the legal framework,
- Conserve and manage the ecosystems ensuring the availability of this resource

b) Fight **environmental contamination** by:

- Improving solid waste management
- Supporting clean technology development and dissemination

c) Foster sustainable **natural resources management** by

- Supporting the use of rational forest management
- Promoting the commitment to and effective application of international conventions

2) Promote actors and processes

a) Support the development of environmental capacities of the national and regional institutions and the civil society and the proper information of the population

b) Promote the “win-win” aspects of environmental development in the private sector

c) Promote good environmental governance at regional level (in view of a future custom union (>CITES), harmonized rules and procedures); and

3) Foster the conditions for **attitude changes** in assisting the internalisation of the environmental awareness and encourage the move from awareness to action through changing the perception of the society and exchanging experiences.

In general it can be said that substantial progress has been made over the past decade in establishing environment-related regional policies, plans and institutions. Much of what is in place depends on donor funding. The European Commission is in the process of approving a €20 million regional programme for the reduction of vulnerability and environmental degradation that will focus on disaster prevention, water and environmental management. The critical tasks which remain for the region concern the increasing of the awareness and the changing of the behaviour of individual actors on the ground, a task which must be systematically built in to all EC funded cooperation programmes.

## **Annex 5: Policy Mix and Other Instruments**

To assess the coherence of the RSP for Central America this annex presents relevant EU policies and guidelines affecting the region. Some policies are also development policies; some are linked to financial instruments or thematic programmes. All of them have a link with the past and future EC development policy towards Central America. For each, different categories and levels of EU interventions are addressed, assessing the complementary and coherence:

- cooperation instruments and programmes: bilateral, sub-regional and regional, with a special focus on the complementarity of horizontal programmes and other financial instruments such as thematic programmes;
- regulatory instruments and international agreements;
- policy and political dialogue (regional level).

### **Trade & development**

Article 133 of the EU Treaty constitutes the legal basis for the EU's trade policy. It states that the objectives of the Union's commercial policy is *«to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers»*. It covers all the main aspects of trade in agricultural and non-agricultural goods, services as well as key aspects of trade related aspects of intellectual property, investment and competition.

The main objective of the Union's trade policy towards Central America is:

- to strengthen and expand bilateral trade relations between the EU and Central American countries on the basis of transparent and non-discriminatory multilateral rules, and notably by means of strengthening our cooperation throughout the WTO negotiations launched at Doha.
- to support the regional trade and economic integration process in Central America.
- to support Central America in completing its international commitments in particular fight against drug trafficking, international labour standard, human right and environment, through autonomously granting market access to EU markets via the GSP scheme.
- to support the Central American countries' integration into the world economy by implementing their existing WTO commitments and to assist them in the negotiations and implementation of new commitments resulting from the new WTO round (Doha Development Agenda).

The strategy set out in the RSP is fully in line with the achievement of these objectives. However, for the third item, Central America is seeking a deeper relation notably through an association agreement which is considered to be a much more powerful tool to attract FDI.

Supports in trade-related matters are provided by the CSP and by the RSP for Central America and Latin America.

### **Common Agriculture Policy (CAP)**

The "*Common Agricultural Policy*" (CAP), created by the Treaty of Rome, sought to increase the productivity of European agriculture, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply at fair prices for consumers. Since then, many changes to the CAP were made, modifying price policy (reduction of prices support), restricting market intervention, regulating output and introducing a system to control spending on agriculture involving, an adjustment of market management to restore market balance; more assistance is provided for social and environmental measures to stimulate development in rural areas. Those changes focussed on the changes in a global economy and the need to implement WTO commitments to reduce market distortions.

Few agricultural commodities covered by the CAP enter into competition with Central American products. A notable exception is bananas and since the EU is an important destination for Central American products, Central American banana producers have voiced significant grievance concerning the impact Community policy in this field has had on their market access. Indirectly, Latin Americans claim that the CAP influenced different world markets, and Central America has tended to align itself with the South American countries in their discussion with the UE on agriculture in international organizations.

### **Sanitary and phytosanitary control Policy – consumers protection**

The external dimension of the Community policy in this sector aims to ensure a high level of protection of health, safety and economic interests of the consumers, as well as the protection of public health in the EU. The implementation of this principle is sometimes perceived as a measure of non-tariff trade protection that prevents the access of some products – mainly agricultural, but also meat - to the European markets even if the same principle is applied to European-made products.

At the same time, some Central American countries have raised concerns about non-reciprocal treatment by the EC in the implementation of certain Community principles of health inspection, such as that of regionalisation but also agreement of

control institutions. Confusion is also added by the fact that the US and the European SPS systems are different.

This strategy is in accordance with those preoccupations, providing specific supports for the development of harmonised and common policies in the context of the establishment of the Central American Customs union, which will better enable the region's exporters to fulfil EU requirements in this respect.

In addition, a specific effort is associated to SPS (Sanitary and Phytosanitary Measures); experts from Central America countries are benefiting, like other developing countries, from a specific training system to SPS requirements by the EU.

### **Internal market**

The principal aim of this policy is to strengthen the process of economic integration for a liberalisation of the markets as well as the development of a legislative framework compatible with that of the EC in order to:

- assure a suitable level of protection of industrial and intellectual property,
- prevent money laundering,
- protect personal data,
- guarantee minimum standards for public calls for tender, avoiding any kinds of restrictive measure of the markets.

Regulatory convergence is a factor of mutual benefits, by supplying trade and investments and favouring the investments of the EU companies abroad.

### **Competition policy**

The interest of applying competition policy in the EU's relations with third countries, mainly in the negotiation of trade agreements, is based on the establishment of a stable and clear legal framework for the relations between economic operators in order to prevent commercial conflicts.

At the same time, the discriminatory treatment between companies of both parties is avoided with respect to direct investments or access to the services market. Likewise, the EU takes part in multilateral co-operation in this sector in the framework of the World Trade Organisation (WTO). The WTO working group on "trade and competence" examines the possibility of strengthening the convergence of policies for which a multilateral horizontal action might be explored by the EC.

Some countries of Central America have raised concerns for the juridical insecurity, which is linked to the global governance problem. The EU competition policy and the RSP are compatible with the present strategy since interventions promoting



competition are included in the regional context. This issue is particularly relevant in the context of a possible future Association Agreement between the EU and CA.

### **Research and development policy**

In the EU, international co-operation in this area is covered by the Research Framework Programmes through two principal axes:

- an international co-operation dimension for each thematic research programme and
- a specific international S&T Co-operation programme that contributes to the solution of common or sustainable development problems in third countries and regions.

It should be noted that specific instruments of the EU Research Framework Programmes that will be continued further under the 7th Research Framework Programme (2007-2013), also support research collaboration:

- Exchanges of researchers from third countries are highly encouraged at all stages of research careers in FP6 under the Marie Curie activities,
- under the ERA-NET scheme the coordination of the bi-lateral cooperation programmes between EU Member States and Third Countries will be further reinforced.

Moreover S&T Promotion Platforms recently launched with Latin-America will further develop other possibilities for these countries widening our partnerships from a predominately bilateral to a bi-regional context.

In addition, specific programmes developed at the level of the Regional Strategy Paper for America Latina complement the R&D policy in the area of high level education and cooperation between academic institutions (ALFA, ALβAN). The R&D policy is complementary to the RSP by strengthening links between Central America, Latin America and Europe.

### **Governance, capacity building, rule of Law**

This is one of the decisive components for policies and reforms toward social cohesion. The level of social cohesion, the economic development, the environmental sustainability and human rights are depending on the quality of governance. Governance is one of the critical factors to reach the Millennium Development Goals even though there is no specific indicator related to it. The October 2006 *Conclusions of The Council and the Representatives of the Governments of the Member States meeting within the Council* and the August 2006 communication of the Commission “*Governance on the European Consensus for the Development – Towards a harmonised approach within the European Union*” propose a coordinated policy towards governance by:

- using the external dimension of community policies,
- making use of political dialogue and development aid programming to encourage change and to adopt the requisite support measures,
- developing a common approach of the EU Member States, the Commission, the other donors and international organisations to support partner countries,
- developing a consistent common approach to promote all aspects of democratic governance.
- support human rights and democracy, governance and rule of law developing a consistent common approach to promote all aspects of democratic governance.

The present strategy is fully in line with these recommendations, and tries to bring a response to these modalities, in particular in relation with the second item. The specific human rights instrument is addressing human rights and democracy ([see below](#)).

### **Human rights, democracy, indigenous people and democracy**

The commitment in furthering human rights and democracy is a long-standing priority for partnership between the EU and the Central American regional, dating from the launching of the San Jose Dialogue in 1984 to the signature of the EU-Central America Political Dialogue and Cooperation Agreement in late 2003, of which it is a fundamental clause.

The basic idea is that democracy, rule of law, human rights and fundamental freedom are basic principles of the European Union, independently to the fact that national Governments are responsible of their respect. The EC has developed different instruments in relation, and raised a number of thematic matters.

The understanding of this traversal nature demands a considerable effort for assuring coherence. The EC identified three main areas of actuation:

- Stimulate coherent support policies, looking for a better coherence between cooperation and external relation, complementarity between the EC and

Member States, and integrate these issues as cross-cutting issues within other policies and actions of the EU.

- Give a greater priority to human rights and democracy in the relations with third countries,
- Have a more strategic focus when addressing programmes and projects in this matter.

This is of particular relevance for Central America and is an area which has received significant support at both bilateral and regional level in particular in the framework of a specific thematic instrument (EIDHR- European Initiative for Democracy and Human Rights) addressing the promotion of democracy and human rights through supports to Civil Society, universities, regional and international organisations. For the future, social cohesion should be added as a focal sector within the IEDDH and additional attention would be given to supporting democracy, gender and ethnic equity.

In addition it is worth mentioning the Multi-annual Programme for Democracy and Human Rights in Central America (PPDDHAC) which includes two regional programmes and six country programmes aimed at the promotion and dissemination of human rights values and the instruments that guarantee human rights. The Multi-annual Programme is implemented by key organisations at regional level such as the Centre for Justice and International Law (CEJIL) and Institute for Human Rights (IDDH), while the six country programmes work with consortia of public and civil society entities involved in the defence of human rights and democracy at the national. The use of counterpart consortia of NGOs and other bodies has made a significant contribution to developing a new culture of joint analysis and collective action and has enabled the programme to build institutional bridges. This initiative is providing positive results and may constitute the basis for future initiative in this sector at both bilateral and regional level to be possibly continued under the EC thematic instruments for cooperation on Human Rights and Democracy (such as the EIDHR). In case it should not be possible to support initiatives at regional level by these thematic programs/initiatives, the Commission will try to define specific actions in the context of the component “governance and security” of the present Regional Strategy Paper. EC initiatives at regional level should be conceived as complementary to initiatives taken at country level.

Finally, the Andean and Central American countries receive a special treatment within the framework of the Generalised System of Preferences linked to their international commitments towards good governance and promotion of Human Rights standards.

### **Environmental policy**

The priorities of environmental policy for Central America are defined at two levels:

- Objectives and principles included in the 6<sup>th</sup> Community Environment Action Programme (6EAP, 2002-2011): climate change, biodiversity, health and quality of life, natural resources and waste.
- Mainstreaming the environmental dimension into development policy, stressing the links between environment and poverty, and between environment policy and management of disasters;
- To encourage Central America to implement its international commitments under the different multilateral environmental agreements.

These objectives imply major changes which lay beyond the competence of environmental organizations. They should address governance, education, economic policy and other sector policies. The integration of the environmental dimension in social cohesion is a fundamental issue the EC is trying to raise by policy dialogue. In this context, the Andean and Central American countries receive a special treatment within the framework of the Generalised System of Preferences linked to their international environmental commitments.

A specific assessment has been carried out at the level of Central America to determine the environment profile for the region. One of the main conclusions is that environmental issues have to be better addressed by a global mainstreaming through all sectors than by specific financing. Both at national and regional levels, environment is one of the main crosscutting issues to mainstream. Environment is also addressed by the regional strategy for Latin America and horizontal programmes (e.g. education/ALFA; trade and Investments/AL-INVEST; local management/URB-AL).

On the same issue the statement, contemplated within the water management communication, constitutes also a transversal strategy which should be articulated with the different policy to support social cohesion, regional integration, food security, and other crosscutting issues. The Communication suggests providing a framework for water security, both in term of quality and quantity, for all developing countries, in view to achieve sustainable development. Water management policy is linked to other policies: land use management, social policy such as health, disaster prevention, economic development, food security agriculture and rural development, regional integration and cooperation, good governance, trade, transport, gender equity. The communication suggests that donors must join their efforts to assist partner countries, raising the issue on the political agenda and promote a shift in thinking in order to apply a real integrated approach.

In the context of the 2002-2006 regional strategy for Central America, the European Commission is in the process of approving a €20 million regional programme for the reduction of vulnerability and environmental degradation that will focus on disaster prevention, water and environmental management and its results and lessons learnt

could feed into the implementation of a specific component of the present strategy addressing institutional strengthening and capacity building.

Two specific horizontal budget lines have been addressing the environmental for many years. The recent evaluation of these budget lines stressed the need for the environmental specific budget lines to be aligned with the above objectives. More specifically, there have been some concerns about sustainability of the financed projects, their coherence with the national policies and, overall, preoccupations about the pertinence of the projects selection with regard to the needs of the country and the sub-region. Environment should be better addressed by these financial instruments and be considered in a long-term perspective. This could be better addressed with those budget lines if clear and country-specific terms of references are drafted for the calls for proposals in conformity that are coherent with the political priorities of the Commission towards Central America.

### **Health and poverty**

If social cohesion is the centre of the EU-LA relations, the EC health policy is establishing the link between health and poverty, between health and well-being and development, including a reference for AIDS and other contaminating diseases. There is a consensus to make assistance more efficient by a more important ownership and participation of recipient States. The health sector in Central America receives significant external assistance. That related to AIDS, tuberculosis and malaria is financed through the Global Fund and the World Bank.

Assistance related to AIDS, tuberculosis and malaria is financed through a world global fund (The Global Fund) using parallel administration, and often subcontracting their activities to the national authorities. Some organisations are voicing the incoherence between the way the Global Fund is implemented and the objective to reinforcing ownership. The Commission should raise this concern at the Board of the Global Fund in order to stimulate an assessment of the system of intervention the Global Fund for getting better ownership and sustainability.

The regional programme Eurosocietal includes a provision for institutional capacity building in health policy and is open to the participation of Central American Countries.

### **Conflict prevention**

In its communication on conflict prevention, the Commission announced its intention to focus its co-operation programmes more clearly on addressing the root causes of conflict in an integrated manner. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sector programmes.

A first analysis of potential sources of conflict in Central America has put in evidence several problems including: corruption, relative weakness and politicisation of the judicial system, unequal income distribution and access to natural resources and social services, lack of social cohesion, an over-dependence on a reduced number of commodities, as well as the influence in the region of phenomena such of “maras”. The Commission is addressing these issues both at regional and bilateral level in a complementary way. In particular, the RSP for 2007-13 includes a specific focal sector aiming at strengthening regional governance and security in Central America, in the context of mitigating the impact of the free circulation of goods, capital and persons due to the progressive opening of borders. This constitutes also a response to the growing wave of insecurity and crime in the region and may increase the CA countries capacity to better tackle the root causes of conflict prevention at regional level. Coherence will be assured with related support in the areas of security, good governance and social policy provided in the context of individual country strategies.

### **Linking emergency, rehabilitation and development**

Emergency aid is in charge of immediate needs for population affected by crisis. Rehabilitation is orientated to support to the mid-term the recuperation of development capacity of the affected populations. There is no standardised model for linking emergency to rehabilitation and rehabilitation to development. This link has been of particular relevance for Central America after the conflicts of the eighties and, more recently, after hurricane Mitch. Regional mechanisms of preparedness are under preparation. The RSP is fully compatible with this policy.

In addition, ECHO’s disaster preparedness programme (DIPECHO) targets vulnerable communities living in the main disaster-prone regions of the world, of which Central America. DIPECHO tries to reduce the risk by ensuring prior preparedness for the mos vulnerable populations in the regions most affected by recurring natural disaster. It increases the response capacity at local level by incorporating and coordinating activities at local, national, and regional levels.

EC humanitarian emergency response will be provided to affected population in case of natural and/or man-made disaster through ECHO. Disaster preparedness programmes financed through the DIPECHO action plans will be possibly taken into account for the design of future prevention and mitigation actions funded by the Commission.

### **Migration, justice and home affairs:**

The current policy concerning immigration could have an impact on the development of some Central American countries due the extreme importance of remittances from immigrants in hosting countries in the macro-economic equilibrium (remittances represent near 20% of the PIB). Migration within Central America is therefore a factor to take into account when addressing regional problems.

In addition, as mentioned above (see paragraph on Conflict Prevention), the Commission has foreseen a specific focal sector aiming at mitigating the impact of the free circulation of goods, capital and persons due to the progressive opening of borders.

As mentioned above (see par. on Human Rights) EC actions at regional level should be possibly launched in the context of the thematic instruments for cooperation on Human Rights and Democracy (such as the EIDHR). These actions could include, inter alia, addressing factors that make people vulnerable to human trafficking and insecurity, including illegal migration, with particular emphasis on the attention to vulnerable groups (women and children, indigenous peoples). Measures in this area should be based on an integrated approach having as its fundament the respect of human rights and calling for a coordinated policy response including the area of freedom, security and justice, development, employment, gender equality and non discrimination. The reinforcement of the broad public-private dialogue in this area should be also taken into account.

### **Information Society**

The main co-operation objectives pursued with Latin America in the Information Society field are the following:

- Promoting social cohesion through the development of an inclusive Information Society in those countries and fighting the digital divide within and between countries and regions and, in such, contributing to governance and to the economic and social development of Latin American countries;
- Fostering regional integration and the integration of Latin American countries in the global Information Society;
- Promoting investment and reinforcing commercial exchange with Latin America by creating a favourable environment in the region, notably by promoting efficient regulatory and policy frameworks, as well as open and global standards;

These objectives are specifically addressed by the Latin American regional strategy and the @lis programme. It includes by a high level regular policy dialogue between Latin America and the European Union.

### **Food security, rural development and sustainable resource management**

The European Commission recognises that rural poverty is a multi-dimensional problem that includes low incomes, inequity in access to the production factors, low health and education standards, degradation of natural resources, vulnerability to natural disasters, and little political power. Rural development strategies should

tackle all these issues and incorporate rural poverty strategies such as food security and sustainable natural resources management.

These are important concerns for Central America that, given the differences between the countries and regions, are addressed more specifically at bilateral level (CSP). At national level, the European Commission sets out a policy of adapting its actions to the specific national context and to encourage political and sector dialogue including the private sector, civil society and NGOs.

### **Integration of the gender factor**

The Community's strategy on gender equity lays out a global framework to promote equality between men and women in five intervention areas: economic life, equality of participation and representation, social rights, civil life and roles, gender stereotypes.

Gender issues are important concerns for Central America which are addressed more specifically at bilateral level (CSP).

### **Participation of Non State Actors (NSA) in development**

The European Commission's policy is based on the recognition that ownership of strategy is the key to the success of development policies. Therefore, the most wide-ranging participation of all segments of the society must be encouraged and implemented, respecting both the particular situation of each partner country and the central role of the Government complemented by decentralized authorities. Beside the implication of NSA in the present strategy, the Commission is committing direct financing to NSA through horizontal/thematic instruments.

Besides sector budget lines detailed in other chapters, the Commission has been co-financing development activities proposed by NGO for many years. Progressively, priority has been given to activities initiated by partner organisations and to larger projects. Those financing are concentrated in two budget lines: the Co-Financing and Decentralised Co-operation. The aim of the specificity of these budget lines was to add a specific dimension to the EU development co-operation.

Those financing have been particularly active in Central America at national level. Being only demand-driven, there is a feeling that the financing has missed its role of supporting the process of implicating the local NSA in the development agendas. These issues are very important for CA and are addressed more specifically at bilateral level (CSP), even is specific support to NSA is envisaged by the RSP for Central America..

### **The EU drugs strategy**



At the external level, the EU drug strategy is based on strengthening coordination in the fight against drugs and on supporting the development of relations between third countries and the EU. Based on the principle of shared responsibility, the EU approach is comprehensive and multidisciplinary and focuses simultaneously on demand reduction, supply reduction, the fight against trafficking and international action. This has been concretised by the EU-Latin American Action Plan of Panama adopted and ratified in 1999 and, based on this, by the Lisbon Priorities (2000) focussing action on demand reduction, alternative development, money laundering and maritime co-operation. Furthermore, there are far-reaching provisions for anti-drug co-operation in all existing sub-regional and bi-lateral agreements between the EU and Latin America, including Central America. The 2004 EU-LAC summit in Guadalajara reaffirmed the essential role of international co-operation in the fight against illicit drugs and highlighted the increasing importance of dealing with drug trafficking and drug consumption.

With respect to the institutional framework, co-operation with Central America in the fight against illicit drugs takes place at bi-regional level in the EU-Latin America and Caribbean (LAC) Co-ordination and Co-operation Mechanism, as well as at multilateral level in the meetings of the UN Commission of Narcotic Drugs (CND) in Vienna.

One should recall the special treatment received by the Andean and Central American countries, within the framework of the Generalised System of Preferences, to support to their efforts in combating drugs.

The objectives of the present strategy is coherent with the instruments put into place by the EC in its relations with Central America to fight drug trafficking. As mentioned before (see Conflict Prevention, Migration), the EC strategy for 2007-13 includes a specific focal sector aiming at strengthening regional governance and security in Central America. Even though it does not target directly the fight against drug trafficking, the EC action in this field may have an indirect positive impact in this area.

Finally, the Latin American regional strategy includes a new specific provision between the EU and Latin America to take place in addition to the *ad hoc* policy dialogue.

### **Education and training**

The Commission recognizes the vital importance of education in reducing poverty. Education priorities for the Community are:

- basic education, in particular primary education and teacher training,
- work-related training,

- higher education, especially at regional level.

At the level of primary education, the Commission is participating to the “Education-for-All” initiative (EFA-FTI). It is committed to improve the efficiency of the education system, stressing as much quality and quantity of education. At the level of higher education, the focus is on institutionalizing networks, exchanges of students, teachers and professors between Europe and the rest of the world.

The Community is supporting the Education for All initiative and financing its coordination, helping it to be more flexible and adapted to specific situation. At the level of higher education, Central America countries are participating in the regional projects ALβAN and ALFA, and to different initiatives of networking and exchange of students and teachers. Those initiatives at the level of high education are considered very positive and should continue.

These aspects are very important for CA, and are addressed more specifically at bilateral level (CSP).

### **Economic and financial affairs**

In its international policy on economic and financial affairs towards Latin America, the Commission has two main priorities supporting the global agenda toward Latin America:

- to foster macro-economic stability and convergence
- to promote social cohesion

In matter of macro-economic convergence, the Commission participates in the policy dialogue among policy makers of Latin America transmitting its own experience.

This exchange of experience is crucial for supporting regional economic integration, and is significant in helping the Central American integration agenda. Activities are financed and to be financed at the level the Latin American RES. Among other actions, the Commission contributes is supporting activities of the Economic Commission for Latin America and the Caribbean (ECLAC).

### **Fisheries and Maritime Affairs**

The common fishery policy has the objective to protect fish resources by regulating the amount of fish taken from the sea, to help the fishing and aquaculture industries to adapt themselves to the constraints of the market, and to maintain a common organisation of the market.

Regarding third countries, the objectives are to set up fisheries agreements and to negotiate for common conservation measures in deep-sea fisheries, in order to guarantee both conservation and sustainable exploitation of fish resources. This

includes close collaboration with developing countries to help them become more effective in fisheries matters, and support to the efforts to combat illegal and unregulated fisheries.

These aspects are addressed more specifically at bilateral level (CSP).

### **Employment, Social Affairs and Equal Opportunities**

Employment is a crucial factor to achieve a high level of social cohesion. In this respect the EC promotes decent work for all in line with the ILO agenda. Core Social Responsibility (CSR) is a concept whereby companies integrate social and environment concerns in their business operation and their interaction with stakeholders on a voluntary basis. In consequence respect of fundamental labour rights is a key element of the EU policy. Social responsible initiatives by entrepreneurs have a long tradition in Europe, but CSR has also a global nature, with the issues of global governance and liberalisation, including their social and environmental dimension, dealing with both social cohesion and regional integration.

In the field of labour policy, Central America has recently reaffirmed its commitments to the ILO principles and fundamental labour rights through a declaration made on 30 June 2005 by labour ministers and representatives of employers and labour in support of the development of employment and “decent jobs”. The fundamental aims of this programme include promotion of international labour norms, employment creation, expansion of social protection and strengthening social dialogue.

The rationale of the present programming for Central America is to address social cohesion issues at country level on the ground that improvements in this area should be mainly based on national efforts. Complementary, the main objective of the 2007-2013 Regional Strategy for Central America will be to support the process of political, economic and social integration in the context of the preparation of an Association Agreement with the EU.