



COMMISSION OF THE EUROPEAN COMMUNITIES

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COMMUNICATION FROM THE COMMISSION TO THE COUNCIL

**on the renewal of the San José dialogue between
the European Union and Central America**

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I. EXPLANATORY MEMORANDUM

1. How the San José dialogue evolved

The San José dialogue between the Community and its Member States and the six Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama) was born out of a ministerial meeting held in September 1984 in the capital of Costa Rica. It was institutionalized at the following conference in Luxembourg in November 1985 in the form of a declaration setting out the dialogue's objectives and the principle of high-level annual meetings.

This political and economic dialogue is an example of a unique European political and cooperation commitment towards a developing region with which it had fairly loose geographical, historical and economic ties but whose instability was at the time a potential source of increased East-West tensions with obvious implications for the Community.

Consequently the dialogue's objective adopted in the Luxembourg declaration was "with the support and with the encouragement of the Contadora Group - to find a negotiated, regional, global, peaceful solution in order to put an end to the violence and instability in the area and to foster social justice and economic development and respect for human right and democratic liberties."

This objective was more or less achieved in the first decade. The Community was able to make a significant contribution to the peace process in Central America under the Esquipulas agreements at regional level and in national conflicts (Nicaragua, El Salvador and Guatemala) and to the consolidation of democracy.

This political success was matched by the first Cooperation Agreement, also signed in Luxembourg in 1985, which came into force on 1 March 1987. This provided a framework for closer Community cooperation with Central America. The Community has always recognized the critical link between the region's stabilization and its socio-economic development.

The increasing volume of Community aid throughout this period - with total commitments far exceeding ECU 1 billion (annual commitments in 1994 were ECU 170 million compared with some ECU 40 million before the dialogue) has made the European Community the main donor in Central America, which is now one of the principal per capita recipients of Community aid in the world.

A more ambitious Cooperation Agreement incorporating human rights and future developments clauses and covering a wider range of cooperation sectors was signed in San Salvador in February 1993. This has, however, still not entered into force as it has not yet been ratified by all Central American countries.

In keeping with the dialogue's objectives Community aid in the first decade focused on operations connected with the peace process (support for rehabilitation programmes in Nicaragua and San Salvador and for programmes to resettle displaced persons) or on the most pressing needs of disadvantaged sectors of the population (large-scale food aid or projects to help the peasant population).

This largely explains why Community cooperation during this period was often of an "urgent" nature and covered a large number of usually unrelated projects in increasingly varied areas.

Clearly it has developed in a fairly pragmatic manner taking account of the region's immediate needs but without a pre-defined strategy.

This phase of Community aid did have generally positive and often novel results, fostering the emergence of new social and political forces and methodological and technological dissemination in various fields (production, social sector and energy), promoting exchanges of ideas and creating a sense of interdependence within Central America (health, infrastructure, food security, etc).

2. The need for a fresh direction for the San José dialogue

It is now ten years since the Luxembourg meeting which marked the beginning of political dialogue between the European Community and its Member States and Central America and provided a launching pad for cooperation and the situation is very different in both regions.

Giant strides have been made in the Central American peace process with a more stable situation in Nicaragua and San Salvador and the prospects of a peace agreement in Guatemala. The integration process is continuing despite setbacks. All the governments now in place have been democratically elected and the transition of power has been orderly. There has also been a gradual demilitarization of society in these countries. There has been a general improvement in the human rights situation, mainly as a result of the strengthening of the public and private organizations concerned.

The macroeconomic situation is now fairly stable. Adjustment and liberalization policy has helped to bring down inflation rates and reduce public deficits, and ensure a satisfactory return to growth in most countries in the region and a significant increase in interregional trade and non-traditional exports.

The Community too looks very different from ten years ago, particularly on the external relations side. It has grown from 10 members in 1984 to 15 and, following the collapse of the Berlin Wall and break-up of the Soviet Union, has forged new relations with Central and Eastern European countries, some of which may eventually join the Union. The Union has also strengthened its relations with Mediterranean countries through a series of new agreements, redefined its policy towards Asia and established closer ties with Latin America as a whole and with many of its regions and countries.

In the face of these momentous changes the partners in the San José dialogue are going to have to reshape their relations and redefine the dialogue's objectives and mechanisms and the content and procedural approach of their cooperation.

This does not mean there will be any weakening of the special relationship between the two regions.

Despite the progress made the situation in Central America is still fragile in many respects:

- . the democratization process, which implies political representativeness, credibility and popular support for the authorities, participation in the exercise of power, etc needs to be consolidated;
- . the public and judicial authorities are largely without resources and inefficient and need to be strengthened;
- . political and non-political violence and failure to prosecute its perpetrators is still a serious problem in the region;
- . in the social sector there is an enormous gap between the rich and poor, problems relating to drug abuse and a disturbing degradation of the rural sector which is accelerating the exodus to the towns and exacerbating urban problems.

On the European side, there are also factors militating for the maintenance of a special relationship with Central America:

- . firstly, its moral commitment: after playing a decisive role in the peace process in the 1980s Europe can hardly abandon the region at a time when the process needs to be consolidated;
- . its presence is particularly necessary as the region, which is the poorest in Latin America, still has enormous needs and other donors such as the United States are gradually reducing their aid;
- . the European Union has a "political position" to defend: it has a very positive image in terms of humanitarian and democratic values in Central America, which has high expectations of Europe.

3. The future of the San José process

At the eleventh San José meeting in Panama City in February ministers agreed in point 5 of the final communiqué to continue "the deepening and enhancing of their relations by gearing the mechanisms and content of the dialogue and cooperation to meet the new challenges and new priorities".

Ministers have embarked upon a process of reflection on the future of the dialogue (point 20 of the communiqué) and agreed "on the need to revitalize the existing mechanisms of the dialogue and, in particular, to give more impetus to the work of the Joint Committee" (point 21).

This process of reflection was taken one step further at an informal seminar organised by IRELA in San José at the end of May on the initiative of the German and French Presidencies. This seminar's findings have been forwarded to the EU and Central American authorities.

At their meeting on the occasion of the opening of the United Nations General Assembly session in New York on 27 September Central American ministers and members of the European troika agreed to hold regular ministerial meetings in their future dialogue and to give the Joint Committee a more important role.

This was given practical expression at the European Community-Central America Joint Committee's 7th meeting in Brussels on 27 October at which both sides agreed to increase the Committee's work. Recommendations on the content of and arrangements for future cooperation were also tabled.

All these matters will be submitted in the form of a new formal declaration for approval at the next San José meeting which is to be held in Italy in March next year.

The guidelines set out in the second part of this communication and the annexed draft declaration will serve as a basis for the Community's and other Member States' position at this ministerial meeting.

II. THE PILLARS OF THE NEW SAN JOSE PROCESS

In the light of the conclusions adopted at the 11th San José ministerial meeting and of subsequent agreements and strategies the San José process will be recast by:

- reformulating the dialogue's basic objectives;
- refocusing cooperation and reforming its methods;
- adjusting the dialogue's mechanisms.

The Community's and Member States' position on these three aspects will be based on the following guidelines:

1. The process's new objectives

The central objective of this new stage in the San José dialogue is to make the peace process and democratization in Central America irreversible by:

- consolidating the rule of law;
- creating social stability by reducing inequalities;
- integrating the region into the world economy.

2. Refocusing cooperation

In the interests of making Community cooperation with Central America more effective and efficient, while fostering sustainable development, it must focus on a few core priorities compatible with the dialogue's objectives:

- (i) Support for consolidation and modernization of the rule of law**
 - (a) Measures to promote respect of human rights (multiannual programme to promote human rights) and to strengthen democratic institutions and mechanisms (electoral process, parliaments and combating insecurity and delinquency);
 - (b) measures to improve the functioning of the state (in particular of the tax, financial and customs authorities, judicial authorities and support for decentralization, etc).
- (ii) Support for social policies**
 - (a) Measures to give citizens greater economic and social rights, easier access to credit and land and encouraging savings;
 - (b) Measures to reform education and training and the health system to ensure non-discriminatory access for all citizens to basic services and to implement national and regional strategies to combat drug abuse.
- (iii) Helping Central America to become integrated into the international economy**
 - (a) Measures to promote regional integration with particular reference to its operational aspects;

- (b) measures to diversify exports;
- (c) measures to strengthen and facilitate the role of the private sector (industrial cooperation: AL-INVEST, ECIP, etc).

3. New methods of cooperation

If Community aid for Central America is to be focused on a number of key sectors there will also have to be some adjustment of the methods of cooperation:

(i) **Coordination**

- (a) Increasing specialization by donors according to their comparative advantages with particular emphasis on NGOs' management capacity;
- (b) greater coordination is required particularly between the Community and its Member States.

(ii) **Multiannual programming**

There will have to be multiannual programming of projects for priority sectors with a view to arriving at an indicative distribution of Community resources between the focal points and areas of cooperation at regional and national level.

(iii) **Refocusing of projects**

Future cooperation projects will focus on the sectoral policies implemented by the recipients rather than on ad hoc objectives. This will require:

- (a) closer consultation of recipients;
- (b) a commitment by recipients to take steps to ensure the projects in question are sustainable;
- (c) assurances to be given by the Community and its Member States on the continuity of its commitment (on a multiannual basis);
- (d) a stricter approach to identifying and evaluating projects in which recipients will play a greater role;
- (e) greater emphasis on publicizing the results of projects.

4. Adjustment of the mechanisms of the San José process

There is now broad-based consensus on the need to modernize the dialogue's institutional framework and to adapt it to new priorities.

It is proposed that:

Plenary ministerial meetings

Meetings should be fewer (every two years) but be better prepared (by follow-up work between meetings), better structured (focusing on a few priority areas) and should produce clear-cut conclusions.

Ad hoc ministerial meetings (at the level of the troika or enlarged troika)

These should be held between the biennial meetings, preferably on an ad hoc basis (where there are sufficiently important matters to warrant convening them) or the traditional meetings in New York at the opening of the United Nations General Assembly session should be used as a stocktaking exercise.

Joint Committee

The Joint Committee should act as a supervisory body overseeing in particular cooperation and trade relations.

This will mean:

- (a) Fresh life will have to be breathed into the cooperation subcommittee which will be responsible for programming and ensuring future projects are compatible with priorities. The subcommittee could meet between the Joint Committee's meetings (at eighteen-month intervals), i.e. every nine months.

The Trade Forum will provide a framework for discussion of ways of improving trade (GSP, access, etc) and preventing or resolving any conflicts which arise.

- (b) There must be greater involvement of civil society in the Joint Committee's work through consultation machinery to be defined.

CONCLUSIONS

The proposed suggestions and reforms of the San José process will usher in a new era in relations between the European Community and its Member States and Central America.

A new formal declaration could be signed at the 12th San José meeting in March in Italy next year to replace that adopted in Luxembourg in November 1985. This will form the basis for the new reformulated process.

The declaration will set out:

- the dialogue's new objectives;
- the main priorities of future cooperation;
- the new mechanisms.

A preliminary draft of the text of such a declaration is given in the annex.

The multiannual programme to promote human rights which expires in March next year will also have to be extended.

There is, however, no need to conclude a new cooperation agreement. The San Salvador Agreement which was signed in February 1993 has not yet been ratified by all Central American countries and it is sufficiently broad and flexible to incorporate any new needs.

Draft formal declaration on the renewal of the San José process

The Parties,

- recalling the Final Act of the Luxembourg Conference of 11 and 12 November 1985 giving institutional shape to the political and economic dialogue,
- aware of their espousal of common values and principles,
- recognizing the major contribution of the San José dialogue's first decade - and the cooperation associated with it - to the peace process, the consolidation of democracy and to social and economic development in Central America,
- persuaded that their relations should be deepened by gearing the dialogue's objectives and machinery, and also its content and methods of cooperation, to the fresh challenges and new priorities facing them,

have decided to develop the San José process along the following lines:

Objectives

The Parties have reaffirmed their resolve to continue the political and economic dialogue launched in 1984 at the San José Conference.

They consider that the dialogue will contribute towards the Central American countries' efforts to ensure that the peace process, moves towards democracy and equitable and sustainable socio-economic development in the region become irreversible and to step up the measures to combat insecurity and delinquency.

These goals should be achieved through measures to bolster the rule of law, social stability and the region's integration into the world economy.

Machinery for dialogue

The Parties have agreed to conduct their dialogue by means of:

- plenary meetings, at ministerial level, which will take place every two years, in a Central American country and a European Union country alternately;
- troika (or expanded troika) meetings, which will as a rule be held between the plenary meetings and will provide a discussion forum for political dialogue;
- a strengthened role for the EC-Central America Joint Committee, which will monitor the two sides' cooperation and trade relations between ministerial sessions and meet at different levels and at regular and frequent intervals, in principle every nine months.

Content and methods of future cooperation

The Parties will focus Community cooperation for Central America on certain priority areas with a view to enhancing its impact and effectiveness.

The Parties have assigned priority to the following areas:

- (i) support for bolstering and modernizing the rule of law
(operations designed to strengthen institutions and the machinery of democracy plus projects aimed at improving the running of the state and promoting human rights);
- (ii) support for social policies
(activities aimed at underpinning citizens' economic and social rights);
- (iii) boosting Central America's capacity for integration into the international economy
(action to step up regional integration and diversify exports and enhance the role of private traders and businesses).

The Parties expressed a wish to see their cooperation methods adjusted, notably reiterating the principle of making the projects to be carried out part of a multiannual programming exercise, with a view ultimately to arriving at an indicative share-out of the available resources among the various cooperation focal points and areas.

The Parties also agreed that the projects should in general be designed to mesh with the sectoral policies being implemented by the recipient countries: this entails stepping up dialogue with them, notably on the undertakings they have to give as regards the projects' sustainability.

FINANCIAL STATEMENT

1. TITLE OF OPERATION: Community position on the renewal of the San José dialogue between the European Union and Central America

Recommendation for a Council decision on the Community position on the renewal of the San José dialogue between the European Union and Central America.

2. BUDGET HEADINGS INVOLVED

(a) Implementation of cooperation as part of the San José process:

- B7-3010: Financial and technical cooperation with Latin American developing countries
- B7-3011: Economic cooperation with Latin American developing countries
- B7-5000: Promotion of Community investment in developing countries of Asia, Latin America, the Mediterranean and South Africa by economic cooperation and trade agreements
- B7-5010: Community contribution towards schemes concerning developing countries carried out by non-governmental organizations
- B7-5020: Commercial and economic cooperation agreements with third countries
- B7-5040: Environment in the developing countries
- B7-5041: Tropical forests
- B7-5046: Health programmes and the fight against HIV/AIDS in developing countries
- B7-5050: Aid for population policies and programmes in developing countries
- B7-5051: Women in development
- B7-5077: Decentralized cooperation in the developing countries
- B7-5080: North-South cooperation schemes in the context of the campaign against drug abuse
- B7-5091: Coordination of development policy, evaluation of the results of Community aid and practical follow-up measures
- B7-5096: Development cooperation inspectorate
- B7-5230: Democratization process in Latin America
- B7-5300: Measures to combat fraud in the cooperation sector

(b) Other budget items that may be used:

- B4-1000: Thermie II (Community programme of financial support for the promotion of energy technology in Europe)
- B4-1041: European Energy Charter and cooperation with third countries in the energy field
- B6-5211: Completion of the third framework programme (1990 to 1994) - projects concerned by the Agreement on the European Economic Area
- B6-5311: Completion of projects not covered by the framework programme and not concerned by the Agreement on the European Economic Area

3. LEGAL BASIS

1985 EC-Central America Cooperation Agreement and ALA Regulation.

4. DESCRIPTION OF OPERATION

4.1. General objective

To establish a Community position on the adoption of the formal declaration between the European Union and Central America.

4.2. There will be no time limit on the declaration.

5. CLASSIFICATION OF EXPENDITURE OR REVENUE

5.1. Non-compulsory

5.2. Differentiated appropriations

5.3. Type of revenue involved: n/a

6. TYPE OF EXPENDITURE OR REVENUE

100% grant as a rule, but in certain cases joint financing with other donors (Member States).

The recipients' financial contribution is to be included systematically and should reflect their ability to pay.

7. FINANCIAL IMPACT

These are overall guidelines for the future dialogue which have no additional financial impact.

7.1. Method of calculating total cost of operation: n/a

7.2. Itemized breakdown of cost: na

Breakdown	Budget year n	n + 1	n + 2	n + 3	n + 4	n + 5 and subs. yrs	TOTAL
Total							

7.3. Indicative schedule of appropriations:

n/a

	Budget year n	n + 1	n + 2	n + 3	n + 4	n + 5 and subs. yrs	TOTAL
Commitment appropriations							
Payment appropriations							
n							
n + 1							
n + 2							
n + 3							
n + 4							
n + 5 and subs. yrs							
TOTAL							

8. FRAUD PREVENTION MEASURES; RESULTS OF MEASURES TAKEN

To ensure maximum accountability in the management of budget resources, projects are subject to the following procedures:

- committee for the assessment of restricted invitations to tender (technical assistance);
- system of co-directors (one local and one EC);
- project-by-project administration involving cost accounting;
- supervisory missions by desk officers and/or technical and/or financial units;
- where necessary, audits by independent experts;
- where appropriate, ad hoc audits in conjunction with the relevant units of DG VIII;
- inspections where appropriate by the Court of Auditors and Financial Control.

For projects of above-average duration involving large budgets, there will be annual financial and accounts audits, to be conducted by an internationally recognized firm.

9. ELEMENTS OF COST-EFFECTIVENESS ANALYSIS

9.1 Specific quantified objectives; target population

The objectives specific to each project are defined in the financing proposal, which includes an economic and financial analysis of each project and, where certain budget headings (e.g. B7-3010 and B7-3011) are concerned, is approved by the ALA Committee in the case of projects costing more than ECU 1 million. For other projects, the specific objectives are defined in the detailed commitment form accompanying each project.

Target population: indirectly, the whole population but especially:

- the private sector, business circles in the recipient countries and in Europe, due account being taken of the principle of mutual interest;
- the most disadvantaged groups.

9.2 Grounds for the operation

The projects launched will be financed under existing budget items and are therefore underpinned by the financial statements accompanying those items in the PDB.

9.3 Monitoring and evaluation of the operation

10. ADMINISTRATIVE EXPENDITURE (PART A OF SECTION III OF THE BUDGET)

Increase in the number of staff: none.

I. IMPACT ON THE NUMBER OF POSTS: N/A

Type of post	Staff to be assigned to the project		of which		duration
	permanent posts	temporary posts	by using existing staff in the DG or department concerned	by recourse to additional staff	
Officials or temporary staff					
Other					
Total					

Overall financial impact of the additional staff: n/a

	Amount	Method of calculation
Officials		
Temporary staff		
Other (indicate budget heading)		
Total		

II. INCREASE IN OTHER OPERATING COSTS: MISSION EXPENSES: N/A

Budget heading	Amount	Method of calculation
		See table below
Total		

Number of missions	Ave. cost of ticket	Ave. daily allowance	Total (ECU)	Rounded total (ECU)