

MID TERM REVIEW
AND
REGIONAL INDICATIVE PROGRAMME
2011-2013
FOR
LATIN AMERICA

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1. EXECUTIVE SUMMARY

In recent years, Latin America has been playing an increasingly important role on the world stage. From a political and institutional viewpoint, the region has been clearly committed to democracy, the rule of law and respect for human rights. However, a number of countries still need to make greater efforts to strengthen their institutions so that the State can fully and effectively assume its responsibilities in areas such as security, justice and taxation.

Also in recent years, the countries of the region have clearly demonstrated their willingness to make progress in regional integration, coordination, and political dialogue. However, difficulties to the advancing and consolidating sub-regional integration efforts, such as in MERCOSUR, the Andean Community and Central America, remain.

In economic terms the region has seen strong growth in recent years. Still, Latin American economies remain over-dependent on commodity exports with the vulnerability which that entails, and levels of poverty and inequality remain high.

The European Union's relations with Latin America have to be assessed against the backdrop of this situation. Lessons have been learnt from EU actions under the 2007-2010 Indicative Programme and, more importantly, from the experience of implementing previous Strategy Papers. In this light, the Commission considers that the response strategy defined in the Regional Strategy Paper (RSP) remains valid and should continue to be implemented in accordance with the priorities already established, subject to minor readjustments.

Three priority strategic focal sectors were identified in the 2007-2013 RSP:

- social cohesion, reduction of poverty, inequalities and exclusion
- regional integration and
- investing in people and increasing mutual understanding.

A number of programmes have been launched to foster dialogue on these priorities, to exchange experiences and develop best practices. The **EUROsocial** and **URB-AL** programmes have been addressing the issue of social cohesion at national and local level; the **AL-INVEST** programme has helped the internationalisation of SMEs in the region by developing business networks and @lis programme has promoted a better policy and regulatory environment for the development of an inclusive Information and Communication Technology (ICT) infrastructure interconnected with European research networks (GEANT); the **ALFA** and **AlBan/Erasmus Mundus** programmes have facilitated academic exchanges between EU and Latin America and helped improve higher education systems in Latin America. Finally the **EUroclIMA** and **COPOLAD** programmes will help the region to address the important challenges of climate change and drug trafficking. A targeted project on migration is also being prepared.

For the period 2011-2013 we propose to fuse together the first two priorities, in particular due to the strong inter-linkages between the two. The objectives for this merged priority will be pursued through a new approach based on a new initiative, the **Latin American**

Investment Facility (LAIF) (€ 102 million). This initiative is designed to mobilise additional resources to stimulate investments in the areas of interconnectivity and infrastructure, social and environmental sectors, and private sector growth. By promoting investment in physical infrastructure, this new initiative strongly complements other regional programmes such as EUrocLima, EUROsociAL and AL-INVEST. These programmes address the same priorities as LAIF, but pursue them using ‘soft action’ such as capacity building, exchanging best practices, creating networks and developing common agenda.

The third priority, human resources and increasing mutual understanding, will continue as a single policy area. The objective of this priority is to provide fellowships for the Latin American teachers and students to the European universities in the period 2011-2013, and to reinforce the EU-LA cooperation in the area of mutual understanding and higher education and strengthen the academic programmes, with a particular attention to the most socially disadvantaged groups. Within this priority (€ 92,6 million), the **Erasmus Mundus** programme will be continued.

In addition to these two priorities, €30 million has been set aside as reserve.

2. THE MID TERM REVIEW

2.1 ANALYSIS OF THE REGIONAL SITUATION

It is difficult to carry out a comprehensive political, economic and social analysis of a region as large and diverse as Latin America. However, it is possible to make some general observations which, while not necessarily applicable to each individual country, nonetheless provide a useful overview of for the entire region. Moreover, such analysis can aid in determining what sort of priorities should be pursued at the regional level in coherence and complementarily to the actions on the subregional and national level. For a more complete picture, the Mid Term Review (MTR) documents of the sub-regions and individual countries should be considered as complementary to this document.

2.1.1 Political Analysis

In recent years, Latin America has been playing an ever more prominent role on the international stage. This is due to a variety of factors. Political stability and peace which have – apart from some isolated incidents – become the norm for the region, the unprecedented economic growth in the past years combined with the significant resources in fossil fuels and other raw materials, and the growing role that some of these countries play in the international fora, all help to explain why Latin America is increasingly becoming a strategic partner for other countries and regions which, hitherto, had been relatively absent from the region.

From a political and institutional viewpoint, the region's commitment to democracy, the rule of law and respect for human rights has been apparent in the last years. With very few exceptions, elections and referenda have taken place without significant irregularities and in accordance with international standards, as confirmed by a number of EU Election Observation Missions.

Several governments have carried out significant constitutional and institutional reforms so that traditionally marginalised sections of the population can be integrated into the country's political and economic life. However, in a number of countries, greater effort is still needed to strengthen institutions so that the State can fully and effectively assume its responsibilities in areas such as security, justice and taxation.

In many cases, institutional weakness makes it very difficult for the State to tackle nationwide challenges such as narcotics trafficking and organised crime. Criminal organisations can take advantage of such weakness and in some cases this can threaten the very foundations of the State. This is why the EU is supporting efforts to strengthen democratic institutions in several Latin American countries.

In recent years, Latin America has shown clear signs of willingness to move ahead in regional integration, coordination and political dialogue. For example, the Rio Group and UNASUR (Union of South American Nations) have played a key mediating role in conflicts that recently affected some of the countries in the region. The creation of the South American Defence Council and of Bank of the South (Banco del Sur) are further manifestations of this willingness to find regional solutions to regional problems.

At the same time, a group of countries (i.e. ALBA – Bolivarian Alternative for the Americas) is coming together on the basis of common principles and socio-economic and political models, with an ideological content that somewhat differs to the rest of the region. This development needs to be monitored, as we are witnessing two different models of political and economic management, which in some cases could hinder further dialogue and integration.

Furthermore, we need to note the difficulties in consolidating sub-regional integration efforts, such as those in MERCOSUR, the Andean Community and in Central America. These difficulties often manifest themselves during negotiations the EU is undergoing with the three mentioned regions.

It is also worth noting that certain Latin American countries have played an increasingly significant role in promoting peace and stability beyond their borders. For example, some Latin American countries have taken an active part in the efforts to bring about peace and stability in Haiti.

2.1.2 Economic and Social Analysis

In economic terms the region has seen strong growth in recent years. World wide, average annual growth rates increased from some 2% in 2001 to peak at 5,2% in 2007¹, but average growth in Latin America exceeded 5,3% between 2003 and 2008². This robust growth is partly attributable to the high prices of energy and other commodities, and to the worldwide economic boom; but it is also the result of prudent macro-financial management in most countries in the region. This has created the necessary fundamental conditions for promoting trade, investments and development.

Nevertheless, the Latin American economies remain over-dependent on commodity exports, and this makes them vulnerable to developments on the export markets and to fluctuations in the global commodity prices. This vulnerability was clearly demonstrated during the recent sharp decline of commodity prices: in December 2008 the IMF Commodity Price Index had declined by almost 55% from its July peak. This meant an huge loss of income, not only for countries like Argentina, Brazil, Chile, Mexico, and Venezuela, which are among the world's major exporters of primary products, but also for Bolivia, Colombia, Ecuador, Peru and Uruguay, where commodities represent an important part of their export portfolio.

In general terms, this prolonged economic growth helped reduce poverty and inequality in Latin America. The World Bank estimates that some 60 million people were lifted out of poverty between 2002 and 2008. But although Latin America is, on average the richest region in the developing world, it continues to bear the stigma of having the greatest inequalities. For households in the top tenth of the income range, average per capita income is approximately 17 times greater than that of the poorest 40% of households. (In the OECD countries as a whole it is less than 9 times greater³). In 2007, according to Economic Commission for Latin America and the Caribbean (ECLAC), 50% of the

¹ IMF: World Economic Outlook: Crisis and Recovery (April 2009)

² World Bank website.

³ OECD: Growing Unequal?: Income Distribution and Poverty in OECD Countries (2008).

wealth was concentrated in the hands of 10% of the population, 184 million people were living below the poverty line and some 68 million were living in extreme poverty⁴. Charts 1 and 2 in Annex 1 show that the situation has been improving. However, the Gini Coefficient remains above 50 (for comparison, the OECD average is below 30⁵) and on average almost 40% of the Latin American population still lives in poverty.

When it comes to trade and investments, most Latin American countries have adopted policies aimed at greater participation in the world economy. While there is room for improvement, governments in the region acknowledge that in order to secure sustainable investment flows, a stable and transparent judicial system must be in place. This has consequently encouraged greater trade flows, which more than doubled since the year 2000 (see Annex 2, chart 3) reaching €1.225.651 million in 2008. Greater geographical diversification of their economic relations has been achieved (see Annex 2 table 7 for all trade agreement presently in force in the region) and significant foreign inward investment (\$128.301 billion in 2008, surpassing by 13% the record levels observed in 2007 – see Annex 3, chart 8). This is an extraordinary performance considering that FDI flows worldwide shrank by 15% over the same period⁶.

Although, in recent years, investment flows into Latin America have risen steadily, they still do not cover all the region's investment needs, with some countries experiencing chronic investments deficits. Investment flows in the region are marked by severe concentration in a handful of countries and mainly in the commodity sector (see Annex 3 for more detailed analysis). Estimated needs for infrastructure investment far exceed the expenditure currently planned by the governments, the private sector and other stakeholders. This creates a significant financing gap. In Latin America and the Caribbean, average spending on infrastructure accounts for less than 2 per cent of annual gross domestic product (GDP) whereas an estimated 3-6 per cent of GDP would actually be needed.

Despite having in place stronger political and economic fundamentals, Latin America, as the rest of the world, could not escape the effects of the global economic crisis. Thanks to these strong fundamentals and good past and present macroeconomic decisions, most of the countries in the region have been better prepared to face the crisis. However, some countries, especially the ones with stronger and more direct link to the US (such as Central American countries), have been affected in a more severe way. In fact, projections for 2009 show year-on-year drops of between 35% and 45% in FDI flows, between 5% and 10% in remittances, 29% in the prices of the region's export commodities and 25% in export values. The external shock has not drastically impacted GDP or employment, showing that the region was better prepared this time owing to the international boom period (2003-2007) and improved economic policies⁷.

⁴ ECLAC: Social Panorama of Latin America (2008).

⁵ OECD.Stat website.

⁶ ECLAC: Foreign Direct Investment in Latin America and the Caribbean (2008)

⁷ ECLAC: Briefing paper: 2008-2009 Edition of the Latin America and the Caribbean in the World Economy: Crisis and opportunities for regional cooperation (2009)

2.1.3 Environmental situation

The Latin America region faces many environmental challenges including land degradation, loss of biodiversity, unsustainable use and management of water resources and fisheries. While many of these problems are related to new settlement in environmentally sensitive frontier areas, others are the result of poor management of natural resources. In addition, Latin America is already experiencing the negative impacts of global climate change (ranging from glaciers meltdown to more frequent and intense hurricanes) which are likely to become more serious over the next decade and could significantly impair the prospects for sustainable development. In particular, the region's rich biodiversity is at great risk and agriculture productivity is likely to suffer significantly.

At the same time, many Latin American countries are well placed to take the lead in promoting low-carbon development, including measures promoting forest conservation, energy efficiency and renewable energy. As almost half of the region's carbon emissions come from land-use change (forests and grasslands are converted into farm land), reducing tropical deforestation is key for effectively combating climate change and biodiversity loss. In this respect, important progress has been made over the last few years. For instance, Brazil has committed to reducing the loss of Amazon rainforest by 80% below the 1996-2006 average by 2020 and has already lowered deforestation rates by 64% since 2005⁸. In the run up to the Copenhagen climate change summit, other countries have adopted ambitious climate mitigation and adaptation policies and programmes.

Notwithstanding the above-mentioned progress, environmental protection is still to be fully mainstreamed across infrastructure development programmes across the region. In the energy sector, in recent years the share of renewable energy has been falling as gas-powered and thermal power plants provided a significant share of new electricity generation⁹. Over the next 10 years, some projections suggest that an additional 100.000 MW of new power capacity will be needed in order to meet growing demand of the region. The carbon intensity of this new energy infrastructure will be key to steer the region toward a low carbon and resource efficient development path and prevent technology lock-in. Under business as usual conditions, the International Energy Agency (IEA) predicts that carbon emissions in the region will grow more than the world average after 2015.

2.1.4 Energy

Energy has become a top priority for the EU, both internally and in its external actions. Following the Sustainable Development Summit in Johannesburg (2002), the EU Energy Initiative (EUEI) aims to create synergies, improve access to energy services in developing countries and contribute to the achievement of the Millennium Development Goals (MDG's). The commitment to improve access to sustainable energy is further reflected in the European Consensus on Development.

⁸ Brazil's Ministry of Environment, December 2009, www.mma.gov.br

⁹ World Bank, 2009, Low Carbon, High Growth – Latin America Responses to Climate Change.

Energy efficiency is an economic driving force. With increasing use of sustainable energy sources, the link between energy use and greenhouse gas emissions may be decoupled as well. Since the late 1980s the Latin American region (on average) has performed relatively poorly in terms of energy efficiency, measured as a relationship between economic growth and energy consumption. Such a growing level of energy consumption per unit of GDP has only been observed in Latin America, the Caribbean and the least developed countries (LDCs). In LAC, a recent analysis by the InterAmerican Development Bank estimates that energy consumption could be reduced by 10% over the next decade by investing in energy efficiency. The cost of such measures would be US\$ 37 billion less than investing in new electricity generation capacity.

2.2 NEW EC/EU POLICY INITIATIVES AND COMMITMENTS

EC/EU policy objectives, such as those in the fields of climate change, migration, drugs, energy, aid for trade, etc. are increasingly relevant for Latin America. This was also recognised in the Declaration adopted at the May 2008 Summit in Lima between the EU and the countries of Latin America and the Caribbean (LAC) and in the EU-Rio Group Joint Statement from the Ministerial meeting in May 2009 in Prague.

2.2.1 Climate change and Environment

Climate change, environmental degradation and disaster risk management are crucial challenges for the future development of all Latin American countries. This is why the EU's 'Climate Change and Energy Package' involved a political commitment to help developing countries embark upon low carbon development paths and support them to develop resilience to the impacts of climate change. The need to tackle environmental degradation and climate change was also recognised by the Heads of State and Government of the EU and LAC countries in the 2008 Lima Declaration.

In response, the EUroCLIMA programme has been launched. Starting in 2010, EUroCLIMA is a joint commitment to address complex multi-sectoral issues that need to be seen from various angles: policy dialogue, scientific, technological and socio-economic prospects, institutional capacity building, sharing experiences and disseminating information.

EUroCLIMA initiatives will encourage bi-regional environmental cooperation with a special focus on providing the decision-makers and the scientific community a better understanding of the consequences of climate change, so that these issues can be integrated into sustainable development strategies. The total EC budget for this project is €5 million and other contributions are estimated at €175.000.

Another programme with environment and climate change as one of its crosscutting objectives is the Latin America Investment Facility (LAIF). LAIF will operate directly in the field of environmental protection by promoting investments that will improve sound management of environmental resources and reduced environmental degradation. At the same time it will also ensure that low-carbon and resource efficient technologies and practices have a strong presence in all of its focus areas, including interconnectivity and infrastructure, social and environmental sectors, and private sector promotion.

At bilateral level, the European Commission is already financing a set of initiatives whose main or crosscutting objectives include action to protect the environment and tackle climate change. For example attention is given to sustainable resource management in alternative development and rural development projects, water sanitation projects, etc.).

Additionally, this Mid-Term Review proposes a new programme at the sub-regional level in the Andean Community, which will focus on promoting joint cooperation and coordination among the 4 CAN countries on common environmental challenges.

2.2.2 Energy

In the 2008 EU-LAC Lima Declaration and in the 2009 EU-Rio Group Joint Statement of issued in Prague, the two regions committed themselves to intensify cooperation and research on technologies for renewable energies.

The newly established investment facility for Latin America (LAIF) will directly contribute to energy security, efficiency and sustainability in Latin America by supporting investment in energy infrastructure.

In 2008, an additional €1,7 million was allocated to the Euro-Solar¹⁰ programme. This initiative aims at reducing poverty by enabling remote rural communities hitherto without access to electricity, to benefit from renewable electric power.

2.2.3 Migration

In recent years, migration issues have figured increasingly prominently in EU-Latin American relations. This is in particular relevant in respect to the CAN countries, which are the origin of many migrants in the EU, and where remittances constitute an important revenue source. Partly in response to a number of EC legislative initiatives in this area (such as the 2008 'Return Directive'), migration has become a major political issue for the Latin American and Caribbean countries and figured high on the 2008 EU-LAC Summit agenda.

The October 2008 Commission Communication on 'Strengthening the Global Approach to Migration', later endorsed by the European Council, stressed the importance of a follow up to the Lima Declaration by developing a structured and comprehensive dialogue on migration, which should identify common challenges and areas for mutual cooperation on migration and mobility policies. The dialogue was launched on 30 June 2009 and held its first High Level Meeting on 25 September 2009. Annex 5 offers a more comprehensive picture of the migratory situation of the region.

A number of specific actions are being undertaken as part of the Thematic Programme for Cooperation with Third Countries on Migration and Asylum and its predecessor AENEAS. One such action is currently being developed for the LAC region in the shape of a targeted project (starting in 2010). Its objective is to start building regional capacity within LAC for a permanent exchange of information and good practices between

¹⁰ Approved in 2006, the Euro-Solar programme aimed to contribute to the sustainable development of isolated communities through the use of renewable energies.

interested countries in the region, as well as between these countries and EU. It is to be launched in 2010 and will develop projects along three main objectives: (i) promoting better knowledge of migratory flows, (ii) sound policies for migration management and social and economic reintegration policies, and (iii) facilitating the productive investment of remittances. The EC will contribute €3 million to this project.

2.2.4 Drugs

The fight against drugs remains a high priority in EU-Latin America relations and in particular in EU-CAN relations. Three of the four CAN countries jointly hold the world monopoly for coca cultivation and produce around 1.500 metric tons of cocaine per year. This has direct and potentially catastrophic consequences for the sustainability and efficiency of State institutions. The EU, in implementing its Drugs Strategy for 2005-2012, has made a series of commitments in the context of the 2008 EU-LAC Lima Declaration. The EU is committed to the continuation and strengthening of the structured dialogue on drugs both with the Latin America and Caribbean region (the EU-LAC Mechanism on Coordination and Cooperation on Drugs) and with the CAN (the High Level Specialised Dialogue on Drugs). A number of bilateral and regional projects are currently being implemented, nevertheless joint efforts in this field need to be maintained.

A clear demand exists for increased Commission efforts in complementing national strategies in the region with broader initiatives conceived at the regional level. These initiatives should promote further dialogue, cooperation and harmonisation of policies and strategies to address the supply and demand side of the issue, as well as to tackle the trafficking of illegal drugs and to control of chemical precursors. Annex 6 presents a more complete overview of the regional situation.

There are several newly launched region-wide initiatives, which cover all of the priority areas for the next few years. The COPOLAD project, starting in 2010, (€6 million), aims to facilitate cooperation among the national agencies, which deal with anti-drugs policy making. Recognising the global nature and shared responsibility of the problem, coordination of all players and initiatives is required so that policies can be implemented with more efficacy and impact. This is precisely what COPOLAD aims to achieve. COPOLAD will facilitate the development of a sustainable system of sharing experience, knowledge and good practice between and within the regions, through the establishment (and progressive strengthening) of networks of direct cooperation between the actors involved.

The Cocaine Route project is designed to focus more on trafficking and organised crime. Its overall objective is to give the law enforcement and judicial services of beneficiary countries a greater capacity for international cooperation and thus help them fight international criminal networks. Recently the PRELAC project has been launched through the Instrument for Stability, which builds on the experience of its CAN predecessor and aims to strengthen trans-regional capacities for preventing the diversion of chemical substances.

2.2.5 Aid for trade

In 2007, the EU adopted a new Strategy on Aid for Trade. Its aim is to help developing countries to integrate into the global trading system and to use trade as an instrument for poverty reduction. Aid for Trade is well integrated in the EU's national and sub-regional strategies for Latin America. Under these strategies, the EU allocates significant funds to trade-related assistance, and is currently negotiating a series of Association and Trade agreements with Latin American countries. From the regional perspective these efforts are complemented through the AL-INVEST programme, which aims to facilitate the integration and establish networks between the local and European enterprises (in particular SMEs), promoting trade and investments in Latin America.

2.2.6 Non-state actors, local authorities and aid effectiveness

The 'European Consensus on Development' confirmed the important role of non-state actors as development partners. Dissemination of the information, consultation and in some cases coordination with the civil society and with the local authorities remains high in importance for our actions in the region.

Civil society and local authorities are crucial partners not only in formulating EC cooperation strategy, but also for successfully implementing regional programmes in a wide variety of fields. In view of the Mid Term Review exercise, information sessions for key non-state actors were held in Brussels in February and September 2009. In parallel, more informal consultations and information sharing with the non-state actors are constantly taking place via the Commission's Delegations.

Latin American countries are making an important coordinated effort to advance the aid effectiveness agenda in the region. In this context it is worth noting the importance of the Regional Preparatory Meeting for Latin America and the Caribbean in the run up to Accra that took place in Santa Marta (Colombia) in June 2008 and the next conference to be held also in Colombia in 2010 dealing with South-South cooperation.

CONCLUDING REMARKS ON THE ANALYSIS AND NEW INITIATIVES

Although analysing such a diverse region as Latin America can yield, at best, only broadly generalised results, it nevertheless helps identify the challenges that can be best tackled at regional level. This analysis has shown that the challenges the region needs to address remain valid since the last programming exercise.

First, putting aside the negative effects of the recent recession, the general socio-economic and political situation in the region has been improving over recent years. Nevertheless, challenges remain, mostly in terms of weak national and regional policies, obstacles to progress on integration, inability to attract sufficient investments and persistent high inequality.

Environment and Climate Change will remain high on the regional (and global) agenda for years to come. Governments in Latin America are increasingly aware of the challenges posed by tropical deforestation and by unsustainable production and use of energy. Latin American countries are well placed to take a lead in promoting low-carbon and resources efficient development, based on policies and measures promoting

sustainable forest management and conservation, energy efficiency, including smart grids, and renewable energy.

Migration and Drugs have been appearing increasingly prominently on our mutual agenda. The challenges and opportunities that these two issues represent need to be addressed continuously and comprehensively through our cooperation and dialogue at regional, subregional and national levels.

2.3 RESULTS, PERFORMANCE AND LESSONS LEARNT

The Commission has put in place a number of regional and sub-regional programmes to tackle these important issues and challenges, to promote regional development and to enhance the dialogue between the EU and Latin America. These programmes are complementary to and coherent with the national programmes driven by the Countries' Strategy Papers where the main priorities for EU cooperation take into account national development plans. The regional programme identifies transnational issues that can be better addressed at regional level.

The linkage and coordination between the regional, subregional and national action is ensured by the horizontal coordination services in the Commission's Latin America directorates, both in RELEX and EuropeAid. The annual regional seminars are another forum that provides input and facilitates coherence between the three levels. Moreover, EuropeAid manages an intranet site that provides a comprehensive and clear overview of all the implemented programmes, thus ensuring effective coordination and information sharing between all stakeholders.

The regional programmes have been built on the basis of policy dialogue priorities, which are reflected in Commission communications and declarations from the Summits of Heads of State and Government of the two regions. For example, the concerns expressed on Information Society and Higher Education (Madrid Summit 2002) gave birth to the @LIS (Alliance for Information Society) and Alβan (high-level training scholarships); reflections on social cohesion (Guadalajara Summit 2004) conducted to the launch of the EUROsociAL programme; finally the issue of Climate Change highlighted during the Lima Summit in 2008 spawned the EUroCLIMA programme.

The different regional programmes have been integrated in the Commission's multiannual indicative programming under three general priorities:

- Social and territorial cohesion
- Regional integration and economic cooperation
- Mutual understanding/Higher education

During the first phase of the multiannual programming (2007-2010), a series of programmes have been implemented with an important focus on policy dialogue and exchange of best practices. These programmes are to continue throughout the second phase (2011-2013), but will be complemented by the launch of the Latin American Investment Facility, which will finance investments in infrastructures and social sector through a more bottom up approach. This approach was also recommended by the Latin American Regional Evaluation (2005), as it should provide a driving force for integration and revive local economies and thus contributing towards social cohesion¹¹. In addition, the focus of EUROsociAL during this second phase will be switched from policy dialogue to concrete actions promoting social cohesion.

¹¹ http://ec.europa.eu/europeaid/how/evaluation/evaluation_reports/2005/951661_docs_en.htm

Because of strong relationships between the first two priorities, Social and Territorial Cohesion will be merged with Regional Integration during the second phase of the multiannual programming. Moreover, the emergence of new priorities in the political agenda, such as climate change, migration and fight against illicit drugs, has persuaded the Commission to launch three new programmes during the first phase of regional programming. Implementation of these is to commence in 2010.

2.3.1 Social and Territorial Cohesion

EUROsociAL

The general objective of EUROsociAL is to help improve social cohesion in Latin American countries by promoting reforms and better management of public social policies. The programme has been in place for four years now, targeting those social policies considered to be the main drivers of social cohesion, namely education, health, administration of justice, taxation and employment.

The midterm evaluation of EUROsociAL, realised between November 2007 and April 2008, confirmed the relevance of the programme. Its main achievements can be summarised as (i) Latin American countries now pay greater attention to social cohesion in their policy dialogues, (ii) European and Latin American relevant institutions have acquired closer links, (iii) the innovation processes on social policy have been enriched and (iv) it enabled concrete exchange of practices between Latin American countries themselves and thus creating the true sense of ownership and sustainability.

However, the same evaluation also identified the need for a more organised and demand-driven approach. Following these recommendations and in the light of lessons learned, EUROsociAL II will be implemented from 2010 to 2013 with a budget of €40 million. The main change in the second phase is the establishment of institutional ‘twinning’ partnerships between European and Latin American public administrations. This should improve organisation and help ensure a more demand-driven approach when it comes to taking concrete action on social cohesion. These partnerships may also involve more than one Latin American country, thus ensuring ‘triangular’ cooperation.

URB-AL

The objective of the URB-AL programme is to develop networks of decentralised cooperation between local and regional authorities on concrete issues and problems of local urban development. Launched in 1995, URB-AL has already brought together more than 680 local authorities around projects dealing with a wide range of issues such as drugs, environment, citizen participation, poverty alleviation, transport, safety, town planning, economic development, the information society or democracy.

During its first two phases, the general objective of URB-AL consisted of developing direct and lasting links among European and Latin American local authorities through circulation, acquisition and implementation of ‘good practices’ in the area of the urban and local policies. The Mid Term Evaluation

(2007) of the second phase confirmed the importance and success of URB-AL, which is regarded as the programme that has done most to enhance the Commission's image and visibility in Latin America as a whole. This positive assessment is based on the sustainable effects of URB-AL's four main achievements: (i) it has become the main tool to foster and enhance the dialogue among the sub-national governments of Latin America and Europe, (ii) it has stimulated the role of local governments as main actors within the framework of public policies, (iii) it made it possible for the diffusion and promotion of innovative approaches in the field of public policies and (iv) by introducing the concept of 'North-South partnership', this programme has changed the way development instruments are designed.

Given this positive evaluation, the third phase of the Programme was launched in 2007 with a budget of €50 million. Its essential features will remain unchanged, but it will also consider the main recommendations of the evaluation. Thus, it will try to increase the participation of the smaller local authorities, promote trans-border cooperation, give more emphasis on concrete projects with tangible results and it will set up an entity that will take over the implementations of the programme.

2.3.2 Regional Integration

AL-INVEST

Since 1993, the AL-INVEST Programme has been facilitating the internationalisation of Latin American small and medium enterprises (SMEs). It has done so by developing a network of Latin American and European business organisations providing business contacts and technical assistance. As a result many business organisations from Latin America and the European Union now implement joint projects and have agreed on common objectives and methodologies.

The final evaluation of AL-INVEST III confirmed its importance in promoting the internationalisation of SMEs, although it suggested some changes in the intervention logic and management approaches in order to move from a trade promotion approach to a broader support to the Latin American SMEs. The main recommendations were: (i) to enhance the strategic dimension of the business support activities through more integrated interventions, (ii) to include new indicators to facilitate an adequate monitoring, (iii) projects should increase their size and correspond to a multiannual strategy, based on sector-approach, (iv) not only Chambers of Commerce should be included, but also other business representative organisations more focused in management and promotion, (v) to improve synergies between the EC's bilateral projects and the AL-INVEST regional programme and (vi) less developed countries should receive more support adapted to their needs.

AL-INVEST IV, launched in 2009 with a budget of €50 million, takes these lessons on board and has been re-designed accordingly. Three regional consortia representing a variety of business organisations (the consortium for Central

America, México and Cuba (CAMC); the consortium for the Andean Region (RA) and the consortium for Mercosur, Chile and Venezuela (MCV)) will implement a wide range of activities following strategic multiannual plans. New indicators have been added and a closer relationship with SMEs has been established.

@LIS (Alliance for Information Society)

@LIS is a European Commission Programme which aims to promote the information society and fight the digital divide throughout Latin America. Since its launch in December 2001, the programme has stimulated dialogue between information society stakeholders in the EU and Latin America, significantly improved the regional ICT infrastructure and its interconnection to European Research networks, and provided for the exchanges of experience between and within the regions. The external evaluation in 2008 confirmed the relevance of the programme and highlighted its effectiveness and efficiency, in particular in decreasing the digital divide. The synergies with other actions in the region were identified, in particular programmes implemented by CEPAL, UNESCO, BID and ICA/CRD (Canada).

The @LIS 2 programme was launched in 2009 and has a budget of € 31,25 millions of which € 22 millions (70,4%) will be financed by the European Commission. Its objective is to continue to promote, and at the same time improve and extend the dialogue and concrete work on Information Society issues in Latin America. It aims to boost interconnections between research networks and communities in both regions (red-CLARA) reducing the digital divide and integrating Latin America into the global information society.

More generally, the @LIS programme's implementation has followed its aim to promote sustainable development and the knowledge society; it tried to reinforce work in the fight against poverty and the digital gap. The programme demonstrated how ICT can change work methods and provide services in thematic areas of high social value such as education, health and public administration.

Latin America Investment Facility (LAIF)

The LAIF's principal objective is to mobilise additional financing to support investment in Latin America. Stimulating investment by making the financing packages more attractive for the beneficiary countries will directly contribute to the EU's main priorities in the region, namely regional integration, equitable and sustainable socio economic development and addressing the commonly recognised environmental threats.

This facility is inspired by the Neighbourhood Investment Facility (NIF) and will pool grants resources from the European Community together with possible additional grant contributions from the Member States. LAIF grants will have a leverage effect to mobilise resources from European, multilateral and national, development and finance institutions to finance investment projects notably in three areas: (i) interconnectivity and infrastructure, in particular energy efficiency

and renewable energy systems, sustainable transport, and communication networks; (ii) social and environmental sectors including climate change mitigation and adaptation; (iii) private sector growth, including on the uptake of the environmental standards and promotion of low-carbon technologies and practices in the Small and Medium Enterprises (SMEs).

The first stage of the Facility is being launched in 2010, with a budget of around € 20 million. The lessons learned in this first period will be incorporated into the management of the LAIF programme for the period 2011 – 2013.

2.3.3 Mutual understanding/Higher education

ALFA Programme

The ALFA programme began in 1994 and sought to reinforce co-operation in the field of Higher Education as a means of contributing to economic and social development. The programme co-finances projects aimed at improving the capacity of individuals and institutions (universities and other relevant organisations) to promote academic exchanges between the two regions. At least partially thanks to this programme, there has been an increase in the number of students obtaining a postgraduate degree and in the number of courses on offer. Moreover, new curricula, learning and teaching methodologies have been developed, and a number of sustainable partnerships have been achieved between EU and LA institutions. This has not only given more students access to new technologies and cutting-edge education and research centres but also boosted cooperation within the Latin American region itself.

The ALFA III programme has been built on the experience gained and lessons learned from the previous phases of the programme, and also from the other EC higher education programmes, past or present. A mid-term evaluation of the second phase of ALFA (2005) and the main conclusions of the Study on best practices (2007) confirmed the importance of the programme for promoting higher education reforms and development, as well as the validity of its intervention logic and methodological approaches.

ALFA III focuses on projects in the academic field fostering regional integration, socioeconomic development and social inclusion among the beneficiary countries. The third phase of the programme has been launched in 2007 and has a total budget of €75 million for the period 2007-2013.

ALFA III promotes institutional cooperation and thus concentrates on reforming and modernising higher education systems in Latin America. As such it is complementary to the Alβan and Erasmus Mundus programmes, which focus on the mobility of individual students, professors and administrators.

Alβan / Erasmus Mundus External Cooperation Window

The EU scholarship programme for Latin America, **Alβan** (*America Latina Becas de Alto Nivel*), aims to reinforce EU-LA cooperation in the area of higher education. During its implementation period (2002–2010) it has granted 3.000

scholarships to Latin American students to pursue Master, Doctorate and Specialisation studies in European higher education institutions.

The new mobility programme for the Latin American region, *Latin America Erasmus Mundus – External Cooperation Window*¹² builds on the experience gained from ALBan. The programme's main priority is a successful inclusion of the region's most socially disadvantaged groups, with a view to improving social cohesion. Positive discrimination is therefore considered as a means to encourage and facilitate the participation of students from poor countries and vulnerable social groups. The programme is also applying specific measures to ensure balanced participation in geographical terms, and is providing an adequate framework to ensure long-lasting partnerships between the EU and LA higher education institutions. This geographical programme, now developed under action 2 of the Erasmus Mundus programme 2009-2013, is complemented by increasing cooperation on higher education between Latin America and the EU under other actions of the former and current Erasmus Mundus Programme (joint Masters and Doctoral courses between Latin American and European Higher Education Institutions including scholarships for Latin American students and researchers; joint promotion projects: see notably projects promoting the Latin America, Caribbean and European Union – ALCUE – Higher Education Area)..

2.4 CONCLUSION

The regional programming has been and needs to continue acting complementary and coherently to the subregional and national programmes, through addressing transnational challenges that can be better tackled at the regional level. This analysis has shown that the three focal sectors identified in the 2007-2013 RSP, notably social cohesion, regional integration and investing in people, remain valid.

The programmes carried out in the first phase of the multiannual programming (2007-2010) have all brought about important benefits in the three focal sectors. The weak institutional setup has been addressed through the EUROsociAL and URB-AL programmes, which at the same time contribute towards social cohesion of the region. Erasmus Mundus will continue the work of its predecessors and address social exclusion and development aspects through education. AL-INVEST and @LIS are significant for the integration efforts of the region and build on improving conditions for investments and trade diversification. These actions are in particular important in view of complementing aid for trade activities on the subregional and national levels. With relevant modifications, these programmes will continue into the second phase of the multiannual programming (2011-2013), and will be further complemented with currently developed actions that consider the modified international and regional context.

These new actions are to complement the ongoing actions and additionally focus on the remaining issues that were identified through the analysis of the regional situation. For example, EUrocLIMA will provide for capacity building and improving the knowledge related to environment, climate change and energy issues, while LAIF and Euro-Solar will add the infrastructure part to the approach. Regarding the drugs and migration issues,

¹² Now integrated into Action 2 (*Partnerships*) of the *Erasmus Mundus 2009-2013* Programme.

the two newly launched initiatives (COPOLAD and the Targeted Project on Migration) will provide for capacity building, information sharing and sharing of good practices through seminars, workshops and improved dialogue structures. The ongoing trend towards higher innovation levels in support of sustainability, both in the public and private sectors, would benefit from greater uptake and adaptation of research results and attention to technology transfer, where appropriate.

For the period 2011-2013, the Mid-Term Review proposes fusing together the first two priorities, which would be tackled through the newly established investment facility for Latin America. The Latin American Investment Facility (LAIF) is designed to mobilise additional resources from the finance institutions in order to stimulate investments for social and interconnectivity infrastructures, thus addressing the two focal sectors through a more bottom up approach, as also suggested by the Latin America Regional Evaluation (2005). By promoting investments in the physical infrastructure, this new initiative presents a strong complementary action to the regional programmes such as EUROsocial and AL-INVEST. At the same time it takes account of newly identified priorities, such as climate change and energy.

3. 2011-2013 REGIONAL INDICATIVE PROGRAMME

The Regional Indicative Programme (RIP) represents 21% of the global allocation for Latin America for the period 2007-2013. This RIP covers the second part of the programming period. After a mid-term review in 2010 the second RIP for 2011-2013 has been drawn up with a budget of €194,6 million.

The Mid Term Review process is being used to devise a complementary approach to the existing programmes in order to tackle the identified priorities in a more comprehensive and efficient manner, while at the same time addressing newly identified challenges, such as climate change, volatile food and commodity prices, and the global economic slowdown. Thus the new orientation of the RIP is not to be seen as a change of direction, but rather as an additional path towards the same objectives.

In drawing up new programmes, the Commission has taken account of the present situation in Latin America, the challenges facing regional strategic programming relating to the response strategy for coordination between policy priorities and cooperation, and greater programme effectiveness. In 2007-2008 presentations have been held to take stock and discuss current programmes and projects to which all the stakeholders from both regions were invited.

3.1 PRIORITY 1 – Support regional integration, social and territorial cohesion

Objective

The principal objective under this priority is to mobilise additional financing to support investment in Latin America's key infrastructures for interconnectivity, transport, energy, environment, and contribute to the social and private sector development. This will be achieved mainly through the establishment of the Latin American Investment Facility (LAIF). LAIF will operate by providing grants to leverage additional loans from the European, multilateral and national, development and finance institutions. LAIF is to also encourage the beneficiary governments and public institutions to carry out essential investments, which would otherwise be postponed or not carried out due to lack of resources. By promoting investments with cross border, environmental and/or social-economic development effects, LAIF will directly contribute to the main EU priorities in the region, namely regional integration, equitable, non-exclusive and sustainable socio-economic development and address the commonly recognised environmental threats. Moreover, by pooling donor resources together LAIF will directly respond to the principles agreed by the Paris Declaration and by the Accra Agenda for Action.

	Expected Results	Performance Indicators
a)	Improve interconnectivity infrastructure (notably in the sectors of transport, energy, ICTs, etc.),	1) Number and value of leveraged projects
b)	Providing for sustainable development with increased protection of the environment and better focus and control of climate changes impacts, including Disaster Risk Reduction	2) Percentage of investments in disadvantaged regions 3) Number of joint investments by two or more beneficiary countries
c)	Improve social services by investing in the necessary infrastructure	4) Number of investments with cross border effects
d)	Provide for growth of the SMEs and improve the employment situation	5) Leverage effect of the grants

All the actions will take into account wider EU policy orientations such as promotion of regional integration and equitable socio economic development, while at the same time addressing the commonly recognised environmental threats.

Amount: €102 million from the 2011-2013 RIP

DAC codes: 11120 Education Facilities
12230 Basic Health Infrastructure
14020 Water supply and sanitation - large systems
16010 Social/ welfare services (unspecified social infrastructure)
21020, 21030, 21040, 21050 Road, Rail, Water and Air transport
22020 Telecommunications
22040 Information and communication technology (ICT)
230 Energy generation and supply
32130 Small and medium-sized enterprises (SME) development
410 General environmental protection
43010 Multisector aid

3.2 PRIORITY 2 – Human resources and mutual understanding between the EU and Latin America; Higher Education

In line with the priorities of the DCI Regulation, and in particular Article 5 vi), it is important to improve knowledge and mutual understanding between the EU and Latin America. The Commission will do what it considers necessary for this purpose, supporting higher education schemes and other projects that promote mutual understanding between the two regions, including actions promoting policy dialogue, with a view to contribute to the development and social cohesion of the Latin American countries and cooperate on the uptake of international and global governance.

In view of Article 6 of the DCI Regulation and in the light of experience from previous and ongoing programmes (ALFA, Alban and ERASMUS MUNDUS), the Commission will continue supporting higher education scholarships in EU countries under the current format of the Erasmus Mundus programme while at the same time drawing on the experience gained from the sectoral dialogue on higher education.

Objective

The objective of funding joint projects is to promote closer links between academic institutions in Europe and Latin America and thus to help develop a common higher education area that reflects closer cultural links between the two regions, in line with the Vienna Declaration.

The lessons drawn from past experience are taken into account in the design of this initiative. Account is taken of activities in the common EU-LAC higher-education area. A particular effort is made to promote awareness of, and access to, scholarships among students and teachers from the lower socio-economic strata of the population and from the poorest countries.

	Expected Results	Performance Indicators
a)	Capacity built, good practices exchanged, closer dialogue established and alignment of higher education institutions	1) Number of mutual recognition agreements
b)	Alignment and mutual recognition of higher education systems	2) Number of participants in programmes and scholarships
c)	Higher mobility in higher education	3) Male/Female participation ratio
d)	Better gender balance and greater participation from the poorest countries	4) Representation of countries and disadvantaged regions
e)	Increased mobility among Latin American post-graduate students	5) Number of joint theses and publications
f)	Improved cooperation and collaboration between higher education institutions	6) Level of mobility among the Latin American countries

Amount: €92,6 million from the 2011-2013 RIP

DAC code: 11420 Higher Education
12191 Medical services (e.g. drug and substance abuse control)
15140 Government administration
15150 Strengthening civil society
16063 Narcotics control
41010 Environmental policy and administrative management
43010 Multisector aid

In addition to these two priorities, €30 million has been set aside as reserve.

4. MULTI-ANNUAL INDICATIVE PROGRAMME

Multiannual Indicative Programme 2011-2013

PRIORITIES	TOTAL 2011-2013
Regional Integration and Social and Territorial Cohesion	102
Mutual Understanding/Higher Education	92,6
TOTAL	194,6

Reserve: 30 million

Multiannual Indicative Programme 2007-2010

ACTIONS	2007*	2008*	2009*	2010*	TOTAL 2007-2010
Social and territorial Cohesion					
URB-AL	50				
EUROsociAL	1,3			40	
COPLAD				6	129,49
EUROSOLAR/ EUROCLIMA		5,2		5	
LAIF			10,8	11,19	
Regional Integration					
AL-INVEST	50				72
@LIS		22			
Mutual Understanding/Higher Education					
ALFA	19,34			55	116,74
ERASMUS MUNDUS		41,6			
Mutual Understanding	0,8				
Framework contract + LATCI		2,17	10		12,17
TOTAL	121,44	70,97	20,8	117,2	330,4

** The figures for 2007-2009 correspond to assumed commitments; the figures for 2010 represent expected commitments; Reserve for 2010: 1 million*

Multiannual Indicative Programme 2007-2013

PRIORITIES	TOTAL 2007-2013
Regional Integration and Social and Territorial Cohesion	303,49
Mutual Understanding/Higher Education	209,34
Framework contract + LATCI	12,17
TOTAL	525

Reserve: 31 million

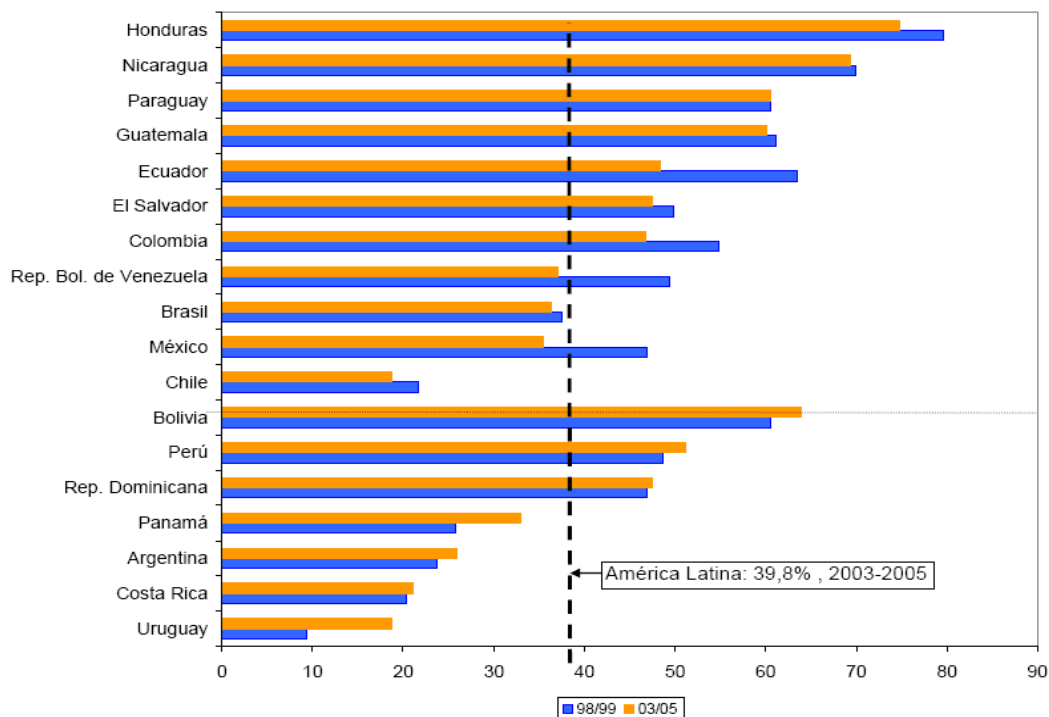
Annex 1: Social Analysis

The strong growth in the period 2003 to 2008 helped to narrow the wealth gap in the majority of Latin American countries and to lift a significant number of people out of poverty. Charts 1 and 2 show that, with some exceptions, the percentage of people living in poverty has been reduced, as have the levels of inequality (measured by the Gini coefficient).

Chart 1 shows the percentage of the population of each country living in poverty for the years 1998-1999 (blue line) and 2003-2005 (orange line). The data indicate that the most significant reduction of poverty were achieved in Ecuador, Colombia, Mexico and Venezuela, while in the cases of Uruguay, Panama and Bolivia the poverty levels have actually increased. It must be borne in mind, however, that Uruguay and Panama (along with Chile, Argentina and Costa Rica) are already amongst the best performers when it comes to the percentage of people living in poverty.

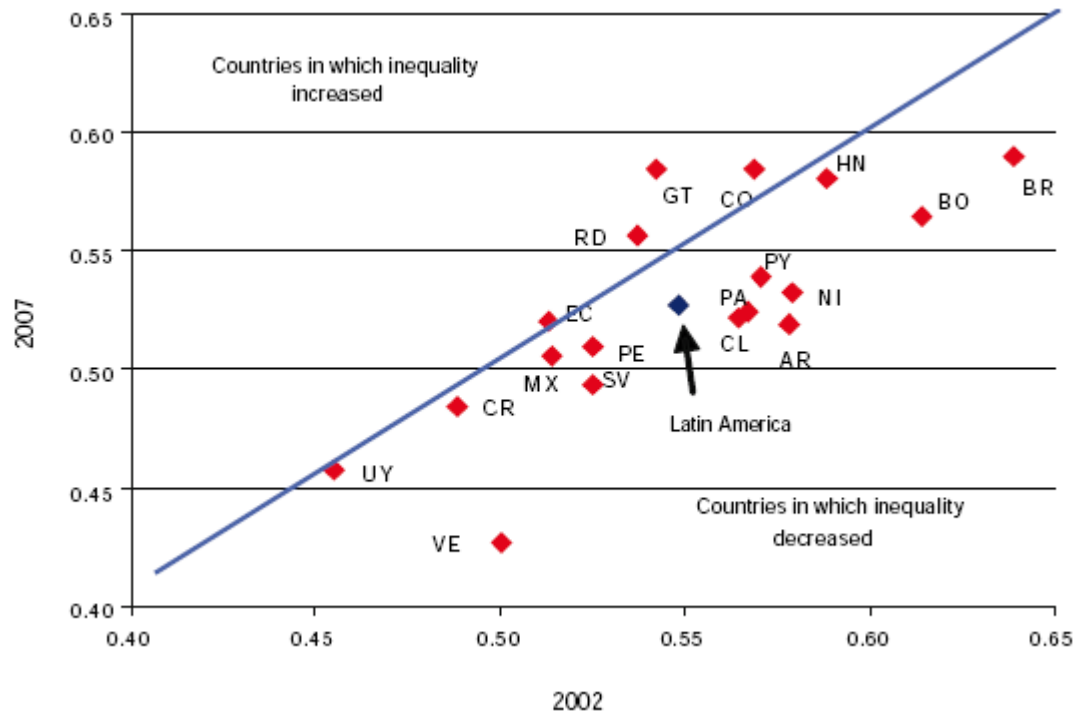
This being said, the Gini levels – indicating the level of inequality in a country – remain among the highest in the world. As shown by Chart 2, the Gini is still above 50 for almost all countries in the region. Nevertheless, the same chart also shows that for most countries this value improved between 2002 and 2007, the exceptions being Guatemala, Colombia and the Dominican Republic.

Chart 1: Percentage of population living in poverty



Source: ECLAC

Chart 2: Gini Coefficients – change in the value from 2002 to 2007

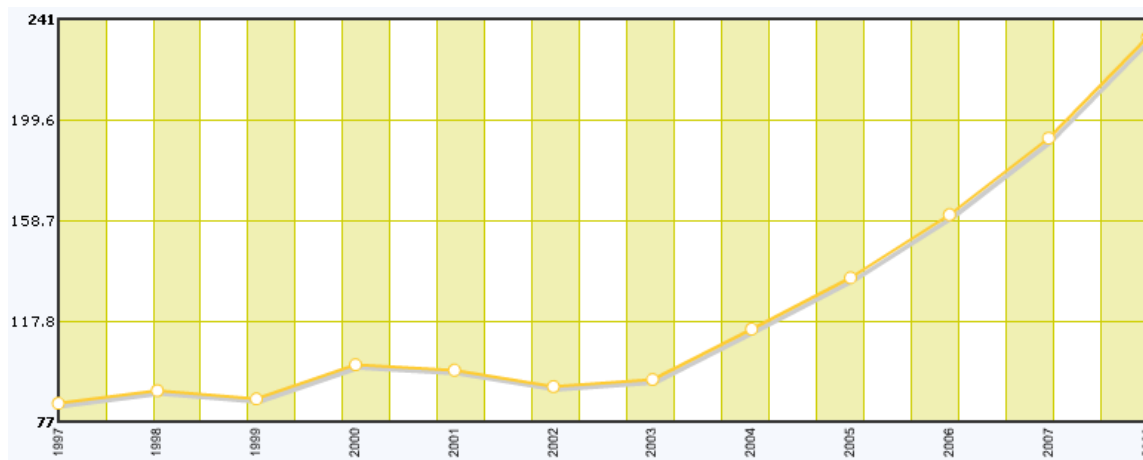


Source: ECLAC

Annex 2: Trade Analysis

Trade has been an important driving force behind the strong growth of the Latin American economies. As shown by Chart 3, the trade value for Latin America and the Caribbean more than doubled between 2003 and 2008.

Chart 3: External Trade Value Index for LAC (Index 2000 = 100)



Source: ECLAC

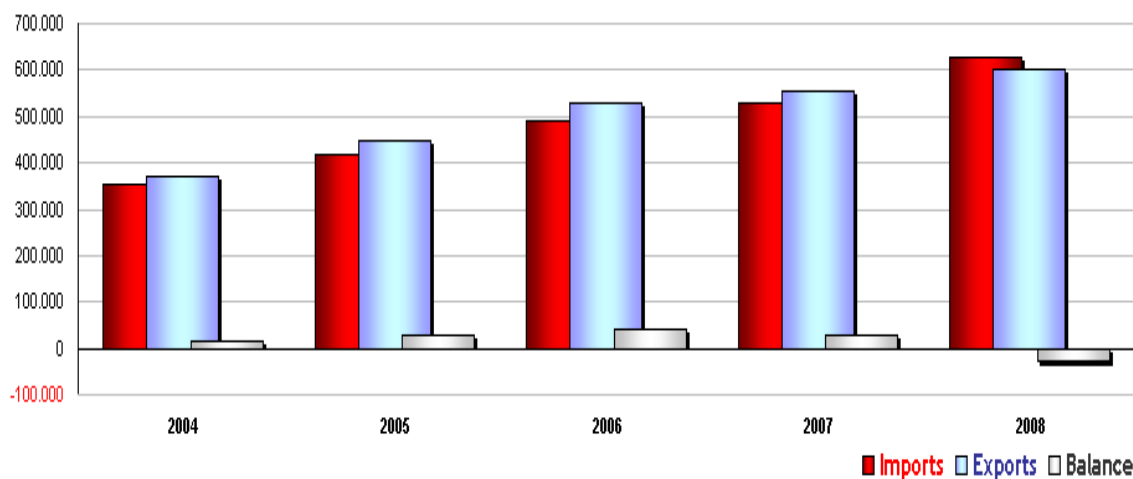
The strong growth in exports, partly driven also by high global commodity prices, has in turn allowed these countries to increase their imports. As Table 4 and Chart 5 demonstrate, this rapid increase in imports finally exceeded the value of exports in 2008, causing the region as a whole to experience a negative trade balance. This can at least partly be attributed to the global economic slowdown, which adversely affected the growth of Latin American exports, and to the global fall in commodity prices which further damaged the terms of trade for the region.

Table 4: Latin America trade with the World (€millions)

Period	Imports	Exports	Balance	Σ Trade
2004	353.949	371.115	17.167	725.064
2005	416.551	446.596	30.046	863.147
2006	489.487	529.272	39.785	1.018.759
2007	529.970	556.239	26.269	1.086.209
2008	625.514	600.137	-25.377	1.225.651

Source: IMF (DoTS)

Chart 5: Latin America trade with the World



Source: IMF (DoTS)

This same period also saw a significant increase in Latin America's trade balance with the EU. Not only did the volume of trade almost double between 2004 and 2008 but also, and more importantly, the EU's share in Latin American exports and imports has been slowly increasing.

Table 6: Latin America's trade with the EU (€millions)

Period	Imports	EU Share of total Imports (%)	Exports	EU Share of total Exports (%)	Balance	Σ Trade
2004	50.514	14,3	46.988	12,7	-3.526	97.502
2005	60.136	14,4	55.499	12,4	-4.636	115.635
2006	67.925	13,9	70.813	13,4	2.888	138.739
2007	75.249	14,2	78.960	14,2	3.711	154.209
2008	90.626	14,5	87.370	14,6	-3.256	177.996

Source: IMF (DoTS)

The EU's share in Latin American trade is expected to increase further in the wake of the trade and association agreements currently being negotiated with certain countries and sub-regions, most notably with Central America, Mercosur, Colombia, Ecuador and Peru. As seen in Table 7, which lists the region's trade agreements, Latin American countries are already well integrated into the global trading system.

Table 7: List of Trade Agreements that include one or more Latin American countries and that had been notified to the WTO by 27 October 2009

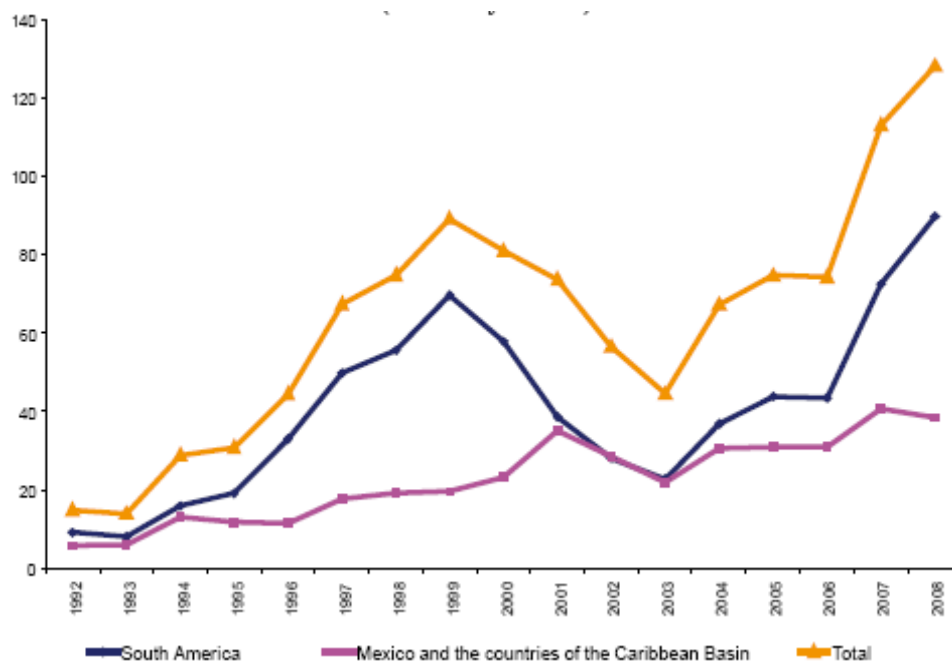
TRADE AGREEMENT	COVERAGE	TYPE	DATE OF ENTRY INTO FORCE
Andean Community (CAN)	Goods	CU	25-May-1988
Australia - Chile	Goods & Services	FTA & EIA	6-Mar-2009
Canada - Chile	Goods & Services	FTA & EIA	5-Jul-1997
Canada - Costa Rica	Goods	FTA	1-Nov-2002
Canada - Peru	Goods & Services	FTA & EIA	1-Aug-2009
Central American Common Market (CACM)	Goods	CU	12-Oct-1961
Chile - China	Goods	FTA	1-Oct-2006
Chile - Colombia	Goods & Services	FTA & EIA	8-May-2009
Chile - Costa Rica (CA)	Goods & Services	FTA & EIA	15-Feb-2002
Chile - El Salvador (CA)	Goods & Services	FTA & EIA	1-Jun-2002
Chile - India	Goods	PTA	17-Aug-2007
Chile - Japan	Goods & Services	FTA & EIA	3-Sep-2007
Chile - Mexico	Goods & Services	FTA & EIA	1-Aug-1999
Costa Rica - Mexico	Goods & Services	FTA & EIA	1-Jan-1995
Dominican R. - CA - US FTA (CAFTA-DR)	Goods & Services	FTA & EIA	1-Mar-2006
EC - Chile	Goods & Services	FTA & EIA	1-Feb-2003 (Goods)
			1-Mar-2005 (Services)
EC - Mexico	Goods & Services	FTA & EIA	1-Jul-2000 (Goods)
			1-Oct-2000 (Services)
EFTA - Chile	Goods & Services	FTA & EIA	1-Dec-2004
EFTA - Mexico	Goods & Services	FTA & EIA	1-Jul-2001
El Salvador - Mexico	Goods & Services	FTA & EIA	15-Mar-2001
Guatemala - Mexico	Goods & Services	FTA & EIA	15-Mar-2001
Honduras - Mexico	Goods & Services	FTA & EIA	1-Jun-2001
Israel - Mexico	Goods	FTA	1-Jul-2000
Japan - Mexico	Goods & Services	FTA & EIA	1-Apr-2005
Republic of Korea - Chile	Goods & Services	FTA & EIA	1-Apr-2004
MERCOSUR (Goods)	Goods	CU	29-Nov-1991
MERCOSUR (Services)	Services	EIA	7-Dec-2005
Mexico - Nicaragua	Goods & Services	FTA & EIA	1-Jul-1998
Nicaragua and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu	Goods & Services	FTA & EIA	1-Jan-2008
North American Free Trade Agreement (NAFTA)	Goods & Services	FTA & EIA	1-Jan-1994
Panama - Chile	Goods & Services	FTA & EIA	7-Mar-2008
Panama - Costa Rica (CA)	Goods & Services	FTA & EIA	23-Nov-2008
Panama - El Salvador (CA)	Goods & Services	FTA & EIA	11-Apr-2003
Panama - Singapore	Goods & Services	FTA & EIA	24-Jul-2006
Panama and the Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu	Goods & Services	FTA & EIA	1-Jan-2004
Peru - Singapore	Goods & Services	FTA & EIA	1-Aug-2009
US - Chile	Goods & Services	FTA & EIA	1-Jan-2004
US - Peru	Goods & Services	FTA & EIA	1-Feb-2009

Source: World Trade Organisation

Annex 3: Foreign Direct Investment

The 2008 ECLAC report on Foreign Direct Investment in Latin America and the Caribbean points out that, despite the global financial and economic crisis, FDI flows to the region reached a record high in 2008. Excluding the financial centres, the region received US\$ 128.301 billion, surpassing by 13% the record level observed in 2007. This is an extraordinary performance considering that FDI flows worldwide shrank by 15% in the same period. The record high posted in 2008, however, conceals marked differences at subregional level. While FDI to South America climbed 24% to US\$ 89.862 billion, FDI to Mexico and the Caribbean Basin (Central America and the Caribbean countries and territories) fell 5% to US\$ 38.438 billion.

Chart 8: Foreign Direct Investment in Latin America



Source: ECLAC

The rise in FDI flows to South America was fuelled mainly by commodity prices, which remained high for most of 2008 and attracted investment in the natural resources sector (mainly hydrocarbons and metal mining). Robust economic growth in this subregion (5,5% compared with 2,5% worldwide) also boosted market-seeking FDI. Brazil, Chile and Colombia were the main FDI recipients in South America and accounted for 80% of the subregion's FDI inflows.

The close ties of Mexico and the Caribbean Basin countries with the United States economy explain the drop in FDI flows to that subregion. The recession in the United States slowed activity among the export platforms located in the subregion, which had been set up mainly to serve the United States market, and this stemmed the flow of export-oriented FDI. At the same time, the downturn in local economic growth had a negative impact on domestic market-seeking FDI.

As the fall-out of the international crisis spreads across Latin America and the Caribbean, the economic conditions that generated the FDI boom of the last five years have begun to change. Faced with meagre growth prospects, financing constraints and greater uncertainty, it is reasonable to expect that FDI flows to the region will decline in 2009. The boom has nevertheless underscored the importance of continuing to build and strengthen the production capacity of the region's national economies so as to maximize the benefits of not only inward, but also outward, FDI. Pursuing such a strategy could place countries in a better position to withstand periods of economic turmoil such as the one currently affecting the region.

Annex 4: Millennium Development Goals

The last report published in 2009 by the United Nations on the Millennium development goals seems to indicate that Latin America and Caribbean is on track for achieving most of the goals, but progress on poverty reduction has been relatively weak compared to the other objectives. In the environmental field, deforestation remains a key issue to be tackled by the countries of the region.

The proportion of people living in extreme poverty in Latin America and the Caribbean is relatively low compared with other regions of the globe. In 2007, employed people living on less than \$1,25 a day averaged 7% for the LAC population, compared to 64% in Sub-Saharan Africa or 44% in Southern Asia. However, the trend in poverty reduction is changing. The UNDP report points out that, while there had been a 5% decrease in poverty over the period 1997-2007, the figures for 2008 may show an increase of as much as 1% with respect to 2007 as a consequence of the energy and food crisis. The financial crisis will have also a negative impact on poverty reduction, although South American States were less and later affected than Central American states, in particular Mexico.

Some progress has to be made to ensure universal primary education despite a 95% enrolment of children in 2007. Moreover, gender equality in education is not an issue in the region with women representation rates of 107% and even 119% in secondary and tertiary school enrolment. The report says women in the region also made progress in terms of political representation, with the proportion of women holding seats in parliament increasing to 22% in 2009, up from 12% in 1990.

On the health front, the report notes that countries in the region made significant progress in cutting infant mortality, from an average of 54 deaths per 1.000 live births in 1990 to 24 in 2007. It also points to improvements in maternal health care, with 89 percent of births in the region now attended by skilled health personnel. Tuberculosis cases dropped from 128/100.000 in 1990 to 56/100.000 in 2007.

In the field of environment sustainability, no progress has been made on deforestation which has accelerated with 4,7% forest loss reported in the period 2000-2005 compared to a 4,5% loss for the period 1990-2000.

In its follow-up on progress towards the MDGs, the U.N. praises the situation in Latin America and Caribbean overall, but warns that progress towards eradicating poverty has been slow, and that “inequality remains highest in Latin America and the Caribbean and in sub-Saharan Africa, where the poorest fifth of the people account for only about three per cent of national consumption (or income).”

Table 9: MDGs Progress Table – Latin America¹³

GOAL 1: Eradicate extreme poverty and hunger	
Reduce extreme poverty by half	moderate poverty
Productive and decent employment	small deficit in decent work, moderate productivity
Reduce hunger by half	moderate hunger
GOAL 2: Achieve universal primary education	
Universal primary schooling	high enrolment
GOAL 3: Promote gender equality and empowerment of women	
Equal girl's enrolment in primary school	parity
Women's share of paid employment	high share
Women's equal representation in national parliaments	moderate representation
GOAL 4: Reduce child mortality	
Reduce mortality of under-five-years-old by two thirds	low mortality
Measles immunisation	high coverage
GOAL 5: Improve maternal health	
Reduce maternal mortality by three quarters	moderate mortality
Access to reproductive health	high access
GOAL 6: Combat HIV/AIDS, malaria and other diseases	
Halt and reverse spread of HIV/AIDS	moderate prevalence
Halt and reverse spread of tuberculosis	low mortality
GOAL 7: Ensure environmental sustainability	
Reverse lost of forests	high forest cover
Halve proportion without improved drinking water	high coverage
Halve proportion without sanitation	moderate coverage
Improve the lives of slum-dwellers	moderate proportion of slum-dwellers
GOAL 8: Develop global partnership for development	
Internet users	high usage

Legend

- Already met the target or very close to it
- Progress sufficient to meet target if prevailing trend persists
- Progress insufficient to meet target if prevailing trends persists
- No progress or deterioration

¹³ (Source: UNDP – Millennium Development Goals: 2008 Progress Chart)

Annex 5: Migration

General trends in LAC migration

Whereas throughout the nineteenth and twentieth centuries many millions of Europeans emigrated to Latin America and the Caribbean (LAC), this trend has been reversed since the middle of the twentieth century. Southern European countries with strong historical, cultural and linguistic ties to Latin America, such as Spain, Portugal and Italy, have become especially important destinations for migrants from LAC countries, following some earlier and smaller flows (mainly politically motivated) from Chile, Argentina etc.

For example, between 1995 and 2003 the LAC population in Spain increased from 92.642 to 514.485. During the first quarter of 2007 an average of 600 travellers with Bolivian passports arrived at Madrid's airport Barajas every day. These included significant numbers of other nationalities, i.e. Ecuadorians, Peruvians or Colombians who were carrying false Bolivian documents in order to migrate to Europe before Spain introduced visas for Bolivians on 1 April 2007. From 2004 to 2007, the number of Bolivians living in Spain increased from 8.000 to 300.000 with five out of ten migrants being irregular. However, countries such as France and Belgium with 100.000 and 30.000 Latin American migrants respectively (not counting irregular migrants) also have significant Latin American communities. In Belgium it is estimated that 10% of workers on construction sites are Brazilian undocumented migrants. Latin American migration to Europe has continued to increase in the last few years and figures including dual nationals and irregular migrants are likely to be much higher than official estimates.

This growing trend is due to a combination of factors. Poverty and economic crises in Latin America are the most important domestic reasons for migration. Secondly, whereas the US has always been and continues to be the most popular destination for Latin American migrants, the tightening of US immigration controls and visa regulations after 11 September 2001 has made Europe a more attractive destination than before. Thirdly, the existence of what has become a rather important LAC diaspora in Europe may also contribute to increased migration by helping new migrants settle in or facilitating remittances for example. The choice of destination country is eased by the possibility of migrants recovering their ancestors' European citizenship. Moreover, under the massive regularisation programmes in Belgium, Spain, Portugal and Italy, many undocumented Latin American migrants were given the right to stay and to bring in their families under family regrouping policies.

In addition to migration towards other continents, strong trends for intra-regional flows have been documented. In contrast to the 1980s when there was a significant decline in intraregional migration, this trend was reversed in the 1990s and it is estimated that there are now almost three million intraregional migrants. They mainly move to neighbouring or nearby countries, with Argentina, Costa Rica and Venezuela the main destination countries, although these have also become origin countries of emigration.

Both kinds of flows depend very much on national and regional evolutions and therefore fluctuate greatly. Legal and social situations related to these flows vary widely from country to country, according to national policies. Like LAC migration to Europe,

intraregional flows also increasingly consist of women migrants, due to a high demand for labour in the services sector, including domestic services.

Analysis and Effects of Migration

According to IOM reports, LAC is the largest and fastest growing remittance-receiving region in the world. Remittances are considerably higher than other flows such as portfolio investment, foreign aid and government and private borrowing. In some countries, especially in Central America and the Caribbean, remittances are larger than all other flows together, including foreign direct investment. Remittances make up nearly 5% of national income in Mexico, more than 15% in El Salvador and over 20% for Honduras. It is suggested that official estimates would double if informal channels of remittances were included. Remittances are therefore central to economic growth, national expenditures and balance of payments for many LAC countries. Moreover, it seems that they are remarkably stable and increase in times of economic crisis. In addition, when remittances go to low-income families they have the potential to reduce poverty and inequality.

The fear that highly-qualified professionals abandon their Latin American home countries in order to benefit from better working conditions in industrialised countries, thus leaving behind their countries of origin with a lack of skilled professionals, has been one of the main concerns regarding migration on the part of Latin Americans. Several possibilities have been identified for destination countries to counteract this tendency including (i) ethical recruitment practices that limit the source countries targeted by employers or the duration of employment abroad, (ii) ensuring a productive stay of migrants by giving them the opportunity to improve their skills and resources, (iii) encouraging migrants to return to their countries of origin temporarily, permanently or virtually (using information and communications technologies) in order to transfer their knowledge, skills and technology and (iv) assisting migrants to return while ensuring that they are able to find employment and use their skills within their home country.

EU-LAC political framework of cooperation

Migration has become a highly sensitive issue in EU-LAC relations in recent years and has profoundly affected the EU-LAC Strategic Partnership. Both regions are currently actively involved in further developing their dialogue on migration as well as enhancing cooperation in this area, underpinned by the various instruments available such as the Thematic Programme for Cooperation with Third Countries on Migration and Asylum.

For the EU, the European Pact on Immigration and Asylum and the Global Approach to Migration constitutes the reference documents for the bi-regional Dialogue on Migration between the EU and LAC.

During the 5th EU-LAC Summit held in Lima in May 2008, the Heads of State and Government of the countries of the European Union (EU) and of Latin American and the Caribbean (LAC) held the topic of migration high on their agenda and emphasised a series of defining characteristics of the EU-LAC relationship on migration. Not least, they called for the further development of a Structured and Comprehensive Dialogue on migration from LAC to the EU.

This EU-LAC Structured Dialogue on Migration was launched in Brussels on 30 June 2009. Its aim is to identify common challenges and areas for mutual cooperation, as well as building a stronger evidence base for EU-LAC migration in order to better understand its realities. The dialogue is based on the principle of shared responsibility, willingness to discuss migration issues and a stronger commitment to tackle them. The identified areas of dialogue are the link between migration and development, regular migration and irregular migration. The first EU-LAC High Level Migration Meeting was held in Brussels on 25 September 2009, to discuss the synergies between migration and development and the role of remittances as a tool for development of migrant's communities of origin.

The targeted project will be launched in the following period, focusing on the following areas: capacity building, legal migration and migration and development, with special focus on the latter. The project would contribute to analyzing migration policies and trends within LAC, and making best use of EU available tools addressed to the region, in particular as regards the promotion of employment policies, strategies for social reintegration and for the productive investment of remittances, and the mobilisation of Diasporas for the economic development of their countries of origin in general. It would also seek to strengthen capacity-building of migration management structures, in order to achieve a better understanding of the phenomenon and a better policymaking.

Annex 6: Drugs

General situation

The illegal drug situation world wide has significantly worsened over the last decade (1998-2008), as noted by the United Nations Office on Drugs and Crime (UNODC). This is also clear from the annual reports of the European Monitoring Centre for Drugs and Drug Addiction (EMCDDA) and from the EC-funded 'Report on Global Illicit Drug Markets 1998-2007', drawn up by independent experts.

The problem of illicit drugs in Latin America is diverse and constantly changing, and therefore elicits a variety of national responses. In the MERCOSUR countries the main problem is drug consumption, whereas the Andean countries are predominantly producers and the Central American countries are first and foremost transit countries for drugs on their way to the consumer markets of the US and Europe. The common denominator in Latin America is that drug-trafficking aggravates national situations by infiltrating the workings of the State, generating corruption, armed violence and money-laundering. Serious steps have been taken to find solutions that are coordinated or shared between the worst affected countries, whether within the global framework of UNODC, within the hemispheric framework of the Organisation of American States (OEA) and the Inter-American Drug Abuse Control Commission (CICAD), or sub-regionally as, for example, within the Andean Community of Nations (CAN). So far, however, progress in regional cooperation has been modest.

In 2008, Colombia remained the world's largest cultivator of coca bush (81.000 ha), followed by Peru (56.100 ha) and Bolivia (30.500 ha). Despite small increases in Bolivia (6%) and Peru (4%), the total area under coca cultivation decreased by 8% in 2008, due to a significant decrease in Colombia (18%). Thus, the total area under cultivation fell to 167.600 ha, close to the average level between 2002 and 2008, and well below the levels reached in the 1990s.

Colombia also remained the world's largest producer of cocaine (51%), followed by Peru (36%) and Bolivia (13%). However, production decreased by 15% from 994 metric tons (mt) in 2007, to 845 mt in 2008, due to a strong reduction in cocaine production in Colombia (28%), which was not offset by increases in Bolivia and Peru.

Trafficking

In recent years, cocaine seizures in the Southern Cone countries (Argentina, Chile, Brazil, Paraguay and Uruguay) rose from 10 mt in 2000 to 38 mt in 2007. This reflects the growing importance of these countries for cocaine trafficking to satisfy domestic demand and to re-export the drug to overseas destinations in Europe (mostly via Western Africa), Africa and the Pacific region. Central America and the Caribbean, two major cocaine transit regions, accounted in 2008 for 15% of global seizures. It would seem that as a result of successful actions in Colombia, Mexican traffickers have been increasing their operations.

The most frequently mentioned country of origin of the cocaine trafficked to Europe is Colombia (48% reported Colombia as the source country for their seizures), followed by Peru (30%) and Bolivia (18%). The most frequently reported transit countries towards

Europe were Venezuela and Ecuador. In addition, the Dominican Republic, Brazil, Argentina and Chile were mentioned, as well as some Western African countries.

Drug consumption

In terms of consumption, world annual figures currently stand at around 600 mt, with Europe consuming about 150 metric tons, or 25% of the total. Spain and Portugal are the main European entry points for illicit drugs originating in Latin America.

In addition to production and trafficking, LAC and in particular MERCOSUR is a significant market for consumption, with Argentina, Uruguay and Chile having the highest index of illicit drugs consumption in South America, according to the latest report from UNODC. The most common illegal drug is marihuana, with Chile being the region's main consumer, followed by Argentina and Uruguay. Cocaine follows, with 1,4% of the population in the 15-64 age group. But a cheaper, far more toxic cocaine version, 'coca paste', is making inroads among younger people. Consumption of other drugs such as ecstasy has been growing in Argentina, Chile and Peru.

EU-LAC cooperation in the field of drugs

Faced with the need for a new more regional focus and strategies, the EU and LAC have embarked upon a process of broad and structured dialogue and effective cooperation on the key elements of anti-drugs policies, which until now had been sidelined in international discussions. More attention is to be given to the agencies and processes of global coordination in the action against drugs, as well as to regional and international cooperation. More specifically, steps will be taken to ensure that producing and consuming countries implement the concepts of shared responsibility and harm reduction.

EU-LAC co-operation builds on the mutual understanding of shared responsibility, a balanced and evidence-based approach, and compliance with international law, including respect for human rights. In 2007 the EU and LAC sides confirmed these basic principles with the Port-of-Spain Declaration, and put them into practice in common areas of cooperation (supply and demand reduction, alternative development and other drug-related issues like money laundering and customs, police and judicial cooperation).

Institutional cooperation takes place at three complementary levels:

1. Bilateral level – through bilateral political dialogue and the National Indicative Programmes agreed between the European Commission and each individual country;
2. Inter-regional level – through two existing schemes for dialogue and cooperation:
 - a. EU-LAC Co-ordination and Co-operation Mechanism on Drugs, launched in 1995 in Madrid, with the last high level meeting taking place in May 2009 in Quito
 - b. EU-CAN High Level Specialised Dialogue on Drugs, which first met in 1995
3. Multilateral level – through a close coordination of the EU and the GRULAC group at the annual meetings of the UN Commission of Narcotic Drugs (CND) in Vienna by seeking to co-sponsor each other's resolutions.

In the context of the process of EU-LAC drugs cooperation, one of the main problems is the lack of a shared frame of reference for the actions of the EU and its Member States and of Latin America. The EU-LAC Anti-Drugs Coordination and Cooperation Mechanism, created in 1995, is an essential means by which the two continents can work together in the action against drugs.

In order to boost the level of technical cooperation between the two regions and give it a concrete and practical direction, the EU is launching in 2010 a new project called COPOLAD, which will encompass both the demand reduction side and the supply reduction side of the action against drugs. The multiplicity of experiences in national anti-drugs coordination, both in the EU and in Latin America, calls for a comparative and shared evaluation as well as institutional strengthening of these coordination agencies, aimed at sharing good practice. COPOLAD will thus complement the other regional, sub-regional and national programmes. In addition, and wherever possible, synergies between regional and sub-regional actions in Latin America and the Caribbean in the area of crime and security should be sought.

The EC also supports other regional projects (funded under the North-South Drug Programme or the Instrument for Stability):

- Prevention of Diversion of Precursors for Drugs in the Latin American and Caribbean region (PRELAC): support for the control of precursors (implemented through UNODC).
- Twinned cities: municipal exchanges between Europe and LAC countries with regard to prevention and treatment (implemented through CICAD).
- Fight against trafficking along the Cocaine Route, adopted in 2009.

At sub-regional and national level, the following cooperation projects are running with the support of EC funding:

- PRADICAN: Programa Antidrogas ilícitas en la Comunidad Andina (Programme against illicit drugs in the Andean Community), started in 2009.
- DROSICAN: Apoyo a la Comunidad Andina en el Area de las Drogas Sintéticas (Support to the Andean Community against synthetic drugs) due to end in 2010.
- Bilateral cooperation projects in the areas related to those of drugs interventions are under way or planned with Bolivia, Colombia, Peru, Venezuela and Honduras.

Annex 7: Climate Change and Environment profile of Latin America

The Latin America and Caribbean region boasts abundant water resources, tremendous biological diversity and approximately half of the world's tropical forests. However, population growth, deforestation, urban expansion, and pollution threaten the region's environment and raise the potential for conflict.

At the same time, climate change is already having direct effects on the region through more numerous and severe weather events (hurricanes, floods, droughts, etc.), and the El Niño Phenomenon (see figure 10). Scientists predict that this situation will be exacerbated with the increase in global temperature and with rising sea levels.

Biodiversity is a major asset for Latin America, which includes five of the world's ten most biodiverse countries (Brazil, Colombia, Ecuador, Mexico and Peru) as well as the single most biologically diverse area in the world (the eastern slope of the Andes). The region is home to approximately 27% of the world's mammals, 34% of its plants, 37% of its reptiles, 43% of its birds, and 47% of its amphibians. Forty percent of the plant life in the Caribbean is found nowhere else on earth. Tragically, however, this rich biodiversity is under severe threat. Five of the 15 countries whose fauna is most threatened with extinction are in Latin America – Brazil, Mexico, Colombia, Peru and Ecuador. In more than 60% of the LAC region, coral reefs are threatened and many of the mangroves have been lost due to coastal development, overfishing, marine pollution, runoff from deforestation and farming, and industrial and urban pollution.

Latin America is currently a relatively low emitter of greenhouse gases (some 5% of global CO₂ emissions, excluding land use change¹⁴) – see chart 11. However, as these emissions are linked with economic growth it is expected that they will increase in the years ahead. This makes it even more crucial to move towards a low carbon economy in order to keep the growth of emissions lower than 'business as usual'.

Deforestation, which accounts for some 20% of global CO₂ emissions¹⁵, is one of the main obstacles to achieving this. The significant contribution of deforestation to CO₂ emissions is evident from chart 12. Countries in the region are aware of this: nevertheless, three Latin American countries (Brazil, Mexico and Argentina) are among the top 10 countries with the highest deforestation. The EC objective is to halve tropical deforestation by 2020 and completely stop it by 2030.

EU and Latin American countries are actively engaging in bilateral, bi-regional and international fora in order to tackle the challenges as effectively as possible. In its programming exercises, the European Commission recognises the environment as a crosscutting issue, and it is incorporated as such in all possible EU interactions with Latin America. The Lima Declaration of the EU-LAC Heads of State and Government Summit in May 2008 identified environmental challenges as crucial for ensuring sustainable development. The Summit Declaration committed the two regions to fostering cooperation that takes a comprehensive view of the environment, particularly focused on climate change, desertification, energy, water, biodiversity, forests, fisheries and the handling of chemical products. At the same time (and also as underlined by the EU-Rio

¹⁴ United Nations Environmental Programme

¹⁵ Data from <http://ec.europa.eu/environment/forests/deforestation.htm>

Group Joint Statement from Prague in May 2009) the two regions recognised the need for close cooperation in order to enable a full, effective and sustained implementation of the UNFCCC¹⁶ and to ensure an ambitious, fair and effective global agreement.

Figure 10:

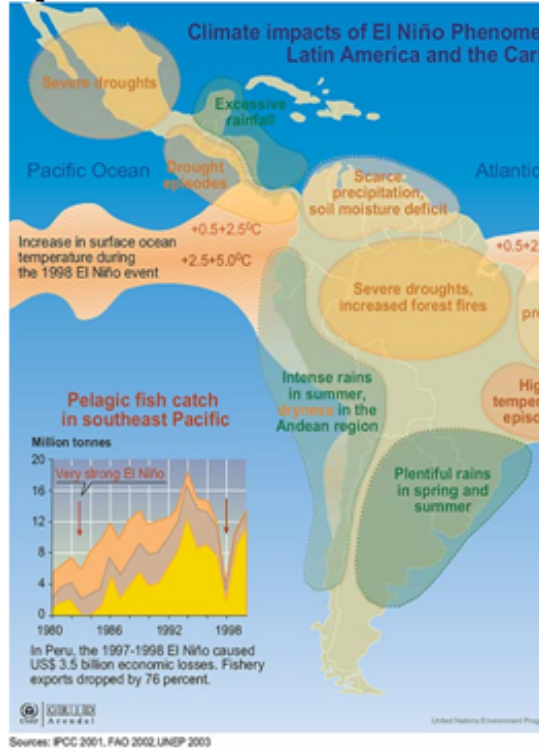


Chart 11:

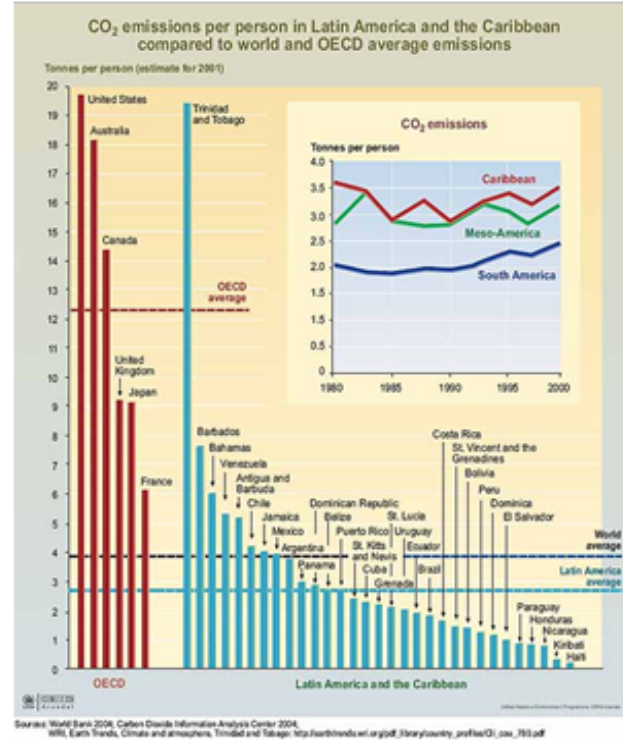
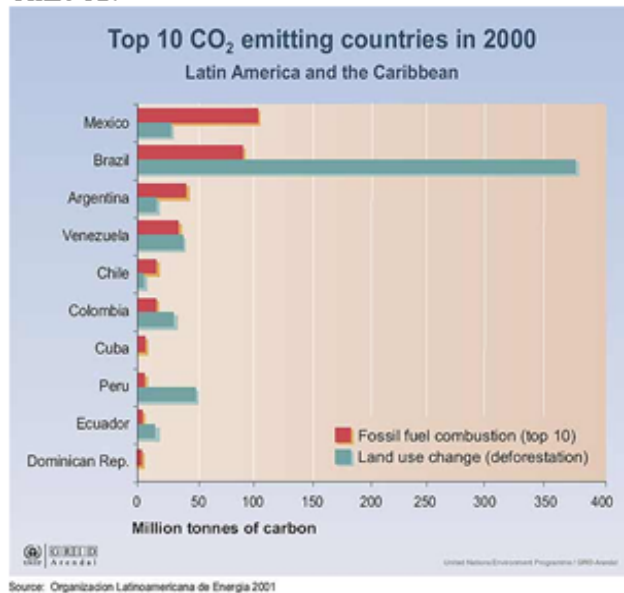


Chart 12:



¹⁶ United Nations Framework Convention on Climate Change