

ANNEX

Mid-Term Review of the Regional Strategy Paper 2007-2013 for Central America and the Regional Indicative Programme 2011-2013 for Central America

1. EXECUTIVE SUMMARY

Main developments at regional level

Wide economic and social disparities persist among and within the countries of Central America (CA). Over the last ten years, important progress has been achieved in the areas of democracy and governance. However, the rule of law remains fragile, due in particular to crime and insecurity. In 2007 40% of the overall population was still living below the poverty line. No progress has been achieved in reducing inequality. Remittances from migrants in the US contribute significantly to many CA economies, representing about 15% of their GDP. However, these amounts are decreasing due to the financial crisis.

The increase in oil and food prices in 2007/2008 and the international financial and economic crisis continue to affect trade and growth and are further increasing poverty and food insecurity.

Insecurity is a major issue in CA, which is the most violent region of Latin America. It is a drug trafficking corridor through which passes most of the cocaine consumed in the US, entailing a rise in drug consumption, trafficking and related crimes. In addition, organised crime, trafficking in human beings, and money laundering are increasingly reaching trans-regional dimensions, rendering unavoidable increased cooperation with neighbours, in particular with Mexico.

The region has a rich biodiversity, but is affected by man-made environmental degradation and is highly vulnerable to natural disasters, which particularly affect the poorest populations. Environmental institutions and policies are weak and cannot properly address environmental damage.

The region is highly dependent on petroleum and wood products. In general, energy supplies are deficient despite the high potential for renewable energy sources.

CA economies are increasingly open to international trade, which has expanded. Compared with the increase in international trade, in particular with China, trade with the EU has been relatively stable since 2004.

In the last two years, the institutions and sector strategies of the Central American Integration System (SICA) have seen some substantial reforms adopted in areas such as energy, regional security, social cohesion, agriculture, food security and climate change.

The Presidents have also instructed SG-SICA to propose a multiannual work programme for integration. PARLACEN has undergone reforms, while Guatemala has decided to participate in the CA Court of Justice. There is no consensus among CA governments on a thorough overhaul of SICA, with regional institutions remaining weak as there are no regional financing mechanisms.

A higher degree of economic integration has been achieved since the entry into force of CAFTA and the decision to launch an Association Agreement with the European Union. The latter has prompted the participating countries to negotiate as a region for the first time.

All CA countries have concluded bilateral free trade agreements with other Latin American and Asian countries and have developed policy dialogue. Guatemala, El Salvador and Honduras have signed a Customs Union Agreement, which could give a new impetus to the regional system. In the Association Agreement negotiations, new priority areas for cooperation have been highlighted, in particular the facilitation of trade and the establishment of a financial mechanism for regional development.

European Commission (EC) cooperation — implementation of the RSP/RIP 2007-2010 includes three priority sectors:

- Strengthening the institutional system of regional integration (PAIRCA €215 m).
- Support for the economic integration process, the consolidated customs union and related harmonised policies. A new programme, PRACAMS (€23.5 m), will support the creation of a regional system of quality control and the introduction of sanitary and phytosanitary measures.
- Strengthening regional governance and security (€5.5 m) to promote coordination between police, immigration and customs.

Regional cooperation has been relatively satisfactory in the last few years. The evaluation of regional cooperation during 1996-2006 demonstrated its high relevance for the CA integration process.

Consultations have emphasised the need, in a context of economic crisis and job losses, to make regional integration more concrete and to concentrate on social (e.g. employment) and environmental concerns, in particular climate change adaptation to address the vulnerability of the region, involving local people.

Conclusion:

The strategy remains relevant for the 2011-2013 period, and will continue to support the process of political, economic and social integration within Central America in the context of the implementation of the EU-CA Association Agreement. RIP 2 should take into account the implementation of RIP 1 to date: no more cooperation activities are needed in the focal sector ‘strengthening regional institutions’; account should be taken of the experience with projects about to be completed in border areas.

In view to take into account the increased vulnerability of the region (security, environment/climate, poverty) and the region’s needs in the light of the Association Agreement, the budget allocated to RIP 2 will be increased from €31 m to €51 m, with the focus on the two remaining priority areas of the CA/RSP:

- Support for regional integration (€44 m)
- Support for regional security at the borders (€7 m)

2. THE MID-TERM REVIEW (MTR)

1) Main political, economic, social and environmental developments

(Source: *Estado de la Región en Desarrollo Humano Sostenible 2008*, CEPAL 2008, SIECA)

Wide economic and social disparities persist among and within the countries of Central America (CA). Over the last ten years, important progress has been achieved in the areas of democracy and governance. However, the rule of law remains fragile, due in particular to growing crime and insecurity, weak institutions (in particular the judicial system), lack of transparency and accountability, and corruption. In 2006, CA governments signed the Guatemala Declaration against Corruption and there is a growing awareness of these issues in the media and public opinion. Compared to Latin America as a whole, the CA region has not achieved substantial advances in human development. Even if social expenditure has increased, it is still below the Latin American average. Even though poverty levels declined by up to 5 % between 2002 and 2007, 40 % of the overall population was still living below the poverty line. No progress has been achieved in reducing inequality, even in Costa Rica, where it is slightly increasing.

Remittances from migrants in the US contribute significantly to many CA economies, representing about 15 % of their GDP. However, these amounts are decreasing due to the financial and economic crisis, growing US unemployment, and massive repatriation (300 000 from 2004 to 2006).

Rising food prices since 2006, peaking in 2008, continue to affect the poorest CA populations.

The increase in oil and food prices in 2007/2008 and the international financial and economic crisis have had a major impact on the region. This has included a significant increase in the cost of living and the loss of thousands of jobs. The weakening in demand from the main trading partners (USA, Central America) and the overall slowing in economic activity have had negative impact on trade and growth. Growth is also affected by lower revenues from tourism, lower foreign direct investment (FDI) and problems with energy supply. Through the ALBA and Petrocaribe initiatives, Venezuela has achieved a growing political and economic influence in the region.

The crisis is affecting economic growth and GDP, and is increasing poverty and food insecurity.

CA economies are increasingly open to international trade, which has expanded. In comparison with the increase in international trade, in particular with China, trade with the EU has been relatively stable since 2004.

Organised crime and public security. Insecurity is a major issue in Central America, which is the most violent region of Latin America. Political violence has been diminishing since the 1980s, but social violence and organised crime are still at alarmingly high levels and even growing, challenging the rule of law and public security. In 2007, statistics showed 36 homicides per 100 000 inhabitants in the region, with El Salvador having one of the highest homicide rates in the world (60/100 000). CA is a drug trafficking corridor through which passes more than 88 % of the cocaine consumed in the US, entailing a rise in drug consumption, trafficking and related crimes. The issue is a long-standing problem, and is in

part the result of external influences: the massive repatriation of illegal emigrants from the US is providing fertile soil for the Maras (young gangs repatriated from the US), and the Mexican war on drugs is apparently pushing organised crime activities (including trafficking in human beings and money laundering) from Mexico and Colombia to CA.

Internal factors include: the young demographic profile, the weak rule of law, low levels of police equipment and training, easy access to weapons, urbanisation, social exclusion, lack of opportunities, and domestic violence, with the last factor affecting women to a high degree.

Environment and energy (see RSP Annex, environmental profile). The region has a rich biodiversity but is affected by man-made environmental degradation, including soil erosion, pollution of water resources, deforestation and biodiversity loss.

Estimates indicate that Central America produces less than 0.5% of the planet's carbon dioxide, but is one of the regions most vulnerable to the effects of climate change. Rising atmospheric temperatures and sea levels and decreasing and unstable rainfall affect production, infrastructure, and the livelihood and health of the population. Moreover, the capacity of the environment to provide essential services may diminish gradually, while droughts and hurricanes intensify.

Climate change will have repercussions for sectors such as coastal development, water supply, energy, agriculture and health. A major effort, already under way to some extent in the region, is needed to better understand the potential impacts of climate change, help strengthen adaptive capacity, and promote adaptation measures. This will require the swift integration of climate change adaptation into sustainable development planning and within the development strategies for key sectors, at both national and regional level. *Central American countries would benefit, as regards possible impact of climate change, from greater adaptation of research results and attention to technology transfer, where appropriate.*

Regarding energy, the region is highly dependent on petroleum and wood products and in general energy supplies are deficient. The promotion and development of sustainable energy, as an alternative to meet the energy sector's adaptation needs, is being actively pursued by some countries in the region. Wind, geothermal, and other renewable energy sources have strong potential in the region. There is also a need to protect hydropower potential through more aggressive conservation of hydrological basins.

2) Developments in political and economic integration and regional institutions:

In the last two years, some substantial reforms have been introduced to improve the management of the Central American Integration System (SICA). Worth mentioning are: the creation of the Executive Committee of the Member States in February 2008; the establishment of a Regional Court of Auditors for SICA; the creation of a Directorate for Planning and Analysis in the Secretariat (SG); improved follow-up of Presidential decisions; and the adoption of sector strategies in areas such as energy, regional security, social cohesion, forestry, agriculture, food security and climate change. The Presidents have also instructed SG-SICA to propose a multiannual work programme for integration.

PARLACEN has undergone some reforms, while Guatemala has decided to participate in the CA Court of Justice.

Most of the reforms mentioned have been stimulated or prepared by the EC PAIRCA programme, which will end its operational phase in June 2009. The PAIRCA II programme launched under RIP 1 will continue to contribute to strengthening CA institutions.

However, there is no consensus among CA governments on a thorough overhaul of SICA, e.g. the creation of a Single Secretariat.

Regional institutions remain weak as there is insufficient political support from all CA countries, and no regional financing mechanisms have yet been adopted, despite the fact that several proposals have been tabled.

A higher degree of economic integration has been achieved, in particular since the entry into force of CAFTA in all the countries of the region and the decision to launch an Association Agreement with the European Union at the Vienna Summit in 2006. The latter has prompted the participating countries to negotiate as a region for the first time.

All countries of the region have concluded bilateral free trade agreements with other Latin American and Asian countries, and have developed dialogue through mechanisms such as the Consejo Monetario Centroamericano (CMCA), Consejo de Secretarios de Finanzas y Ministros de Hacienda de Centroamérica, Panamá y República Dominicana (COSEFIM), Consejo de Ministros de Integración Económica (COMIECO) and Sistema de Integración Económica (SIECA). Progress has also been achieved on customs union and codification (CAUCA), the creation of a Central American Customs School, the interconnectivity of customs services, and tariff harmonisation. The regional programmes ADAPCCA, UAC, PAIRCA (support for regional institutions, customs union) have greatly contributed to these achievements.

However, the last steps in trade liberalisation seem particularly difficult, especially with regard to some sensitive products¹. Guatemala and El Salvador have taken the lead by signing a Customs Union Agreement in January 2009, followed by Honduras on June 2009, which could give new impetus to regional integration.

¹ <http://www.sieca.org.gt/site/VisorDocs.aspx?IDDOC=Cache/17990000000399/17990000000399.swf>.

3) New EU policy objectives and commitments:

Relevance to new EC/EU policy objectives

EU policy priorities are incorporated within the three components of the EU-CA Association Agreement: political dialogue, cooperation and trade. The Agreement includes general clauses on terrorism, weapons of mass destruction, serious crimes of international concern, and the International Criminal Court. The objective is to join forces with Central America in combating insecurity and promoting a rules-based international order.

In relation to regional integration, the Agreement addresses a comprehensive range of issues, more specifically the need to support institutions and civil society, customs union, trade and economic issues, and common policies in areas such as security, energy and the environment. It also includes provisions for regional financial instruments to finance transborder infrastructure and networks. Migration is also addressed under the political dialogue and cooperation chapters of the Agreement.

Migration, security and drugs issues are also addressed at different levels through bilateral, thematic and Latin American regional cooperation. Climate change issues are included in existing regional programmes, such as PREVDA (disaster prevention, management of water basins) and PRESANCA II (food security), as well as in thematic and Latin American regional programming. Ongoing and future bilateral cooperation focuses on strengthening national institutions and governance (e.g. financial management, justice and security) and on economic sectors (e.g. productivity, SMEs and trade support).

In conclusion, the priority sectors of the CA RSP respond to the new EU-CA agenda and are coherent and complementary with EU policies, bilateral cooperation and other financial instruments.

Aid effectiveness agenda

A number of international donors provide support to SICA through a project approach, especially in the areas of vulnerability, environment, food security, etc. Main donors include EU Member States (mostly Spain, Germany, France, Finland, Sweden, Denmark and Austria), the US, Taiwan, Japan, and Switzerland as well as Mexico through the Plan Puebla Panama. However, the European Commission (EC) and Spain (AECID plus decentralised cooperation), as well as Taiwan, seem to provide most of the specific support to the institutional system as such. There are a few sector round tables for donor coordination, but there is no 'institutional' global round table. A donor matrix has been developed by SG-SICA's DG Cooperation, which contains basic data on all cooperation projects for the Secretariats, including SIECA. No systematic information is available for the other institutions, such as CCJ, PARLACEN or CC SICA, for example. Care has been taken to ensure that EC programmes do not overlap with other activities and donor programmes.

Efforts are currently ongoing, under the coordination of SG-SICA, to bring the 'harmonisation and alignment of regional cooperation' to a higher level and more into line with the Paris and Accra Declarations. In general, new EC programmes are oriented to building capacities in counterpart institutions and supporting their own regional processes. Programme activities are in line with agreed regional strategies, and close coordination with other donors is ensured when needed (e.g. AECID and UNDP). There is a need to support implementation of these strategies throughout all levels of cooperation.

Involvement of non-state actors

In several programmes (PRESANCA, PREVDA, Bi-National), non-state actors are directly involved in project execution and are also beneficiaries of targeted activities. PAIRCA has given an important impetus to strengthening organised civil society at regional level (CC-SICA and other relevant actors). Key actors in regional integration have been supported and involved in integration issues. This approach will be continued and reinforced in PAIRCA II. Special emphasis is given to the consultation of civil society within the framework provided by the Association Agreement. Future institutional follow-up mechanisms should directly involve civil society. Campaigns to promote awareness of integration processes, trade regulations and other relevant issues — addressing citizens and target groups within civil society — will feature more in new regional programmes than has hitherto been the case.

PRACAMS will have a specific component directly addressing the private sector. Non-state actors are participating in calls for proposals launched under the thematic programmes, at both national and regional levels.

4) Results, performance and lessons learnt

The implementation of the RIP 2007-2010 has three priority sectors:

- Strengthening the institutional system for regional integration. The PAIRCA II programme (€15 m, to start in 2009) has been designed in close coordination with regional stakeholders (SICA institutions and governments), following the recommendations of the Mid-Term Evaluation of PAIRCA I. The general objective is to contribute to reinforcing and consolidating the System of Central American Integration (SICA) with a view to increasing the efficiency and legitimacy of its institutions. The specific objectives are to: a) facilitate the process of reforming, restructuring and modernising the system, as well as supporting both regional and national institutions; b) enhance coordination at all levels, as well as increasing civil society participation; c) raise awareness among the population and make training and information available to the wider public.
- Support for the economic integration process, a consolidated customs union and related harmonised policies. A new programme to support the creation of a regional system of

quality control and the application of sanitary and phytosanitary measures in CA (PRACAMS, €23.5 m) has as its main objective to increase the export capacities of Central American countries, to improve market access for their products, and in particular to ensure compliance with international TBT and SPS requirements. It is to be launched in 2010 under the coordination of SIECA.

- **Strengthening regional governance and security** (€5.5 m). A new regional programme for border security is to be launched in 2010 with the objective of strengthening border security, thereby introducing the concept of integrated border management. The project will promote coordination between institutions and services involved in border management (police, immigration services and customs) and support capacity building, best practices, and enhanced interconnectivity, in particular with Interpol. It should contribute to improving the collection of information and exchange of intelligence on migration, the movement of goods, and cross-border crime. The project will be coordinated by the Security Unit of SG-SICA. It will also promote triangular cooperation on the trans-regional dimension of security matters, for example with Mexico.

Regional cooperation has been relatively satisfactory in the last few years. This assessment is based in particular — but not exclusively — on the implementation of cooperation under the RSP 2002-2006. In addition, important programmes have been implemented in other areas, notably thematic budget lines (such as food security, human rights and NGO co-financing). Implementation rates are quite high throughout, despite the fact that the regional programmes are executed by weak institutions, lacking — for the most part — adequate human and financial resources. It is safe to say that the good performance is due partly to the considerable technical assistance provided through the various programmes and partly to close monitoring by the European Commission. In the majority of cases, the CA regional programmes suffer many delays in the start-up phase due to problems of coordination and decision-making, often exacerbated by the complex design of projects. Once a programme is up and running, however, implementation gradually gains in efficiency, thanks to the strong commitment of the majority of people involved. Delays in the start-up period have led to several extensions of implementation periods beyond the dates originally agreed. In conclusion, and as a general rule, regional programmes should last a minimum of 5 years.

The evaluation of regional cooperation during 1996-2006 demonstrated the importance and high relevance of EU regional cooperation for strengthening the integration process in Central America. It stressed in particular the need to improve CA ownership of programmes, to respond to requirements arising from the free trade component of the Association Agreement, and to strengthen the environmental and risk dimensions of future cooperation, along with social cohesion and security. Projects such as PAIRCA have contributed significantly to strengthening and consolidating regional institutions (e.g. SG-SICA, PARLACEN, CC-SICA and the Court of Justice). The UAC and ADAPCCA have supported SIECA in creating the customs union and harmonised policies to this end, while PRESANCA and PREVDA have helped the responsible regional bodies to improve policy coordination and regulation on important themes such as food security and environmental management. ZONAF and

PRESANCA, the Bi-National Cross-border Development Programme for Honduras and El Salvador, have been able to reach out to vulnerable communities in border areas.

Food security interventions funded by the Thematic Food Security Programme will be continued (PRESANCA II and PRESISAN, EC contribution: €16.5 m).

There is evidently financial absorption capacity given the many priorities and financial needs of SICA. However, the absence of consensus among governments on adopting a financial mechanism, despite the various proposals tabled (e.g. through PAIRCA), represents an important weakness. As a result, regional institutions depend (too much) on external assistance. The establishment of such a financial mechanism is key to the sustainability of the regional institutional system and represents an important political challenge for the countries of the region.

5) Quality improvements

The implementation of the RSP will take into account the following in particular:

- Sustainable financing mechanisms,
- Regional integration as a long-term process, with a long-term approach to cooperation,
- Linked regional strategies and cooperation,
- Implementation of the Association Agreement and possible related financial instruments,
- Emphasis on the involvement of governments and civil society,
- Communication and awareness-raising strategies for regional integration,
- Complementarities and synergies between bilateral and regional cooperation, as well as other instruments (e.g. Stability Instrument, thematic programmes).

Special attention will be given to coordination between programmes for regional economic integration, to be implemented at different levels (trade-related projects), for security, as well as for the environment, climate and energy (thematic and regional). The table in the annex gives an overview of ongoing interventions under various instruments.

6) Conclusion

Priorities:

In principle, the basis of the EC strategy remains relevant, as do the priorities of the RSP 2007-2013. The RIP 2011-2013 should continue to support regional integration efforts, in continuity with existing programmes implemented under the 2002-2006 RSP and 2007-2010 RIP 1, taking into consideration the following aspects:

- Financial needs for institutional strengthening (RSP first priority sector) and for harmonised commercial policies (sector 2) will be largely met until 2014 by PAIRCA II and PRACAMS; support for regional security (sector 3) should be strengthened, given the high priority for the region and the needs of the regional security strategy. On the basis of a pilot project, starting in 2009/2010, the concept of integrated border management should be further expanded, and steps taken to improve the exchange and accessibility of data on the movement of people and goods in a context of free circulation.

- New developments should be incorporated in the RIP 2, in particular the implementation of the Association Agreement (such as trade-related aspects and a financial mechanism for regional development) and the growing needs of the region (security, social cohesion, environment, energy), in particular in a context of increased vulnerability (poverty, food insecurity, climate change). This is in line with the recommendations of the evaluation of regional cooperation during 1996-2006. At the request of various stakeholders consulted, particular attention should be paid to supporting economic and social regional integration through concrete model activities, including infrastructure and involving local communities living in border areas. This will contribute to enhancing CA ownership of regional programmes.

Justification for increasing the allocation for 2011-2013 from €31 m to €51 m

On the basis of EC cooperation efforts and positive implementation results, the regional capacity to absorb aid is now excellent. The EC can capitalise on this in developing new programmes. The region has adopted new sectoral strategies to meet important and urgent needs in sectors such as social cohesion, migration, employment, security, energy and climate change. These strategies also address the many challenges of regional integration, in particular the completion of a CA common market. On the other hand, the EU-CA Association Agreement also raises high expectations in terms of strengthening relations between the two regions; for instance, an EU/CA working group has been created in parallel with the AA negotiations to study the feasibility of establishing new financial mechanisms to support the region's integrated development. The work of this group will, among other things, ensure complementarity with the new Latin America Investment Facility and with the increased role of the European Investment Bank and other IFIs in the region.

These new orientations also take into account the recommendations of the regional evaluation and the results of consultations during the mid-term review.

In addition to continuing to support customs union and common policies, future programmes should include activities that translate agreed regional strategies and harmonised policies into concrete actions at local levels in the most vulnerable border areas. Therefore, RIP 2 will support the sustainable development of vulnerable (cross-)border areas, with particular attention to priorities linked to transport, energy, climate change, management of natural resources, risk reduction, adaptation in key economic sectors, and job creation. In this connection, it could contribute to the possible creation of new financial mechanisms for implementing the Association Agreement.

Consideration should be given to following up activities ending in 2010 for strengthening the customs union (follow-up to the current ADAPCCA and CONSUAC projects,) and for supporting economic, social and environmental integration among SMEs, trade unions, other civil society organisations, and vulnerable populations in Central America (follow-up to programmes such as Bi-National, ZONAF and PREVDA).

7) Consultations with civil society, regional institutions, CA governments and Member States (minutes in annex) on the Mid-Term Review

Consultations were held in March/April, in parallel with the seventh round of negotiations on the Association Agreement in Tegucigalpa, and in June with Member States. All stakeholders shared the view that regional integration should be supported through actions to reduce the impact of the economic and social crisis. They in particular underlined the need to support the economic sector, including SMEs, cooperatives and farmers, with a view to stimulating access to the intra-regional market (productivity, competitiveness) and creating employment. They also emphasised the need to concentrate on actions at local level and to involve relevant actors within civil society. All activities should benefit both economic and social actors and contribute to the Social Cohesion Agenda adopted by the region. Environmental issues, in particular forest conservation and water management, were also emphasised.

3. 2011-2013 REGIONAL INDICATIVE PROGRAMME

Main priorities and indicative allocation

The EC will allocate €51 m to the second regional indicative programme for the period 2011-2013 to support the process of political, economic and social integration in Central America, in the context of the implementation of the Association Agreement, focusing on:

- Support for the economic integration process, consolidated customs union and related harmonised policies, and for sustainable development in cross-border areas (€44 m)
- Support for regional security at the borders (€7 m)

1) Support for the economic integration process, consolidated customs union and related harmonised policies, and for sustainable development in cross-border areas: €44 m

- Economic integration, consolidated Customs Union and harmonised policies

Justification: After completion of the first phase of economic integration, supported by EC cooperation, priority is to be given to deepening the customs union and enhancing its acceptance among the main stakeholders (governments at all levels and civil society, in particular SMEs and rural producers). This might prepare the region for the successful application of the EU-CA Association Agreement. In this context, this support could also contribute to the launching of new financial instruments (financial fund) currently under discussion in parallel with the Association Agreement negotiations and to promoting complementarity with the new Latin America Investment Facility (LAIF) and the increased role of the EIB and other IFIs in supporting regional development.

The interventions to be funded will follow up — and should complement — earlier support for SIECA in connection with the customs union (UAC, CONSUAC, ADAPCCA and PRACAMS). Having advanced on the economic and commercial front, the customs union could be better perceived by the public at large (including SMEs) if some social aspects (e.g. labour market) could also be brought into the scheme.

The possibility should be left open to support policies or institution-building activities that do not necessarily have a clear, direct link with the customs union, as long as they are in line with the overall basic guidelines for the SICA Multi-Annual Plan for Integration adopted by the SICA Member States.

General objective: to support the design and implementation of common and harmonised policies and tools with a view to contributing to regional economic integration and to implementing the free trade area under the Association Agreement

Specific objectives:

To support the consolidation of the CA customs union and relevant trade-related policies, in particular food safety, consumer policy, intellectual property, competition and procurement,

as well as appropriate fiscal policies, labour legislation, environmental policies; to follow up relevant ongoing programmes in coordination with related bilateral programmes;

To support all relevant needs arising from the negotiation and implementation of the Association Agreement;

To involve governments and civil society in developing these activities to maximise their benefits (ownership).

Activities and implementation methods: project approach, with technical assistance, training, seminars, studies, statistics, exchange of best practices, equipment.

Expected results:

- Generally accepted customs union, adequately managed.
- Adoption and application of relevant common policies.
- Implementation of international standards (sanitary, phytosanitary, environment, labour).
- Improved capacity of Central America to export products to foreign markets.
- Improved knowledge and acceptance of the integration concept among civil society and private sector (SMEs).
- Tools available for implementing the future EU-CA Association Agreement, including possible new financial instruments.

Cross-cutting issues: gender, labour and other human rights, transparency, good governance.

Indicators: relevant national legislation and regional policy frameworks adopted and implemented; enforcement of legislation and international standards in areas such as trade and investment, consumer protection, labour, environment, etc.; efficiency of customs, simplification of procedures with a view to reducing barriers to trade; communication tools and publications to involve stakeholders, in particular civil society; implementation of the Association Agreement facilitated; growth of intra-regional and EU-CA trade; share of intra-regional investment in total direct investment.

Potential risks: lack of political willingness to complete the customs union and harmonise policies; countries adopting positions incompatible with the deepening of regional integration and protectionism; migration and security issues as an argument for maintaining border controls; insufficient financial contributions from SICA member states for institutional strengthening.

- Sustainable development of vulnerable (cross-)border areas, with a focus on climate change adaptation, management of natural resources, and promotion of sustainable energy

Justification. Support for the development of the Central American border zones, in the most vulnerable areas, will contribute to enhancing cultural and economic exchanges between groups of citizens on both sides of borders and creating a culture more inclined and open to regional integration. In addition, interventions focusing on climate vulnerability, adaptation and mitigation are key to promoting regional integration and ensuring the region's sustainable development. These measures can be supported and strengthened by an integrated and coordinated approach, particularly where the impact of climate change transcends boundaries (e.g. river and sea basins and bio-geographic regions). The coordination of these interventions with the possible setting up of a financial fund for the development of Central America, linked to implementation of the Association Agreement, will be considered in due course.

Experience with other regional programmes, including social infrastructure in border areas (e.g. Bi-National Programme El Salvador-Honduras, ZONAF, PREVDA and PRESANCA), has shown that they promote a spirit of cross-border cooperation and exchange. The consultation process has emphasised the need to make regional integration less abstract — not a subject just for bureaucrats — by bringing the issue 'into the field' and showing local people the advantages of this process in a context of economic crisis and job losses. One or two bi-national or tri-national border zones will be selected to develop pilot projects. The priorities here also come under SICA regional strategies or policies: strategy linking agriculture, environment and health (ERAS, 2008); the climate change strategy; and the regional strategy on renewable energy until 2020.

To address urgent social needs, all supported activities will need to maximise positive social impacts and lead to sustained employment creation.

General objective: to contribute to sustainable development and regional integration in the most vulnerable border areas.

Specific objectives:

To develop multi-sector programmes in vulnerable border areas affected by high poverty rates with a view to: improving living conditions, access to basic services, social indicators, and access to local electricity generation based on renewable energy sources; protecting the environment, ecosystems and natural resources, including management of water resources, coastal zone and land planning, and natural disaster prevention; integrating measures to adapt to climate change; and creating employment by improving the productivity of agriculture and diversifying economic activities.

Activities and implementation methods: project approach, through support for economic, environmental and social infrastructure, with technical assistance and training, awareness

campaigns, and regional policy implementation at local level. Part of this programme will be implemented through the Latin America Investment Facility.

Expected results: improved socio-economic indicators among populations; creation of common and shared infrastructure; job creation; protection and sustainable management of the environment and natural resources, in particular water, forests and biodiversity; access to renewable energy; reduced risks associated with natural disasters; adaptation to climate change; awareness of the benefits of regional integration.

Indicators:

Improved socio-economic and environmental indicators (MDGs, HDIs, water and sanitation, access to energy, protection of biodiversity) in the populations concerned; vulnerable border zones selected; number of people benefiting from the programme; number of diversified economic activities created; measures taken to adapt activities such as agriculture to climate change; measures taken to prevent natural disasters (land use, monitoring, early warning, emergency preparedness); infrastructure (social, transport, storage, etc.) and electric capacity installed; structures and mechanisms (social, economic, environmental); number and relevance of capacity-building activities at local and regional level; involvement of local communities; participation and financial contribution by IFIs and other donors to the programme.

Cross-cutting issues: gender, environment, natural disaster prevention, labour rights.

Potential risks: disagreement between governments on priorities in border areas; low capacity among local authorities; activities too dispersed.

2) Strengthening regional security €7 m

Justification: Insecurity is an increasing challenge in Central America. In a context of regional integration where physical border controls are to be reduced and the free circulation of persons, goods and capital promoted, new threats to security may arise. Integrated border management and the exchange of police, customs and immigration intelligence will improve knowledge of movements and can inform the competent national authorities when

intervention is needed in order to ensure security. Through its experiences with the Schengen Area, the EU is well equipped to help the region in this endeavour.

General objective: To support the strengthening of regional governance by creating a regional system for cross-border control of the movement of goods, persons and capital with a view to fighting crime (drugs and human trafficking, smuggling of weapons, etc.). On the basis of a project starting in 2010, to strengthen the concept of integrated border management and improve coordination and cooperation between relevant national authorities and services. Given the trans-regional dimension of security matters, specific triangular cooperation involving Mexico should be promoted.

Specific objectives: To improve the availability and exchange of intelligence on cross-border movements; to strengthen cooperation between the authorities in charge of cross-border control (customs, police, justice) and the law enforcement agencies of CA countries; to strengthen their knowledge and professional skills; to implement and enforce international standards and relevant regional and national legislation and frameworks with a view to developing common and coordinated approaches; to improve public-private partnerships and cooperation with NGOs; to develop strategies and instruments to fight crime.

Activities and implementation methods: Project approach, with equipment for information systems, studies and statistics, development of networks, dissemination of information through websites, publications, exchanges of experts, common investigations, training of relevant services on best practices, capacity building for responsible regional institutions within the SICA system. Interpol could play a useful role in project implementation.

Expected results: development of instruments, strategies and activities for cooperation (training, methods, techniques); exchange and dissemination of best practices; improved skills of practitioners; development of a culture of trust and cooperation; development of a common knowledge of legislation, procedures and strategies.

Indicators: Joint operations; networks of specialists and specialised authorities; improved operational procedures and approaches; mutual understanding of respective systems; common perception of criminality; number of authorities and specialists trained; number of exchanges of experts; number of studies, publications, and communication tools disseminated; creation of a regional customs information system on movements across borders; design of common strategies and policies.

Cross-cutting issues: human rights, good governance.

Potential risks: lack of coordination between police, migration and customs authorities; national security interests prevailing over regional interests; lack of transparency on other donor initiatives.

MULTIANNUAL PROGRAMMING 2007-2013 (€105 m)

SECTORS	RIP 1				RIP 2	Total €m
	2007	2008	2009	2010	2011-2013	
1. Strengthening the institutional system for regional integration		15				15
2. Supporting regional economic integration:			23.5		44	67.5
3. Strengthening regional security			5.5		7	12.5
Total		15	29		51	95

List of acronyms

ADAPCCA: Programme to Support the Design and Implementation of Common Policies in Central America

AECID: Spanish International Development Cooperation Agency

ALBA: Bolivarian Alternative for the Americas

CAFTA: US and Central American Free Trade Agreement

CAUCA: Central American Uniform Customs Code

CCJ: Central American Court of Justice

CMCA: Central American Monetary Council

COMIECO: Central American Council of Ministers for Economic Integration

CONSUAC: Programme for the Consolidation of the CA Customs Union

COSEFIM: Central American Council of Finance Secretariats and Ministries

ERAS: Agriculture, Environment and Health Strategy

FDI: Foreign Direct Investment

GDP: Gross Domestic Product

HDIs: Human Development Indicators

IP: Indicative Programme

MDGs: Millennium Development Goals

PAIRCA: Programme to Support Central American Regional Integration

PARLACEN: Central American Parliament

PETROCARIBE: Energy Cooperation Agreement

PRACAMS: Programme to Support the Creation of a Regional System for Quality Control and the Application of Sanitary and Phytosanitary Measures in Central America

PRESANCA: Regional Programme for Food and Nutritional Security

PRESISAN: Regional Programme for Food and Nutritional Security Information Systems

PREVDA: Regional Programme for the Reduction of Vulnerability and Environmental Degradation

QSG: Quality Support Group

RIP: Regional Indicative Programme

RSP: Regional Strategy Paper

SG-SICA: General Secretariat of the Central American Integration System

SICA: Central American Integration System

SIECA: Central American Economic Integration Secretariat

SME: Small and Medium-sized Enterprise

SPS: Sanitary and Phytosanitary [matters]

TBT: Technical Barriers to Trade

UAC: Central American Customs Union Programme

UNDP: United Nations Development Programme

ZONAF: Programme for border area development in Central America