

## ANNEX

### EC/Mexico Cooperation 2007-2013

#### Country Strategy Paper

#### Mid-Term Review

#### 1. EXECUTIVE SUMMARY

Over the last four years relations between the EU and Mexico have been consolidated and major changes have been made to improve their quality, such as intensification of high-level contacts and growing mutual interest in policy dialogue and technical exchanges. In addition, the strategic partnership will strengthen ties between the EU and Mexico by opening the door to closer coordination on global issues, in particular in multilateral fora covering a number of political, security, environmental and socio-economic issues.

The current bilateral cooperation (2007-2013, with a budget of €55 m) focuses on supporting policy dialogue in three focal sectors:

- **Social cohesion** by strengthening institutional capacity, including policy formulation and implementation. The specific policy dialogue envisaged could involve pilot projects to foster legislative and administrative change and strengthen institutions;
- **Economy and competitiveness**, with the aim of promoting trade and investment fostering alliances between European and Mexican operators, paying particular attention to development of SMEs;
- **Education and culture**: the main areas of cooperation include higher education and improving mutual knowledge, cultural exchanges and visibility. The proposal is that over the period 2011-2013 this sector should continue to focus on university cooperation, in particular on science and technology.

This review concludes that no change in the allocation of funding between the focal sectors is necessary. However, the first should include cooperation in the area of security, while the second should remain as originally proposed. The third should be broadened to include science and technology in the themes covered.. Also, they should be broadened to include the theme of 'green economy", including low-carbon growth, resources efficiency and sustainable management and use of natural resources. As a result, this review concludes that signature of a new Memorandum of Understanding would not be necessary.

## 2. MID TERM REVIEW

### 2.1 Analysis

#### 2.1.1 Political and economic context

The Calderón administration took power in December 2006 after a closely contested election, monitored by an EU observation mission. Mid-term elections (to the Chamber of Deputies) on 5 July 2009 dealt a severe defeat to the ruling party. The elected Mexican government is required, by law, to produce a National Development Plan, which is a six-year programme established by the President at the beginning of each term. The National Development Plans are intended to ensure systematic and coordinated economic, social, political and cultural development. The main components of the **Mexican government's National Development Plan for 2007-2012** include: rule of law and security; economic competitiveness and employment creation; equal opportunities; sustainable environment; effective democracy.. Compared with the previous administration, the Calderón government has made significant progress on passing **reforms**, including social security, fiscal, electoral, justice and energy reforms.

Since the beginning of his administration, in order to improve competitiveness and achieve GDP growth rates beyond 2 to 3% President Calderón has been putting special emphasis on dismantling bureaucratic burdens in external trade. A government programme announced in March 2008 set eliminating tariff and non-tariff barriers and improving customs procedures as explicit objectives to put into action the competitiveness agenda. These general guidelines were turned into public policies by the '*Policy Decalogue*' issued at the beginning of 2008.

Although the fundamentals have improved, Mexico has been affected by the **global financial crisis** and world economic downturn, with their negative economic, budgetary and social consequences. The banking sector has so far weathered the financial crisis relatively well, but manufacturing industries have been hit hard by the downturn in global demand, particularly in high value-added industries. Shipments of goods to US markets have declined fast, triggering sharp contraction of industrial production. Like other emerging markets, Mexico has suffered from reduced net capital inflows, as investments have returned to safer havens, contributing to a decline in equity prices, widening interest-rate spreads and sharp depreciation of the peso in the last quarter of 2008 and first few months of 2009. In addition, several shocks specific to the country have had adverse consequences, such as the outbreak of influenza A H1N1. Furthermore, the budget has been put under pressure by the sharp decline in energy prices, as oil exports generate a large share of tax revenue, although temporary relief has been provided by a price hedge and weaker peso. The rising uncertainty has depressed business and consumer confidence to record lows which, coupled with tighter credit conditions at home and abroad, is bearing down on consumption and investment. Despite the slowdown in activity and declining commodity prices, inflation has remained persistently high as prices of tradable goods and food are lagging behind.

Scarce competition in the telecommunications sector in Mexico constitutes a barrier to the entry of European operators; in addition, there are important restrictions to foreign direct investment (FDI) in the telecommunications and broadcasting sector, except for mobile

communications. Against this background it is essential to reinforce regulatory and policy cooperation with Mexico in the telecommunications field, and to support and foster any reforms initiatives.

In this environment, growth is likely to have been sharply negative in 2009 and to be followed by only a moderate recovery in 2010 (GDP growth in 2009 is expected to come out at -7.3%, while the 2010 projected GDP growth is 3.1%). The sharp, broad-based drop in activity is likely to add to unemployment. The Mexican authorities have responded with liquidity measures, foreign currency interventions, lower interest rates, external borrowing and fiscal stimuli. The scope for further fiscal measures is limited by uncertainties over future oil revenue, the higher cost of funding and the risk of inefficient spending.

Structural **poverty** persists despite significant government social expenditure under programmes such as ‘Oportunidades’. Despite the rather unique situation in Mexico, with its level of economic development (it is a member of the OECD) and the relatively small amount of development aid it receives, the proposal is to continue to focus on poverty reduction with the aid of policy dialogue. This sector is all the more relevant for Mexico given the impact of the global economic crisis and the increase over the last few years in the number of Mexicans living in extreme poverty.

**Security** remains a major political concern with the increase in drug-related violence, in particular in Mexican States near the US border. A series of high-level visits from US officials and pledges of further assistance under the Mérida Initiative underline the growing international concern about this problem. The Mexican authorities have asked the EU to step up cooperation in this area.

The Mexican government has taken a number of measures to improve law enforcement and the legal system. A wide-ranging **reform of the judicial system** was passed in June 2008. One key change is the gradual introduction of oral trials to increase transparency and speed up the pace of justice. Other reforms have been focusing on reducing the burden placed on the criminal justice system by drug-related crime.

### **2.1.2 Environmental context**

Environmental degradation and unsustainable use of natural resources impose a growing constrain to the country’s social and economic development –with a cost evaluated at 9.2% of national Gross Domestic Product (GDP) in 2004. Climate change is further adding to the current environmental pressures, including by reducing the country's already scarce water resources and increasing the frequency and intensity of tropical storms.

Recognizing this, the Government of Mexico has indicated environmental sustainability as one of the five strategic pillars of the 2007-2012 National Development Plan (NDP). Furthermore, President Calderón made climate change a priority focus of his administration, both domestically and internationally. In 2007, the Federal government adopted a National

Climate Change Strategy (NCCS) which puts climate change at the centre of the country national development policy. A Special Climate Change Programme was adopted in 2009 that identified priority actions and the required sources of financing. The country also pledged to voluntarily reduce its GHG emissions by 50% by 2050 compared to 2000.

At international level, Mexico has been actively engaged in the post-2012 climate change negotiations as clearly demonstrated by its constructive proposal for a Global Green Fund as well as by the recent decision to host the 2010 UN climate change conference. Mexico hopes it can benefit strategically and economically by moving to a low-carbon economy and tapping local opportunities and advantages. Many policies and actions it can take to reduce greenhouse gas emissions not only will reduce local environmental damage, but they will also improve energy security, enhance the country's competitive position and trade balance, and create new and better jobs.

### 2.1.3 New EU policy objectives and commitments

The mid-term review provided an opportunity to analyse the possible impact of new EU policy initiatives on cooperation between the European Commission and Mexico.

In March 2007 the European Council adopted an ambitious low-carbon development plan for the EU and made climate change an external policy priority. The 2008 EU-LAC Lima Declaration recognised the need to address the challenges of environmental degradation and climate change. A bilateral EC-Mexico high-level policy dialogue on **environment and climate change** has also been launched in 2008. The first high-level meeting took place on 11 January 2008 and concentrated on three broad themes: climate change, biodiversity and forests and international environmental governance. The launch of this dialogue was accompanied by a €50m credit line provided by the European Investment Bank (EIB) to the Mexican development bank *Banco Nacional de Comercio Exterior* (Bancomext) in order to finance small and medium-sized environmental projects by the private and public sectors in Mexico. This is the first EIB-intermediated loan in Mexico and the first operation with Bancomext.

The EC will be funding a trans-regional project on prevention of diversion of **drugs** precursors in the Latin American and Caribbean region (PRELAC). The project started on 1 March 2009 with a budget of €2 437 075 (EC financing: €2 193 377 or 90%) and will last 36 months. It will be implemented by the United Nations Office on Drugs and Crime (UNODC) which will co-finance the other 10% and work via its offices in Peru and Mexico. Further beneficiary countries should include Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Jamaica, Panama, Trinidad and Tobago and Venezuela. The general objective of the project is to fight drug production and trafficking by helping the region to combat diversion of precursors from licit trade. It will complement and work closely with other European Commission-financed action, starting with PRADICAN (the illicit drug control programme of the Community of Andean Nations). The specific objectives are to strengthen the capacity of national authorities of selected countries in the region to prevent diversion of precursors. A new programme — the LA/EU programme of cooperation on anti-drug policies (COPOLAD) — is being prepared, based on the conclusions of the consultants hired by the European Commission. With an indicative budget of €6 million, it will aim to strengthen cooperation on policies against drugs at national, sub-regional and bi-regional levels. The resources for this

programme were established in the EU Indicative Multiannual Programming for Latin America (2007-2013).

With regard to **regional cooperation**, the second phase of the URB-AL programme consisted of thirteen thematic networks coordinated by a single local authority. All local stakeholders who wished to cooperate on a given theme could participate in the corresponding network, which served as the focal point for discussion. Joint projects were then designed and implemented within the networks. Mexico coordinated none of the six thematic networks coordinated by a Latin American local authority. To date, in the URB-AL I and II programmes 188 joint projects have been selected, 25 of which involved Mexican local authorities. Three external members from Mexico also participated in URB-AL I and II joint projects. Nine local authorities are now involved in the present, third, phase of URB-AL, which equals approximately 6% of the total number. One of them, the government of the State of Michoacán, is coordinating a project entitled '*La inter-municipalidad: una herramienta eficaz para la cohesión social y territorial en América Latina*'.

**Migration** from Mexico to the EU has not changed significantly since the 2007-2013 European Commission cooperation strategy was adopted. It is therefore considered unnecessary to create a sector specifically for cooperation in this field. In addition, migration issues are now officially dealt with at political level, under the recently launched EU-Latin America/Caribbean dialogue on migration.

**Trade**-related assistance is already covered in the present programming period, under the second focal sector 'Economy and competitiveness'.

The Commission manages projects in a way that guarantees convergence with the EU's and partner country's policy objectives. In line with **aid effectiveness** principles, the projects funded by the European Commission support country-owned policies, that are sustainable, and have realistic objectives. The European Commission plays an active role in promoting **complementarity and division of labour between international donors**. The main topics discussed with the national authorities have included improved management of counterpart contributions, the role of Mexico as an emerging donor, aid effectiveness (Paris Declaration), the proposed Mexican International Cooperation Agency and, most importantly over this period, the mid-term review of the CSP. The national coordinator requested the Commission to provide training in project-cycle management, which was given in July 2009.

The Delegation and Member States continue to meet in the four thematic working groups established in 2005. Regular contacts are maintained with UN agencies, including the UNDP, UNEP, UNFPA, UNHCHR, UNICEF and UNODC, along with the IOM and bilateral donors such as the JICA, CIDA, AECID and British Council. Regular meetings are held with other donors on the rule of law/human rights (UNHCR, MacArthur Foundation, Ford Foundation, USAID, Konrad Adenauer Foundation, AECID, etc.). A consultation meeting with non-state actors on the mid-term review of the CSP was held in April 2009.

The EU assistance focuses on areas in which the EU has a comparative advantage in Mexico by virtue of its presence in the field and its expertise in sectors such as education, science and technology, human rights and social cohesion, including security.

In May 2008, on the occasion of President Barroso's visit to Mexico, a **new EU-Mexico Strategic Partnership** was announced. This was followed by publication of a Commission Communication on the same subject in July. The Strategic Partnership (SP) was approved by the Council of the EU in October 2008 and by the European Parliament in March 2009. It was launched on the occasion of the EU-Mexico Summit, held in Spain in May 2010. The SP opens the door to closer coordination between the EU and Mexico on global issues, in particular in multilateral fora covering a number of political, security, environmental and socio-economic issues. In this context, the Commission and the Member States are exploring the scope for establishing and enhancing dialogue, coordination and exchanges in areas such as security, human rights, electoral reform, regional development and regulatory and trade policies.

### 2.1.3 Results, performance and lessons learned

The Memorandum of Understanding (MoU) containing the EC-Mexico Cooperation National Indicative Programme (NIP) was signed in June 2007 on the occasion of President Calderón's visit to Brussels. Programmes approved in 2007 (and now being implemented) include:

- Social Cohesion Policy Dialogues €0.9 m;
- Social Cohesion Human Rights €0.35 m;
- Erasmus Mundus External Cooperation Window €4.0 m;
- EU-Mexico Cultural Fund I €1.0 m.

Programmes approved in 2008 include:

- EU-Mexico Cultural Fund II €3.4 m;
- Trade Facilitation Programme Addendum €1.5 m.

Programmes scheduled for approval in 2009 included:

- Integrated Social Cohesion Programme €10.0 m.

Programmes scheduled for approval in 2010 include:

- Economic Competitiveness Programme €9.0 m.

The predominant use of centralised management for the 2007 programmes has facilitated an **early launch of cooperation** for 2007-2013, allowing each side to make its financial contribution in accordance with its own procedures, thus avoiding additional bureaucracy.

Since 2004, the EC has been working with the Mexican Ministry of Economic Affairs on two economic cooperation programmes (PROTLCUEM and PIAPYME) which complement the above-mentioned policies and action, mainly on aspects of trade facilitation such as (1) simplification of Mexican customs procedures; (2) non-customs regulations (TBT, SPS and intellectual property); (3) legal and institutional certainty for foreign traders (investment, competition, consumer protection, support for SMEs, etc.); and (4) use of information systems. An addendum to the PROTLCUEM project signed in September 2009 will include several new institutions not contemplated in the original design. There are also plans to continue working with the customs authority and establish an efficient internet-based channel of communication.

In the field of **social cohesion**, a pilot project on policy dialogue on access to basic health, social security and fiscal matters is advancing smoothly. The inclusion of a human rights programme within the social cohesion focal sector was accepted in response to important challenges faced by the country.

An Integrated Social Cohesion Programme with a budget of €10m was to be approved as part of the 2009 Annual Action Plan to increase the degree of social cohesion within Mexican society. The specific objective is to support efforts to increase the capacity and awareness of relevant public institutions in Mexico to formulate and implement policies that foster social cohesion. It will be based on policy dialogue, institutional capacity-building, coordination, cooperation, involvement of non-state actors and a local development dimension, facilitated by technical assistance and grant schemes.

The 2007 **Erasmus Mundus** (EMECW) programme, originally proposed by Europe Aid and the Delegation as a four-year programme with a strong development focus and participation by Mexican counterparts, evolved into a one-year Erasmus Mundus programme. Students from the ten poorest Mexican States have been sent to European universities.

The first phase of the **Cultural Fund** project was approved in 2007 and the second in 2008. It consolidates EC action in this field and confirms the trend towards fewer but larger projects. The objective is to contribute to Mexican efforts to disseminate, promote and enhance cultural diversity and development between Europe and Mexico at the same time as fostering cultural policy dialogue and cultural exchanges and networks between the two partners. The project builds on the 2007 pilot phase of the fund, in which six projects were granted an indicative EC contribution of €1 million. The financial agreement related to the second phase has been signed in July 2009 and the EC contribution amounts to €3.4 million.

Finally, excellent progress is being made under the **Science and Technology Fund** (FONCICYT), the last project approved under the 2002-2006 NIP. The call for proposals closed on 17 September 2008 with an indicative budget of €15.8 million, in September 2009, 34 agreements were signed to finance 10 research networks and 24 research and technological development projects. The project has generated a pool of high-quality proposals that require additional funding.

The **risks** to implementation of the strategy include the change of government in 2012, potential spending cuts and uncertainty about Mexico's financial contribution to the projects and programmes.

#### **2.1.4 Quality improvements**

Given that the economic and political context in Mexico has not fundamentally changed since 2007 and that the country does not receive large amounts of official development aid, there are no plans to change the **aid rules**. The project approach is therefore confirmed.

As regards **policy coherence for development**, other EU policies are unlikely to have a negative impact on the proposed cooperation strategy with Mexico. Many of them are addressed in either the EU-Mexico Association Agreement or in the action plan for the EU-Mexico Strategic Partnership currently under negotiation.

#### **2.2 Preliminary conclusions and recommendations**

The EC considers that it is not necessary to change the allocation of funding between the focal sectors, nor to modify the scope of the first two sectors. The proposed amendment to the third sector would broaden the range of themes covered. The priorities set in 2007 are therefore maintained and the Country Strategy Paper will not be revised. The objectives of the 2007-2010 National Indicative Programme have been achieved.

### **3. NATIONAL INDICATIVE PROGRAMME FOR 2011-2013**

#### **Focal sector 1: Social cohesion and support for related policy dialogue**

This focal sector remains highly relevant given the persistent structural poverty in Mexico and the impact of the international economic crisis. It is defined broadly enough to meet the needs for policy dialogue that could be launched in the context of the new strategic partnership, including issues such as social policies, access to essential services, human rights, migration and security plus cross-cutting issues such as gender and the environment. No change is proposed, even though both the EU and Mexico are showing strong interest in stepping up cooperation on security including coordination with Central America regional initiatives in this field. The indicators to be taken into account are related to social cohesion, social inclusion, poverty reduction, increased security for ordinary citizens and integration of indigenous people into the public system, for instance levels of access to health and education, to housing or to water and energy plus urban air quality and water treatment facilities. More specifically, environmental issues, including climate change adaptation and mitigations, should be mainstreamed in this focal sector and across all bilateral policy dialogues.

## **Focal Sector 2. Sustainable Economy and Competitiveness**

This focal sector remains relevant and its objectives are consistent with Mexico's policy agenda, competitiveness being a major issue for the country. *This is strongly influenced by public and private operators' ability to create, assimilate, adapt and use scientific knowledge for organisational and technological innovation.* Over recent years, the green economy has been recognised as a new powerful tool for ensuring sustainable economic growth and enhancing competitiveness. This focal sector could promote low-carbon and environmentally sound technologies and services. Particular attention should be given to supporting Small and Medium Enterprises (SMEs) investment in energy and resource efficiency and renewable energy, and adoption of environmental standards. The electronic communications sector is also a powerful tool to enhance competitiveness, and could therefore also be considered under this focal sector. Some technical and administrative adaptations (to be addressed during the project identification phase) are likely to be carried out with respect to the design of the projects compared to those approved in the previous CSP, *and attention will be paid to higher levels of innovation supportive of sustainability aspirations, both in the public and private sectors. These would benefit from greater adaptation of research results and attention to technology transfer, where appropriate.*

## **Focal sector 3: Education and culture**

Key needs in the field of higher education and culture have been addressed under programmes approved in 2007-2008. The Erasmus Mundus programme for Latin America (action second) is considered adequate to cater for Mexico's needs in higher education and will encourage a Mesoamerican approach in cooperation on higher education.

Mexican participation in the global Erasmus Mundus programme has been growing considerably over the last few years. In this light, the proposal is that this sector should continue to focus on university cooperation over the period 2011-2013, in particular on science and technology. In addition, the launch of a policy dialogue on education and culture could further enhance cooperation in this field. The indicators to be considered for the development side of the activities could include variables such as access to higher education, enrolment ratio, improved job opportunities, growth in cultural exchanges, scholarship or development of cultural tourism as a consequence of conservation schemes. Such projects should be developed in close synergy with the policy dialogue activities to be developed in the field of higher education between 2010 and 2013.

In this light, it is proposed that this focal sector continue to be focused on university cooperation for the period 2011-2013, in particular in the area of science and technology, including a focus on the theme of the green economy and low-carbon growth.

## Conclusion

Given that no change in the funding allocation between the focal sectors is proposed, that the above mentioned proposed amendments constitute a broadening of the thematic coverage of the three CSP focal sectors to main-stream the cross-cutting themes of security and of 'green economy', including low-carbon growth, resources efficiency and sustainable management and use of natural resources, it is concluded that the signature of a new Memorandum of Understanding would not be necessary.

**Summary table of focal areas and indicative financial breakdown**

	<b>NIP 1: 2007-2010</b>	<b>NIP 2: 2011-2013</b>
<b>Sectors</b>		
<b>Social cohesion (and support to other sectoral policy dialogues)</b>	<b>11,000,000</b>	<b>11,000,000</b>
<b>Economy and competitiveness</b>	<b>11,000,000</b>	<b>8,250,000</b>
<b>Education and Culture</b>	<b>8,800,000</b>	<b>4,950,000</b>
<b>Total</b>	<b>30,800,000</b>	<b>24,200,000</b>