



Federal Ministry  
for Economic Cooperation  
and Development

STRATEGIES 163

# Strategy on Development Cooperation with Countries in Latin America and the Caribbean



# Content

<b>Executive Summary</b>	<b>3</b>
<b>List of Abbreviations</b>	<b>5</b>
<b>I Latin America: Interests, Development Trends and Challenges</b>	<b>8</b>
<b>II Increasing the Effectiveness and Visibility of Development Cooperation with Latin America</b>	<b>17</b>
1. Establishing priorities and further defining Germany's thematic profile	17
1.1 New focuses in the priority area "democracy, rule of law and good governance"	17
1.2 Consolidating environmental and climate protection	19
1.3 Continuing with urban water supply and sanitation, intensifying the dialogue on water	20
2. Changing the modes of delivery	21
2.1 Further developing subregional and regional approaches to development cooperation and using scope to address new issues	21
2.2 Developing Germany's "strategic partnerships" with the ECLAC and IDB, and cooperation with the subregional development banks	22
2.3 Stepping up harmonisation and strengthening joint instruments (PBAs and PJF)	23
2.4 Mobilising additional funding: development loans, combined financing and public-private partnerships	24
2.5 Anchor countries and emerging economies: developing dialogue and tripartite cooperation	24
3. Supporting the EU-Latin America political dialogue and paying attention to coherence	25
<b>III Conclusions</b>	<b>27</b>
<b>Annex: Figures and Tables</b>	<b>28</b>

# Executive Summary

## I Latin America: Interests, development trends and challenges

- Latin America and the Caribbean are important partners for Germany and Europe when it comes to jointly shaping global conditions, to matters of climate protection and preserving biodiversity, and to issues relating to international trade and security policy.
- Development policy challenges and areas for action can be found above all in improving governance and consolidating democracy, overcoming the enormous social imbalances that exist and the high levels of poverty, protecting the huge but constantly shrinking tropical forests, promoting the use of sustainable energies and in addressing regional economic and political integration, an area where progress is slow and patchy.
- In order to achieve the Millennium Development Goals by 2015, the governments of Latin America must considerably increase the pro-poor focus of their actions and mobilise additional private capital for development. German development cooperation can help. Germany is still seen as a competent partner, whose contributions are always in demand.

## II Increasing the effectiveness and visibility of development cooperation with Latin America

In order to achieve this we want to

### 1. Establish priorities and further define our thematic profile

- **Boosting democracy, the rule of law and the participation of the poor:** Within the framework of this existing priority area of cooperation, there should be a shift of accent towards “**strengthening the rule of law and democratic control bodies, and political participation**” (including women’s rights and indigenous rights) and also towards “**good governance in the field of public finance, including monitoring poverty reduction strategies**”. In countries with potential for conflict, conflict prevention will remain an important cross-cutting issue.
- **Environmental and climate protection:** Protecting natural resources (tropical forests and biodiversity) and promoting the use of sustainable energies (renewable energies/energy efficiency) should be continued at a high level and/or further developed.
- **Urban water supplies and sanitation:** Ongoing involvement will be consolidated. There is in particular a need for more involvement in shaping the **political and social dialogue** concerning the resource (drinking) water.

## 2. Change the modes of delivery

- **Subregional and regional approaches** to development cooperation and **dialogues** are to be **further developed and new topics addressed**. First of all, **protection of tropical forests and sustainable energies** (renewable energies/energy efficiency) need to be developed as complements to the bilateral priority areas of development cooperation. Secondly, important global or regional topics need to be supported. During the next few years these topics will be:
  - **promoting regional projects and political dialogues** regarding “Women’s Rights and Gender”, “Youth and Violence in Central America”, “Social Cohesion” and “Progressive Tax Reforms”;
  - **HIV/AIDS control**;
  - **promoting regional integration**.
- **The strategic partnerships with the ECLAC and the IDB** are to be further **developed** as a platform for political dialogue. The portfolio of the IDB and of the subregional development banks (BCIE, CAF) should be further developed in the direction of even more sustainability and an even stronger pro-poor focus.
- **Harmonising** German development cooperation with that of other donors and the **increasing use of joint instruments** (programme-oriented joint financing/PJF) remain important, especially in countries that have already made progress in implementing the Paris Declaration on Aid Effectiveness (March 2005).
- **Mobilising additional (close-to-market-level) funds** via instruments such as development and promotional loans is a particu-

larly good approach for more advanced Latin American countries and for sectors like energy, industrial environmental protection, micro-credit (promoting SMMEs) and water supply.

- Innovative approaches from the fields of research, policy, economics and trade are to be combined in order to strengthen the dialogue and exchange with **anchor countries** such as Mexico and Brazil. Protecting global public goods, technology policy, scientific exchange and the social dimension of globalisation will be future topics. **Tripartite cooperation** approaches to help Latin America’s emerging economies in their South-South cooperation efforts will also be developed or further developed in keeping with individual strengths (e.g. industrial environmental protection).

## 3. Support the EU-Latin America dialogue and pay attention to coherence

In the wake of the ongoing association negotiations between the EU and the Latin American subregions, there is to be an increased focus in the bi-regional dialogue on priority topics of bilateral and supraregional German development cooperation as well as on topics such as “social cohesion”, “gender equality”, “indigenous rights” and “aligning global structures with development needs”.

At the same time the BMZ is concerned to advance the cause of development policy interests even more strongly than hitherto within German and European policy and in terms of the joint shaping of general international conditions (e.g. in the case of EU agricultural market issues, WTO negotiations, etc.) and also within the strategies of important international players such as the World Bank and the EU Commission. The aim is to make our cooperation with our Latin American partners even more integrated and coherent.

## List of Abbreviations

ACP	African, Caribbean and Pacific Group of States
ALBA	Alternativa Bolivariana para los Pueblos de Nuestra América, The Bolivarian Alternative for the People of Our America
BCIE	Banco Centroamericano de Integración Económica, Central American Bank for Economic Integration
BMBF	Federal Ministry of Education and Research
BMU	Federal Ministry for the Environment, Nature Conservation and Nuclear Safety
BMZ	Federal Ministry for Economic Cooperation and Development
CAF	Corporación Andina de Fomento, regional development bank of the Andes
CAN	Comunidad Andina de Naciones, Andean Community of Nations
CARICOM	Caribbean Community
CARIFORUM	Caribbean Forum
CDB	Caribbean Development Bank
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CIM	Centrum für Internationale Migration und Entwicklung
DED	German Development Service
DEG	Deutsche Investitions- und Entwicklungsgesellschaft GmbH, German Investment and Development Company
ECLAC	Economic Commission for Latin America and the Caribbean (ECLAC), Comisión Económica para América Latina (CEPAL)
EITI	Extractive Industries Transparency Initiative
EU	European Union
FAO	Food and Agriculture Organization of the United Nations

FLEGT	Forest Law Enforcement, Governance and Trade
FRA	Forest Resources Assessment
GDP	Gross domestic product
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HDR	Human Development Report
HIPC	Heavily indebted poor countries
IACAC	Inter-American Convention against Corruption
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association (World Bank)
IDB	Inter-American Development Bank
ILO	International Labour Organization
IMF	International Monetary Fund
InWEnt	Capacity Building International, Germany
IOM	International Organization for Migration
IPCC	Intergovernmental Panel on Climate Change
IPF/IFF/UNFF	Intergovernmental Panel on Forests (1995-1997), Intergovernmental Forum on Forests (1997-2000), United Nations Forum on Forests (since 2001)
KfW	Kreditanstalt für Wiederaufbau
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
Mercosur	Mercado Común del Sur, Common Market of the South

NGO	Non-governmental organisation
ODA	Official development assistance
OECD	Organisation for Economic Cooperation and Development
PBA	Programme-based approaches
PJF	Programme-oriented joint financing
PPP	Public-private partnership
RE/EE	Renewable energies/energy efficiency
SICA	Sistema de la Integración Centroamericana, Central American Integration System
SME	Small and medium-sized enterprise
SMME	Small, medium-sized and micro enterprise
SWAP	Sector-wide approach
UN	United Nations
UNCAC	United Nations Convention Against Corruption
UNCBD	United Nations Convention on Biological Diversity
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNFCCC	United Nations Framework Convention on Climate Change
WDR	World Development Report
WTO	World Trade Organization

# I Latin America: Interests, Development Trends and Challenges

## 1. **The public media show only limited interest in Latin America – and yet, in political and economic terms, Latin America is of increasingly great significance for us**

Latin America and the Caribbean have made the German headlines on relatively few occasions in recent years. Nevertheless (or perhaps because of that, since headlines generally have a great deal to do with current political and military conflicts and crises), the region has gained in importance for Germany and Europe:

- Latin America is becoming an increasingly **active and important partner when it comes to jointly shaping global regulations and institutions**. The large, dynamic countries in the region are now actively involved in shaping comprehensive bodies of legislation like those of the World Trade Organisation (WTO), the UN Framework Convention on Climate Change (UNFCCC) and the UN Convention on Biological Diversity (UNCBD). Close cultural relations and common values (freedom of religion, democracy, market economy) increase trust and facilitate cooperation to a considerable degree. Developing and improving the United Nations (UN) and other multi-lateral institutions is of importance to Latin America, as it is to the European Union (EU). The region has thus become an indispensable political partner when it comes to shaping global conditions.
- **The big tropical forests and ecosystems in Latin America need to be protected and emissions of greenhouse gases reduced** in order to put a break on global climate change and the global extinction of species.
- Latin America is an important **commercial and trading partner** and has for decades been an important focus for German investments.<sup>1</sup> The region's strategic importance as an exporter of commodities (ores, oil) and agricultural (industry) products (food and fodder, agrofuels) has grown considerably in recent years. The region's importance as an importer of European goods and services will continue to grow, in line with future economic development and regional economic and political integration.
- Europe also has **security policy interests** in the region. Important areas of cooperation today and in the future are: fighting the production and transit of drugs (cocaine, marijuana, heroin); stabilising political, social and economic conditions, also to avoid waves of migrants leaving, such as those that have in the past repeatedly come to Europe (mainly Spain); and collaborating in the fight against international terrorism.

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<sup>1</sup> Currently, German investments amount to more than 40 billion US dollars (the third largest volume after the United States and Spain). This is for the main part on account of large-scale investments made in the automobile sector in Mexico and Brazil, especially in the 1970s. Recently, investments to assure commodities supplies, especially by China, have caused quite a stir.

**Latin America is a well-established partner that can and wants to be constructively involved in finding answers to global challenges. In order to do that the region must successfully address the social, economic and political change that has accelerated in recent years.** This change is patchy, yet the solutions are still more patchy. Overall, however, the following development trends and challenges can be distinguished:

**2. Latin America has democratic governments – but good governance and governability are not assured**

No other region of developing countries is governed as democratically as Latin America. Governance indicators like those of the World Bank and the Bertelsmann Foundation attest to the fact that the governments in Latin America are relatively effective by international standards. The democratic systems that (re)emerged practically everywhere in the 1980s and 1990s guarantee a comparatively large degree of individual freedoms. Disadvantaged groups such as indigenous peoples are calling more and more for civil rights and social, economic and cultural human rights, and these are being guaranteed to a greater extent than has been the case in the past.<sup>2</sup> However, it is clear that insufficient progress has been made so far as regards involving the indigenous population,<sup>3</sup> gender equality and, not least, poverty reduction. Inefficient government structures with insufficient financial and human resources

in which centralised and decentralised elements often work against rather than with each other, as well as corrupt and clientilistic organisational cultures are fundamental problems. Only very little has been done up until now to change that, given that the climate since the 1990s has very much been influenced by the belief in the “minimal state”.<sup>4</sup> There has been a recent proliferation of policies that are not coherent, are short-lived and that tie into the populism of decades past. In many countries there is great dissatisfaction with the quantity and quality of public services, and people are thus very sceptical of democracy and its institutions. Only 58 per cent of Latin Americans believe democracy to be the best form of government; only 13 per cent would associate it with values such as “equality” and “justice”.<sup>5</sup>

In many societies, especially in the Andes (Bolivia, Ecuador, Peru), this has led to difficult and radical changes, processes that have not yet been completed and which have in the meantime restricted the governability of some countries to a considerable degree. The social and ethnic conflicts have often intensified, and in some cases regional conflicts within countries have too.<sup>6</sup> The traditional élites and parties are sometimes being seriously called into question and voted out of office. However, reforms such as those which new social movements are calling for require a clear political majority or a broad national consensus, a condition which is only fulfilled in a few countries. Such a consensus can only be achieved by maintaining and developing a culture of democratic dialogue.

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2 The International Labour Organization (ILO) Convention No. 169 concerning Indigenous and Tribal Peoples Living in Independent Countries came into force in 1991. In Latin America it has so far been ratified by Argentina, Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Guatemala, Honduras, Mexico, Paraguay, Peru and Venezuela.

3 Indigenous people make up eight to ten per cent of the population of Latin America (40 to 50 million people). In Ecuador, Guatemala and Bolivia they are either the largest ethnically defined population group or the majority.

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4 Cf. Perry, G. (2006), “Poverty Reduction and Growth: Virtuous and Vicious Circles”, Washington, D.C., World Bank and World Development Report 2006.

5 Latinobarómetro 2006; 34 per cent believe that democracy is possible without parties; 22 per cent believe that it is possible without parties and a congress. Cf. also UNDP 2004: Democracy in Latin America, New York.

6 Intra-state conflicts have increased or remain unresolved in Mexico (north-south), Ecuador and Bolivia (lowlands-highlands) especially.

**3. Recent economic growth is increasing the chance of development succeeding – however, weak competitiveness, poverty, social imbalances and gender inequality remain key problems**

After five years of stagnation, the Latin American economy clearly recovered between 2004 and 2007, when growth rates were above four per cent per annum. In light of the economic boom in Asia (China, India, etc.), it is the increase in demand for commodities and in commodity prices (commodities still make up the majority of Latin American exports) that is chiefly responsible for that. Asian countries (especially China) have made considerable direct investments in mining, and in the metal and agricultural industries.<sup>7</sup> At the same time, public revenue and foreign exchange reserves have grown in many countries in Latin America. Some of the larger countries have been able to considerably reduce their foreign indebtedness by their own efforts, poorer countries by means of international debt relief initiatives (HIPC, MDRI, IDB debt relief initiative). Access to the extremely liquid international financial markets has improved considerably. The inflow of remittances from Latin American migrants to their families has vastly increased: at 50 billion US dollars per year it is now more than six times as high as net inflows of official development assistance (ODA) for Latin America. Today, Latin America receives around eight to ten per cent of global ODA, but the largest share – around one third – of global remittances. Although migration and remittances stabilise the financial situation in many poor families, from the development

policy perspective they are to some extent problematic, among other things on account of the over-emphasis on consumption in the use of this money, on account of the indirect appreciation of the exchange rate in donor countries (Dutch disease) and on account of the fact that family structures are broken up.<sup>8</sup>

**It must be said, though, that the funding available to combat poverty and to achieve the Millennium Development Goals (MDGs) has clearly increased in principle.** The key question as regards further economic development is, however, how the region can overcome its one-sided dependence on commodity exports and how, in the wake of progressive globalisation and increasing competitive pressure from Asia in the industrial sector (including textiles, toys, electronics) and from Europe/North America in the services sector (banks, insurance, logistics), it will be able to establish internationally competitive structures. Among other things, the leap forward into a “knowledge society” and pro-active technology policies (including by improving secondary education, training and research) are essential for that, as are closer economic and political regional integration (which has often been announced and invoked, but if truth be told has still not materialised) and step-by-step integration into the global market. There is a growing understanding that all this, in contrast to the strategies that have dominated in Latin America in the past 15 years, cannot exclusively be achieved by means of “more market”. And so, even when private-sector investments were at their height in the late 1990s, they were never

7 OECD 2007: The visible hand of China in Latin America; Domínguez, Jorge: China's Relations with Latin America, Inter-American Dialogue 6/2006. Latin America is benefiting from massive Chinese demand for raw materials, but that is also increasing the region's specialisation in industries that produce little added value. Exports to China grew by 60 per cent per annum in the period between 2001 and 2005, reaching 50 billion US dollars. In recent years Latin America has been the main target (30 to 50 per cent) of Chinese direct investments (2004: 6.5 billion US dollars).

8 Fajnzylber/López 2007: The Development Impact of Remittances in Latin America, World Bank; IOM 2005: World Migration Report 2005 and ECLAC 2006.

able to compensate for the reduction in public investments. Controversial price increases, not very successful management at private-sector level, and often intransparent and inconsistent government regulations and citizens' excessive expectations too, have led to disillusionment on all sides – including on the part of private investors.<sup>9</sup> The key question now is how to effect medium-term increases in investments in infrastructure (which in Latin America account for less than two per cent of gross domestic product (GDP) and, according to the World Bank, should account for three to six per cent in order to keep up with China or Korea). The challenge Latin America is facing, therefore, is to “dare” to have the state exert more influence and simultaneously to achieve a “better” state that is capable of more effective action and that is able to promote and regulate markets and to increase investment in public goods, as well as exacting taxes, carrying out structural reforms (e.g. land reforms), safeguarding the monopoly of power and guaranteeing legal certainty. What the region needs are flexible development models that go beyond the orthodox liberal-market remedies set out in the Washington Consensus, which recognise and promote the positive interplay between economic growth and poverty reduction and thus place a high value on directly combating poverty and inequality. The institutional changes required to achieve that involve a complex solution-seeking process for which there is no blueprint. The process needs to be analysed and driven forward on a country-by-country basis, something the Inter-American Development Bank (IDB) emphasises in its 2006 Flagship Report.<sup>10</sup>

**Overall, progress made since 1990 towards reducing poverty in Latin America has been quite modest.** According to the World Bank, the proportion of poor people in Latin America (living on less than two US dollars a day) only dropped very slightly between 1990 and 2001 – from 28.4 per cent to 24.5 per cent; the proportion of extremely poor people (living on less than one US dollar a day) dropped from 11.3 per cent to 8.9 per cent. The ECLAC has more current data and notes that, especially **in the period from 2003 to 2007, poverty was successfully reduced – in particular the proportion of extremely poor people dropped considerably, it claims.** According to the ECLAC, for the first time since 1990, the number of poor people has dropped below 200 million.<sup>11</sup> This positive development occurred against the background of high economic growth in the region in the period from 2003 to 2007, a steady rise in remittances since the 1990s, shrinking family sizes and a few large-scale social programmes (particularly in Brazil, Chile, Colombia, Ecuador and Mexico).

**Nevertheless, progress made on poverty reduction varies. Only Chile, Panama and Ecuador have successfully reduced “normal” and extreme poverty.** Brazil, Mexico, Peru and Venezuela have done well on reducing extreme poverty; El Salvador has succeeded to a limited degree. Bottom of the table with (in some cases very) unsatisfactory development as regards poverty and extreme poverty are Bolivia, followed by Paraguay, Honduras, Guatemala, the Dominican Republic, Uruguay and Nicaragua.

More than one third of the population of Latin America is still either unemployed or under-

9 Those in favour of privatisation are now in the minority: in 1998, 45 per cent thought it was a positive thing; in 2005, only 31 per cent were of that opinion. Cf. *Latinobarómetro 2005* and Fay, M. (World Bank) 2007: *Infrastructure in Latin America and the Caribbean*.

10 IDB, 2006: *The Politics of Policies*, Washington.

11 The World Bank data (WDR 2007) are better for an international comparison, since they include calculations of purchasing power parities, but the data are not so up to date. The ECLAC's data (*Panorama Social 2007*) are based on surveys of households and on calculations of baskets of goods (food). Accordingly, in 1990, 48.3 per cent of the population was classed as poor and 22.5 per cent as extremely poor. The figures for 2002 are 44 per cent and 19.4 per cent, respectively; for 2005, 39.8 per cent and 15.4 per cent, respectively; and for 2007, 35.1 per cent and 12.7 per cent, respectively.

employed. **With a Gini Index of 0.51, Latin America has greater inequalities in income than any other region in the world.**<sup>12</sup> This is the root cause of the high level of violence and crime that is continuing to rise above all in cities.

**If the current trends continue, by 2015 many, but not all, of the MDGs could be achieved in Latin America, a “middle-income region”.** Particularly difficult to achieve will be halving the proportion of people living in absolute poverty (MDG 1), reducing the rate of maternal mortality and fighting HIV/AIDS successfully. Goals relating to basic education and child mortality are, by contrast, within reach.<sup>13</sup>

Important gender-related targets, such as enabling all girls to go to school and increasing the political participation of women, are also largely within reach. **Despite such progress being made, gender equality is still a long way off for women in Latin America.** The proportion of women in wage employment is high (44.7 per cent), but they have the less secure, less qualified and lower-paid jobs and thus make only 30 per cent of overall income. Poverty among women – especially among indigenous women in rural regions – is substantially more wide-spread than among men, among other things because one third of all households in Latin America are now headed by women. At the same time women are often the victims of violence. At least one third of women in the Andean countries state that they have suffered domestic violence; in Central America the number of women murdered has increased in recent years. Religious, in some cases fundamentalist, forces are also gaining ground in the region. They have very conservative attitudes,

particularly when it comes to morals and women’s reproductive rights. Such conservative attitudes are increasingly being represented at the political level. Total bans on abortion, however, as currently apply in Nicaragua, El Salvador and Chile, not only put women’s lives at risk when life-threatening complications arise during pregnancy, they also make healthcare provision more difficult and reduce the level of healthcare because medical staff are uncertain and afraid to carry out necessary treatments. Where such legislation is adopted, maternal mortality – which in ten countries in the region is four times as high as in industrialised countries (more than 100 per 100,000 births, in Nicaragua more than 200) – is likely to rise still further.

By contrast, women’s increasing political participation gives reason to hope: over the past 18 years the proportion of women parliamentarians has risen more than anywhere else in the world and currently stands at 20 per cent – just as high (or low) as in developed countries. And Chile and Argentina have elected their first female heads of government, namely Michelle Bachelet in 2005 and Cristina Fernandez in 2007.

#### **4. Decisive factors as regards the insufficient progress made towards achieving some of the MDGs are low, socially imbalanced public revenue and public spending**

Between 1990 and 2005, the average tax rate was 15 per cent. That is also very low compared with the rest of the world; the average tax rate in industrialised countries is 36 per cent, in China

12 Income distribution is particularly unfair in Brazil, Bolivia, Honduras and Colombia (Gini Index: approximately 0.6). Some (sub-Saharan) African countries, incidentally, have similarly poor index values. Distribution is better (i.e. similar to that in the United States) in Uruguay and Costa Rica, which have Gini Indices of less than 0.48. Cf. ECLAC 2006.

13 Cf. ECLAC, Panorama Social 2007. Cf. also Figure 3 in the Annex.

the rate is 17 per cent, in India 18 per cent, in South Korea 24 per cent, in South Asia 13 to 17 per cent and in Central Asia 15 to 28 per cent.<sup>14</sup> The excessive share of value added taxes and extremely low share of direct taxes (income tax) also lead to the rich being given preferential treatment.<sup>15</sup>

Public social spending covers basic social services and social insurance systems (pensions, health-care) which are in most cases subsidised. However, these do not reach the majority of the rural population or a large proportion (around one third) of the urban population. Many poor people thus have no social insurance protection. Subsidised services such as electricity, water and, in some cases, education (excluding primary education) also frequently have a regressive impact in practice, because they often serve wealthier city districts or because corrupt practices mean that wealthier citizens are able to circumvent payment of the usual charges.

Politics and society have to some extent woken up to this fact. Between 1990 and 2001, per capita social spending rose by more than four per cent per annum; today it has a share of around 16 per cent of GDP.<sup>16</sup> “Social assistance programmes” with sufficient national funding providing conditional cash transfers to poor families (conditional, for example, on regular school attendance), such as Bolsa Familia in Brazil or Oportunidades in Mexico, have a much greater poverty-reducing impact and even have an active part to play in

reducing inequality (Gini Index).<sup>17</sup> Land reforms, pro-poor employment policies (microloans, vocational training, etc.) or improvements in the low-income sector are not being sufficiently implemented as yet.

## 5. Tropical forests in the greenest region of the world are continuing to shrink, posing a threat to the global climate and biodiversity

No other region in the world has as many protected and ecologically valuable areas as Latin America.<sup>18</sup> Nevertheless, the area covered by intact tropical forest has continued to shrink. More than 230,000 square kilometres of forest was lost between 2000 and 2005 in Latin America, that is around two thirds of the surface area of Germany.<sup>19</sup> Deforestation and forest fires are contributing around one quarter of carbon dioxide emissions worldwide; Latin America is responsible for an estimated 30 to 45 per cent of that total.<sup>20</sup> The way Latin America’s tropical forests are being managed thus poses considerable additional risks in terms of global climate change and biodiversity, and it is making the region even more vulnerable to extreme weather phenomena (tornadoes, flooding, droughts), for which a high price is already being paid. However, **environmental awareness has steadily increased among the population in Latin America – and at least in the medium-term is improving the**

14 Tax rates in Latin America are extremely low in comparison to per capita GDP, especially in Mexico, Colombia, Paraguay, Guatemala, Argentina, Costa Rica, El Salvador and Chile. Cf. Perry, G. (2006), “Poverty Reduction and Growth: Virtuous and Vicious Circles”, Washington, D.C., World Bank.

15 The ECLAC assumes that the “tax rate gap” in Latin America is about 4 percentage points – the tax rate could be 20 per cent without the region having to forfeit any of its international competitiveness. ECLAC 2006 (Gómez-Sabaini, J.): *Cohesión Social, Equidad y Tributación*, Santiago de Chile.

16 ECLAC, *Panorama Social 2006*. This is to some extent due to the ageing society – population growth in Latin America currently stands at only 1.6 per cent per annum (1970s: 2.6 per cent).

17 IPC 2007: Conditional cash transfers in Brazil, Chile and Mexico: impacts upon inequality.

18 11.1 per cent of the surface area of Latin America is classified as conservation areas. Only 6.9 per cent of the surface area of Europe is protected. Conservation International defines regions that are the richest reservoirs of plant and animal life, known as hotspots. Eight of the 34 hotspots worldwide, including several of the most important ones, are located in Latin America. Cf. UNDP 2006: *World Resources 2005*, <http://www.biodiversityhotspots.org/>.

19 FAO Forest Resources Assessment (FRA) 2005; the vast majority was destroyed in Brazil, World Bank 2006: *Little Green Data Book*, Brazilian Research and Technology Ministry. Between 1990 and 2005, tropical forests disappeared in Latin America at an average rate of 0.4 per cent or 40,000 square kilometres a year.

20 IPCC Report 2007

**preconditions for sustainable environmental protection.** The importance of the enormous drinking water resources in the Amazon and Paraná basins is also increasingly being recognised. As a consequence of the rise in the price of oil, interest in renewable energies/energy efficiency (RE/EE) is also increasing rapidly, since fossil energy sources make up 71 per cent, a very large share, of the energy mix in Latin America.<sup>21</sup>

The potential massive increase in agrofuel production represents a new challenge for Latin America. On the one hand it is to be welcomed, because it can contribute to climate protection. It opens up additional sources of income for agriculture (sometimes also for small farmers). On the other hand, it could lead to a considerable increase in the land use and settlement pressure on the remaining primary forest – which is already high on account of illegal logging and land grabs, extensive livestock farming and large-scale soya cultivation – and could also mean increased prices for food.

**6. Subregional integration processes are popular – however, their success so far has been limited and their future goals are not sufficiently clear**

After the failure, for the time being, to establish a pan-American free trade zone, which the United States in particular was pushing towards, it is especially the established subregional integration processes (the Central American Integration System (SICA), the Caribbean Community (CARICOM), the Andean Community of Nations (CAN) and Mercosur (Common Market of the South) which have an important role to play on account of their ambitious economic (customs union) and political (harmonisation of a wide range of policy areas) goals.

Whilst the two more northern alliances have made visible – albeit at times very slow – progress over the years, CAN is undergoing a difficult phase of re-orientation after Venezuela dropped out. Mercosur is also being re-organised on account of the dissatisfaction of the smaller partners, the fact that the goals of the two large partners were not always compatible, and on account of Venezuela joining. At the same time, Venezuela has its own integration and cooperation project, called ALBA, which Cuba, Bolivia, Nicaragua and (to some extent) Ecuador are involved in so far, whose economic potential is however very low and which is tailored only to Venezuela (or rather to the Venezuelan energy sector). However, within this context, Venezuela has become a noteworthy “new donor” of development cooperation in the region.

The Latin American integration processes were modelled on the European Union (EU). The EU is the region’s most important trading and cooperation partner, second only to the United States. In the Mercosur area, the EU is even ahead of the United States. Association negotiations with Mercosur that have been ongoing since 2000 are important for Europe too in economic terms. However, it does not appear that the negotiations will be concluded in the foreseeable future. In June 2007, association negotiations began with Central America and CAN. The aim is to improve these countries’ access to the European market and to make a contribution to stepping up (development) cooperation. In 2007, Economic Partnership Agreements were concluded with the Caribbean states (CARIFORUM) as part of agreements reached between the EU and the African, Caribbean and Pacific (ACP) Group of States. They will now be put into practice.

There is certainly a growing understanding in Latin America that, in order to be able to react

<sup>21</sup> ECLAC 2007 data: Energías renovables en América Latina y el Caribe. Data for 2004.

to globalisation processes and to be involved in shaping them, regional integration makes political and economic sense. However, in addition to the low complementarity of the – mainly small – markets and the still frequent radical economic and political changes in some countries, the ongoing integration processes are suffering from a lack of pragmatism. There is a predominance of political promises that are all too frequently not fulfilled. National interests only seldom rank second. At the same time there is a lack of willingness and sometimes of ability to get the potential or actual losers of structural change processes involved, for instance by means of cohesion funds for the whole region or for one country. Whether or not the intergovernmental, non-supranationally organised communities can gain more weight in political and economic terms and become real global players will depend on whether these problems can be solved.

**7. Latin America is better able to help itself – targeted, effective use of development cooperation is becoming even more important**

It is correct to conclude that, in a middle-income region like Latin America, which has also made some development progress in the past ten years, the relative importance of international ODA has fallen. According to the Organization for Economic Cooperation and Development (OECD), 9.4 per cent of global ODA went to Latin America in the period from 2000 to 2004. In the 1990s, 10.5 per cent of global ODA went to that region. Today, ODA only accounts for 0.35 per cent of the region's GDP, that is only one third of the average across all developing countries. However, since, many donor countries focus their development cooperation on the poorer countries in the region, development cooperation still has an important role to play in quantitative terms in countries like Nicaragua, Bolivia, Honduras and Haiti (accounting for a more than eight per cent

share of GDP). In those countries development cooperation provides the funding for a large share of public investments. Close coordination between donors and governments based on the principles of the Paris Declaration on Aid Effectiveness (ownership, harmonisation and alignment) has already become an integral part of development cooperation in this group especially (but not exclusively). The elaboration of medium-term poverty reduction strategies, the alignment of donors' contributions to the partner's requirements, the obligation to provide a high level of transparency in implementation and the close political dialogue in a number of sectors and topics have increasingly enabled joint instruments such as programme-based approaches (PBAs) and programme-oriented joint financing (PJF)<sup>22</sup> to be implemented and also raise the hope that a better division of labour will be possible in the future. However, much still needs to be done in this respect: Although the big donors (World Bank, Inter-American Development Bank, EU Commission) are influential, they are also still taking a very broad approach. They have as yet defined only a few priority areas for action. On account of their increasingly large share of market funding, banks are now even tending to widen their thematic profile.<sup>23</sup> Right now, new donors such as Venezuela and China, whose development cooperation very much serves foreign policy and foreign trade interests, are not making a clearer division of labour any easier.

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22 In the period between 2000 and mid-2006, Germany committed 97 million euros as PJF in Latin America, corresponding to 36 per cent of German global PJF commitments, which total 269.1 million euros.

23 The focuses of the World Bank, only 5 per cent of whose funding for Latin America comprises IDA funds, are: financing social and economic infrastructure and social services, as well as supporting good governance. In addition, it has provided a considerable amount of support to net cash transfer programmes benefiting extremely poor families in a number of countries. The IDB funds, in particular, infrastructure, private-sector development, economic participation of the majority of the population and social development. RE/EE and climate protection are a further strategic priority. The EU Commission focuses at regional level on the promotion of regional integration and security, alternatives to drug cultivation, strengthening social cohesion and diverse exchange programmes (ALFA, Erasmus Mundus). Bilateral cooperation is dominated by social and economic infrastructure, the environment and good governance.

In the more advanced countries in the region, ODA has relinquished its role as a key source of development funding, because it is relatively easy for these countries to get capital on the international financial markets. Bilateral and multilateral development cooperation, however, is still in a position – among other things through instruments such as PjF – to generate targeted and effective **momentum to initiate structural changes** which can be used to **mobilise own public as well as private funding** for development policy-relevant areas (e.g. environment and social affairs). Public revenue and savings and investment rates need to be increased to that end and invested in development-relevant areas. These are all politically sensitive issues, making the need for dialogue in and the political nature of development cooperation more manifest.

#### 8. German development cooperation still in demand

Germany is still an important donor in Latin America, not only on account of its significant contributions to the World Bank, the IDB, the Caribbean Development Bank (CDB) and to European development cooperation, but also on account of its bilateral cooperation.<sup>24</sup> It is working in the majority of Latin American countries.

Germany's experience of cooperation with Latin America is good. Financial and Technical Cooperation projects come out above the average in evaluation reports and cross-sectional analyses in comparison to other regions of the world.<sup>25</sup> Germany's profile has become more effective and more sharply defined thanks to the definition of priorities, which has been driven forward in recent years, the step-by-step implementation of a "joined up development cooperation" policy, and the close process- and effect-oriented support given to our partners. Partners and other donors are now more aware of what German development cooperation stands for and what its strengths are. As a result Germany benefits from a positive image – even in times in which donors from industrialised countries are being subjected to critical scrutiny in some countries and more independent approaches are being adopted – so that **bilateral cooperation with Latin America and the Caribbean is widely accepted, is in great demand and has good prospects for the future.**

Social and political links to Latin America have always been especially close. Because that is the case, the level of **non-governmental development cooperation with Latin America, such as privately funded development cooperation and that provided by the churches and political foundations, is still extremely high<sup>26</sup> and is suited to driving forward important issues in political dialogue with Latin America.**

24 In the case of the World Bank, Germany's contribution to IDA currently amounts to about 10 per cent of the total; Germany has a share of 4.6 per cent of the IBRD's total capital. Germany holds more than 1.9 per cent of the IDB's capital shares and contributed 3.5 per cent of the replenishment in 1994. Germany's capital share of the CDB is 5.8 per cent; its contribution to the replenishments 9.7 per cent. Germany's contribution to the EU Commission's development cooperation is 21 per cent (2005). In bilateral German development cooperation, more than 10 per cent of annual funding for Financial Cooperation and Technical Cooperation „in the narrow sense“ goes to Latin America (cf. also Table 1 in the Annex), which is a little more than the other donors pro rata.

25 Self-evaluation and cross-sectional analyses by KfW and GTZ.

26 These often commit 20 per cent and more of their funding and human resources to Latin America.

## II Increasing the Effectiveness and Visibility of Development Cooperation with Latin America

In conformity with the Millennium Declaration, the goals of German development cooperation in Latin America are embedded into the system of targets for German development cooperation overall. Its goals are:

- realising democracy, the rule of law and human rights,
- reducing poverty,
- protecting the environment,
- achieving justice in globalisation, and
- peacebuilding.

In order to make significant, effective, efficient and visible contributions to achieving those goals and have a greater and more sustainable impact, German development cooperation with Latin America will in the coming years continue to establish priorities and emphasise them more clearly, adapt modes of delivery and step up political dialogue with Latin America.

### 1. Establishing priorities and further defining Germany's thematic profile

We have come relatively far in terms of narrowing down the issues addressed in our development cooperation with Latin America. That has

enabled us to define the following priority areas for our future bilateral and subregional and regional approaches to development cooperation with countries in Latin America:

1. Good governance: democracy, rule of law and participation of the poor.
2. Environmental and climate protection: protecting natural resources (tropical forests/biodiversity) and sustainable energies (RE/EE).
3. Urban water supply and sanitation.

The number of priorities selected (so far up to three, sometimes with further programming flexibility) and the number of issues addressed within that programming flexibility are then to be reviewed in our partner countries together with our partners and further reduced if possible.

However, Germany also needs to better define its profile within the selected priority areas too and make its focus even clearer.

### 1.1 New focuses in the priority area "democracy, rule of law and good governance"

In our opinion, strengthening and developing democratic and rule-of-law institutions, increasing their efficiency (fighting corruption<sup>27</sup>) as well

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<sup>27</sup> Including implementing the Inter-American Convention against Corruption (IACAC) and the UN Convention against Corruption (UNCAC), which goes significantly further and has in the meantime been ratified by most countries in Latin America.

as the political and economic participation of the most excluded population groups **have vital contributions to make in fighting the structural causes of poverty and reducing social conflicts** in Latin America. Drastic changes need to be made to administrative and decision-making structures and processes at state level.

Up until now the issue of “decentralisation” has dominated this priority area in Latin America. Decentralisation usually refers to medium- and long-term regulations governing how competency and responsibility are shared among central government, regional and local governments, fiscal decentralisation and local participation. Work in this area will continue, although greater importance will be attached to changing **national** conditions; the overall level of intensity will be reduced.

The following issues are to be addressed and actioned more extensively using all available instruments (dialogue, consultancy, changing political conditions, PJP, strengthening institutional capacities, financial cooperation with broad-based implementation):

- a) More attention should be paid to the issue of **“strengthening the rule of law, strengthening democratic control bodies and political participation”**. This affects individual issues and areas for action, such as:
  - ⇒ respecting, protecting and guaranteeing **civil and human rights** (e.g. by strengthening the office of the ombudsman, civil-society control of government institutions, possibly advising parliament, strengthening the inter-American human rights system);

- ⇒ **involving indigenous peoples** in politics, society and the private sector, as well as **guaranteeing their rights**, strengthening their local and regional representation and self-help structures and creating legal certainty;<sup>28</sup>
- ⇒ **strengthening the rights** and social, political and economic **participation of women**;
- ⇒ **supporting the legal and judicial sector**, among other things by improving access for especially disadvantaged population groups to legal services.

Greater focus on these issues on the part of political foundations too would be welcome, particularly in those countries in which access by official bilateral development cooperation has become more difficult. Technical Cooperation already has many contacts to and interfaces with the political foundations, which are to be intensified. Financial Cooperation is to be implemented more than has been the case in the past, for instance by establishing funds to finance certain services (e.g. access to the courts) and – subsidiarily to non-governmental contributions – civil society activities.

- b) **Good financial governance and monitoring of poverty reduction strategies** are to be developed, particularly in the highly-indebted poor countries (HIPC) Bolivia, Nicaragua and Honduras, possibly also in other countries in which donors reach agreement on general or sector-specific budget support. The goal is to support (especially through consultancy and politi-

28 Based on the BMZ Strategy on Cooperation with Indigenous Peoples in Latin America and the Caribbean (2006), which contains performance targets for the implementation of official development cooperation. Afro-American population groups are also to be taken into account.

cal dialogue) a pro-poor, transparent<sup>29</sup> and efficient budgetary and financial policy. This involves increasing both public revenue, which is still too low in many countries (including by means of progressive tax reforms, efficient and socially just contributions systems and user fees), and pro-poor spending, among other things by setting up specifically targeted basic social services and poverty reduction programmes.

- c) **Crisis prevention, conflict resolution and peacebuilding will remain an important cross-cutting issue**, particularly in countries with increased or acute need for prevention measures (including Bolivia, Colombia and Guatemala). Along with adopting a conflict-sensitive approach to change processes, the focus here is on promoting dialogue between the state and civil society and supporting mechanisms for non-violent conflict resolution, including fighting youth crime.

## 1.2 Consolidating environmental and climate protection

Protecting natural resources (especially tropical forests, biodiversity) and climate protection (tropical forests, increasing use of sustainable energies) are indispensable elements of sustainable development and poverty reduction in the region. The international community, which has a shared responsibility for protecting global public goods, can provide assistance here. German development cooperation will continue to **promote, as a priority**, the following areas:

- **Protecting and using natural resources (protecting tropical forests), and**
- **Renewable energies/energy efficiency (RE/EE).**

Land protection measures (management of nature reserves, publicly owned forests, indigenous territories) and regional planning, especially in **tropical forests in the Amazon as well as in Central America**, will continue to take priority when it comes to protecting resources and maintaining biodiversity. Whenever possible, regional cooperation is to be promoted. Significant interfaces and cross-references result from promoting sustainable land use systems and value-added chains, such as are being supported in some partner countries in forestry and agriculture, as well as the promotion of small and medium-sized enterprises (sustainable economic development). In accordance with international environmental conventions and treaties,<sup>30</sup> the goal of German development cooperation is to support its partners in developing sustainable protection and land use strategies and to coordinate the often diverging interests. Among other things, the introduction of ecological and social standards have a role to play in this, as do issues concerning land planning and land rights, (further) developing compensation mechanisms for forest retention as part of climate protection and, in some cases, international trade issues.

Where there is concrete demand from countries in the region, a new agenda can be set as regards issues linked to **“adapting to climate change”**. Among other things, **watershed development or measures to increase adaptability in agriculture and forestry** could be taken up at a regional or bilateral level. The issue of **disaster prevention**

29 As of 2007, only three countries in the region (Bolivia, Peru, Trinidad & Tobago) were participating in the Extractive Industries Transparency Initiative (EITI).

30 Including the UN Framework Convention on Climate Change (UNFCCC), the UN Convention on Biological Diversity (UNCBD) and the UN Convention to Combat Desertification (UNCCD), as well as forest-related processes (Rio – Johannesburg, IPF/IFF/UNFF, FLEGT).

is closely linked to this and is still of great importance, especially as a cross-cutting issue of national and local economic development in countries that are particularly at risk from natural disasters.

The topic of **renewable energies/energy efficiency** has in recent years already taken up a considerable share of the portfolio (cf. Figure 1). There is already very close cooperation with the (sub)regional development banks (IDB, BCIE, CAF) and also as a result close interconnections between bilateral and multilateral development cooperation; this is an area to be developed and improved in a targeted fashion. New approaches to promotion – for instance supporting sustainable, environmentally and socially acceptable production methods for agrofuels – should be reviewed and implemented.<sup>31</sup> Political and governance issues, for instance incentive systems for environmental protection and the use of renewable energies, will have a large role to play and will, among other things, be developed in cooperation with the ECLAC and possibly with CARICOM. This and the promotion of regional networks and cooperation (regional environmental protection, energy alliances) are important points of intervention for future German development cooperation.

### 1.3 Continuing with urban water supply and sanitation, intensifying the dialogue on water

This issue remains so important because it concerns a service provided to citizens that is directly related to poverty (MDG 7). In addition, in the wake of continuing urbanisation, polluted waste water is leading to high environmental costs. In

addition to the World Bank and IDB, which are major donors in this sector, Germany is one of the leading bilateral donors in Latin America when it comes to drinking water supply and has specific know-how in terms of framing political conditions, water tariffs and the participation of the population in planning and pricing. That know-how is urgently needed given the (in some cases bitter) ongoing debates, especially concerning the privatisation of the water sector, future tariffs and institutional structures in Latin America; it also needs to be passed on in a politically sensitive manner.

Although by international standards rates of supply in Latin America are relatively good in this area, there are still cities and regions, especially in the poorer countries in Latin America, in which many poor people have no or only insufficient access to safe drinking water and waste water disposal systems. Reliability of supply and the quality of drinking water in particular still pose big challenges.<sup>32</sup> Work in this priority area is to continue above all in urban districts – possibly in conjunction with the surrounding land area in each case, which is often undersupplied.

There is no doubt that the difficult political and social situation in some countries (e.g. the “water war” in Cochabamba and El Alto in Bolivia) **raises some questions as regards future commitment**. However, it is precisely that which is seen as a challenge for German development cooperation, namely presenting itself as a player capable of driving forward medium-term, conflict-reducing **socio-political dialogue on the right to water**, water tariffs and institutional efficiency in the drinking water sector whilst, at the same time, **developing and implementing fully functional operator and tariff models**. That is the only way

31 This is a matter of active climate protection technologies that go beyond the state of the art in the energy field.

32 In Latin America more than 86 per cent of domestic waste water is left untreated. The poor often spend more than 10 per cent of their income on water. According to the IDB, regular quality controls are carried out on only 24 per cent of drinking water; 219 million people have their water supply interrupted for up to several hours at a time (cf. also UNDP, HDR 2006).

to reach the poor in Latin America and improve the sustainability of our commitment. Even better communication among and cooperation between the various German players (KfW, GTZ, InWEnt, political foundations, NGOs) are the prerequisites for this.

## 2. Changing the modes of delivery

The growing heterogeneity in the region and the diverging of partners' concrete needs mean that the range of development policy tools will have to be yet more finely differentiated and used in an even more targeted fashion in future. Therefore, the focus of cooperation will be even more on political dialogue and on developing technical expertise in countries such as Mexico and Brazil. Concrete financial and technical support for implementing poverty reduction and development strategies will predominate in cooperation with countries such as Nicaragua and Bolivia; crisis prevention and conflict resolution will, by contrast, be key features of cooperation with countries in which the potential for political and social conflict is high, such as in Colombia and Guatemala.

In future, not only are the modes of delivery to be adapted to the level of development and governance in a given partner country, they should also increasingly support regional integration efforts and fulfil the requirements of the Paris Agenda.

When it comes to regional issues, the approach taken within Germany will be to increasingly link the instruments of integrated experts (CIM) and InWEnt with regional Technical and Financial Cooperation („joined-up development cooperation“). Outside of Germany, cooperation with important partners such as the IDB, ECLAC, the World Bank and the EU Commission, and thus links between bilateral and multilateral development cooperation, are to be further intensified.

Even more information sharing is to be sought with German political foundations and, on a case by case basis, with other bilateral donors. In many cases, development consultants and economic cooperation officers at German embassies already have an important role to play when it comes to local coordination („Field-Level Country Team“); the importance of that role will continue to grow in future.

### 2.1 Further developing subregional and regional approaches to development cooperation and using scope to address new issues

The advantage of regional strategies is that – insofar as competent funding providers are available – they enable funding to be used in a particularly efficient way, it is easier to involve non-partner countries too, and it is possible to react flexibly to differing demands. They promote the sharing of experience at regional level and South-South cooperation based on good practices, and thereby give important impetus for carrying out national reforms. For these reasons more **weight is to be given to regional approaches in terms of both quantity and quality**. Our aim thereby is to

- **strengthen** and promote the **existing priority areas** (especially democracy and the rule of law, protecting tropical forests, promoting sustainable energies) of German development cooperation in Latin America **by means of regional approaches that complement each other** wherever competent executing agencies are available at the regional level. Examples are: regional tropical forest projects in the Amazon area, the promotion of sustainable energies via the (sub)regional development banks CAF, BCIE and, increasingly, the IDB too, as well as projects to strengthen institutions, especially regional and supranational organisations of indigenous peoples;

● use emerging scope to make **significant and effective contributions towards achieving development-policy goals that are of global or regional importance.** Over the next few years priority will be given to three areas:

- ⇒ **Promoting regional projects and dialogues on “women’s rights and gender”, “youth and violence”** (especially in Central America), and **“social cohesion”**<sup>33</sup> as the core topic for dialogue between the EU and Latin America. A regional project will be initiated concerning the issue of women’s rights and gender that will strengthen political dialogue on women’s rights and offer concrete support to civil-society forces. Synergy effects between the foreign and development policy agendas are to be increased for all the aforementioned topics, for instance by adding the development-relevant issue of “progressive tax systems” to the agenda of the EU-Latin America Summit of Heads of Government.
- ⇒ **Fighting HIV/AIDS in the region, especially in the Caribbean**, which is particularly severely affected. Here we will continue and, where possible, further expand cooperation with CARICOM, BCIE and Brazil (tripartite cooperation).
- ⇒ **Promoting regional economic and political integration** should result in prudent approaches that are complementary to the work of the EU Com-

mission and other donors. Mercosur, in particular, is important on account of its size and political weight. The Central American integration process has already made progress, albeit slowly.

- **respect the existing division of labour** among donors and, if necessary, **reach even better agreements.** The EU Commission has a prominent role to play here on account of its large-scale regional promotional schemes such as AL-Invest (for SMEs), @lis (to promote the information society), URB-AL (information sharing between local authorities and educational and university cooperation programmes: Erasmus Mundus, ALFA), and its promotion of subregional integration processes.

## 2.2 Developing Germany’s “strategic partnerships” with the ECLAC and IDB, and cooperation with the subregional development banks

The objective of our strategic partnership with the ECLAC is to strengthen its role as a “think (and do) tank” for the region and to use it even more as a platform for political dialogue. Agreement has been reached on issues to be addressed in this partnership: good governance (including good financial governance and social cohesion), renewable energies, dealing with climate change, sustainable use of natural resources, technology policy and regional integration. This cooperation is to be stepped up. The ECLAC will continue to be used as a forum for emerging issues in the region.

<sup>33</sup> The frame of reference is provided, among other things, by the UN Children’s Rights Convention, the International Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW), the Beijing Declaration of the World Conference on Women, and the EU Council Conclusions of May 2007 „Gender and Participation: The Role of Women in Development Cooperation“. Sub-areas of the issue „social cohesion“ adopted at previous EU-Latin America summits are labour regulations (decent and productive work), justice, land reforms, social security systems and tax systems (fiscal policy).

The strategic partnership agreed in 2004 with the IDB (known as the “energy partnership”) is supplementary to regular multilateral German cooperation with the IDB, and focuses it on the issue of renewable energies and energy efficiency (RE/EE). The aim is, firstly, to align the energy policies of countries in the region more to RE/EE. Secondly, more weight is to be attached within the IDB’s portfolio to RE/EE, and visibility of the topic is to be increased. The IDB has great influence on the energy sector in Latin America (with an 18 per cent share of the overall portfolio, the largest single sector). The same also applies to Financial Cooperation projects with the subregional banks CAF (Andes) and BCIE (Central America), which have recently added, or added more, sustainable energies to their portfolio. Germany is also working with the IDB on a dialogue on “social cohesion”, which is to become more firmly established in Latin American politics.

### 2.3 Stepping up harmonisation and strengthening joint instruments (PBAs and PJF)

There is still great variation in the level of implementation of the Paris Agenda in partner countries in Latin America and further harmonisation of and alignment to partner countries’ strategies. The HIPCs (Nicaragua, Honduras, Bolivia) in particular have comparatively strong coordination structures and have established some joint instruments. Although other countries with more donors, like Peru and (with reservations) Guatemala and Ecuador, have adopted a similar course, the Paris Declaration has had hardly any impact on most of the larger or wealthier countries in the region so far.<sup>34</sup>

Exploring and using the scope available will be a task for German development cooperation in each individual partner country in the coming years. **Harmonisation** and **joint measures** are therefore to be included in the **goals and indicators** of country strategies, priority area strategy papers and in the targets of Financial Cooperation projects and Technical Cooperation projects (in the narrower and wider sense) to a greater extent than has been the case in the past. The following are also conceivable, among other things: a compiling of Joint Country Assistance Strategies, joint reporting and evaluation, stepping up donor coordination and the division of labour among donors based on pragmatic needs, involvement in the drafting of codes of conduct and sector-wide approaches (SWAPs) for individual topics and sectors. Political cycles (elections) are to be taken into account more than in the past, since they often herald a complete break.

**Programme-based approaches (PBAs) and programme-oriented joint financing (PJF)** have a key role to play.<sup>35</sup> Both involve joint policy dialogue and joint implementation. PJF is to be developed and consistently implemented in Latin America wherever feasible. The same applies to Technical Cooperation, which already provides consultancy, moderation and, from time to time, also (co-)funding (technical assistance pools). If the (relatively good) conditions continue to exist, in particular as regards justifiable fiduciary and political risks, it is our aim in Latin America in the coming years to consistently utilise all PBA and PJF potentials and to further increase the share of PJF, which in the period from 2003 to 2006 made up around one fifth of all new commitments in the region. **Sector-specific budget support** and **basket funding** should be developed and utilised more. Wherever German development

34 In Latin America the Paris Declaration has only been signed by Bolivia, Peru, Nicaragua, Honduras, Guatemala, the Dominican Republic, Brazil and Mexico.

35 Cf. also the BMZ Strategy on Programme-Based Approaches (PBAs), 2007. PBAs cover general and sector-specific budget support, as well as basket funds and SWAPs.

cooperation does not want to or cannot take on a lead role – especially as regards fixed-term or additional commitments aimed at **speeding up the achievement of specific MDGs** – more **silent partnership agreements** will be signed. However, where German development cooperation has comparative advantages, it can take on a lead role and should endeavour more to reach agreement on **combined financing** and other forms of **delegated cooperation**.

Furthermore, attention will be paid to improving the range of instruments applied. In the case of budget support, the focus is to be on, among other things, further increasing partners' ownership (governments, parliaments, civil society), on enabling national monitoring systems fully to support the process, and on donors "harmonising" their decisions on the disbursement of budget support, or at least bringing them more into line with each other. Key donors include, on account of their size and their ability to adopt a more overarching strategy, the World Bank and, sometimes, the EU Commission. We will seek active cooperation with both these bodies.

#### **2.4 Mobilising additional funding: development loans, combined financing and public-private partnerships**

Development loans<sup>36</sup> and, to a lesser extent, also public-private partnerships (PPPs) have for some time now been important instruments of development policy in Latin America, depending on the economic situation in our partner countries and their debt carrying capacity. They multiply the available funding volume and thus considerably increase the impact of development cooperation. More recently a growing number

of combined financing models and – in more advanced countries – KfW promotional loans have been used. The extent of private-sector promotion by the DEG has also increased.<sup>37</sup> Wherever these instruments can guarantee an effective contribution to the achievement of the development priorities and/or goals defined for the respective partner country or region, they are to be utilised even more. Areas such as urban and industrial environmental protection, sustainable energies, water supply and – in more developed countries – PBAs in the form of sector-specific budget support are of particular interest. Close-to-market-level funding can, however, also be used for "sustainable economic development", especially in areas in which it has a high pro-poor impact, such as for instance the promotion of SMEs, microfinancing (into which remittances from migrants can also be integrated to a greater extent), and possibly also regional economic promotion or the promotion of youth employment.

#### **2.5 Anchor countries and emerging economies: developing dialogue and tripartite cooperation**

Our partner countries Mexico and Brazil, the most populous and dynamic countries in the region, will in the coming years have an important role to play as anchor countries within and outside of Latin America.<sup>38</sup> Brazil also has the largest area of tropical forest anywhere in the world.

The leitmotif of cooperation with anchor countries is Germany's interest in having regional models (anchors) for democratic and economic development and in close, well-networked partnerships in the areas of research, economics and the environment. The focus of attention is on

<sup>36</sup> As interest-subsidised loans, mixed financing and composite financing, they have a large share of market funds.

<sup>37</sup> The DEG committed 128 million euros in 2005, 202 million euros in 2006. In late 2006, the Latin America portfolio totalled 570 million euros.

<sup>38</sup> Cf. BMZ Position Paper: Anchor Countries – Partners for Global Development, December 2004.

the protection of global or regional public goods – especially **environmental and climate protection**, including sustainable energies. This can be supplemented by topics such as vocational training, consultancy for SMEs and industrial environmental protection. There is active demand for the topic of “**technology policy**”, which will be added.

Cooperation targets are currently being negotiated with Mexico and Brazil. They involve German players that are not defined as “classic” development cooperation institutions – for example other German ministries (especially the Federal Ministry of the Environment, Nature Conservation and Nuclear Safety (BMU) and the Federal Ministry of Education and Research (BMBF)), research facilities and chambers of foreign trade. The often very targeted demand from countries is met within defined “**cooperation corridors**” by means of the well-aimed, very flexible use of instruments, among other things by drawing on short-term experts and integrated experts (Centrum für Internationale Migration und Entwicklung, CIM).

A further leitmotif of the dialogue with Latin American anchor countries is the **social dimension of globalisation**: fair global trade, the establishment or reform of social security systems and social cohesion, the promotion of foreign direct investments, corporate social responsibility, and labour and social standards (particularly for women and children). The political foundations, InWEnt and some private-sector players have an important role to play as regards stepping up this dialogue.

A further goal is to support via **tripartite cooperation** projects the efforts of anchor countries and emerging economies in the region (e.g. Chile and Costa Rica) to pass on their experience of development and gradually establish their own development cooperation structures. Since smaller measures rather than large-scale projects tend

to be initiated at the start of such cooperation, the promotion of tripartite cooperation in Latin America will in the coming years be handled as flexibly and pragmatically as possible. Topics that lend themselves particularly well to tripartite cooperation with less developed countries in the region – on account of the good experience gained in cooperation with emerging economies and anchor countries – could be **industrial environmental protection** (Mexico, Costa Rica, Chile, Brazil) and **HIV/Aids** (Brazil).

### 3. Supporting the EU-Latin America political dialogue and paying attention to coherence

**The dialogue** between the EU and Central America, the Andes region and Mercosur will **intensify and deepen** over the coming years in the wake of the ongoing association negotiations, where the focus is on an exchange of goods and services with Europe that is fair towards Latin America and that promotes the region. We want to support that, since the potential of the much-praised “strategic partnership” between the two regions has not yet been fully exhausted. In this dialogue the BMZ first and foremost emphasises those topics that are also priorities of bilateral development cooperation. These also include topics such as “social cohesion”, gender equality and equality of the indigenous population, and “aligning global structures to development needs”, which can be tackled together with German implementing organisations and international partners (the ECLAC, development banks, possibly also bilateral donors).

At the same time the BMZ is also concerned to **advance the cause of German development policy interests** and to establish them even more firmly within other policy fields in Germany (e.g. trade, economic, agricultural and security policy) and in the strategies of important international players. The aim here is to make our **cooperation**

with partner countries even more **holistic** and **coherent**. The difficult WTO negotiations, in the course of which Latin American countries called for agricultural markets to be opened up, the still very different ideas concerning regulatory and development policy of those donors that are active in Latin America or the increasing political differences within Latin America itself show clearly how important coherency issues will be in the future. Regular working contacts and processes for coordination with other German players (ministries<sup>39</sup>, the academic world) and international players (UN, WTO, World Bank, IDB, EU Commission, NGOs, etc.) and involvement in networks that serve such exchange and coordination will thus continue to increase in future.

And finally: If we want to provide substantial input to ongoing dialogue processes and policy coherence, we must improve the image and visibility of our own strategic work and step up our involvement in networks and forums. To that end, we must, among other things, become better at identifying and processing insights and experience gained from development cooperation with Latin America. Where possible, joint in-country development-related public relations work should be carried out, coordinated by the embassies in consultation with the BMZ.

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<sup>39</sup> Cf. also „Guidelines for German Foreign Policy towards Latin America and the Caribbean“ by the Federal Foreign Office (2004) and the „Position Paper on Germany's Military Commitment in Latin America and the Caribbean“ by the Federal Ministry of Defence (2007).

## III Conclusions

In the coming years, in order to achieve the MDGs, German development cooperation with Latin America will seek to contribute to a better division of labour and specialisation among donors, whilst retaining sufficient flexibility. This is necessary in light of the fact that conditions often change extremely rapidly in Latin America and because of the specific wishes of our partners. German development cooperation, which has many years of experience to fall back on and a high level of in-country presence compared to other donors, is well-placed to do just that.

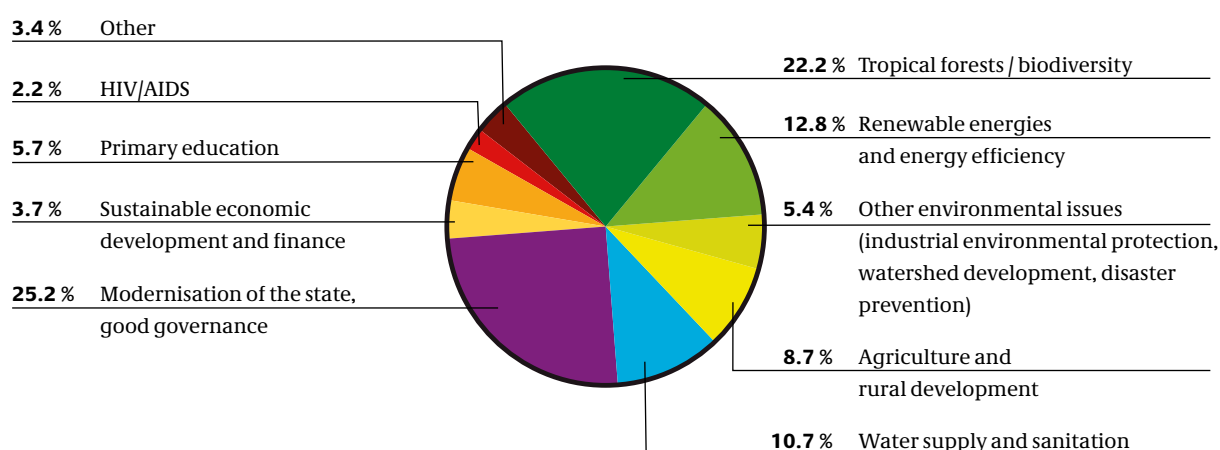
Germany is an important bilateral donor, but can only operate successfully in Latin America and the Caribbean if collaboration within German development cooperation and with other donors becomes significantly closer. At the same

time, key players that are capable of driving forward social, economic and political change in the region must be more precisely identified and observed, and cooperation with them must become even closer.

Social and political changes, such as are already underway in some cases, will have a decisive influence on the future of this region. Only a democratically-governed and at the same time „more social“ Latin America has a good chance of continuously and successfully driving forward its integration into global markets and into global politics. It is the task of the governments of the countries of Latin America and the Caribbean resolutely to continue along that path. And it is the task of development policy to advise and support them in doing so.

## Annex: Figures and Tables

**Figure 1** Financial and technical cooperation in Latin America:  
2004, 2005, 2006 and 2007 commitments, by topic and sector \*

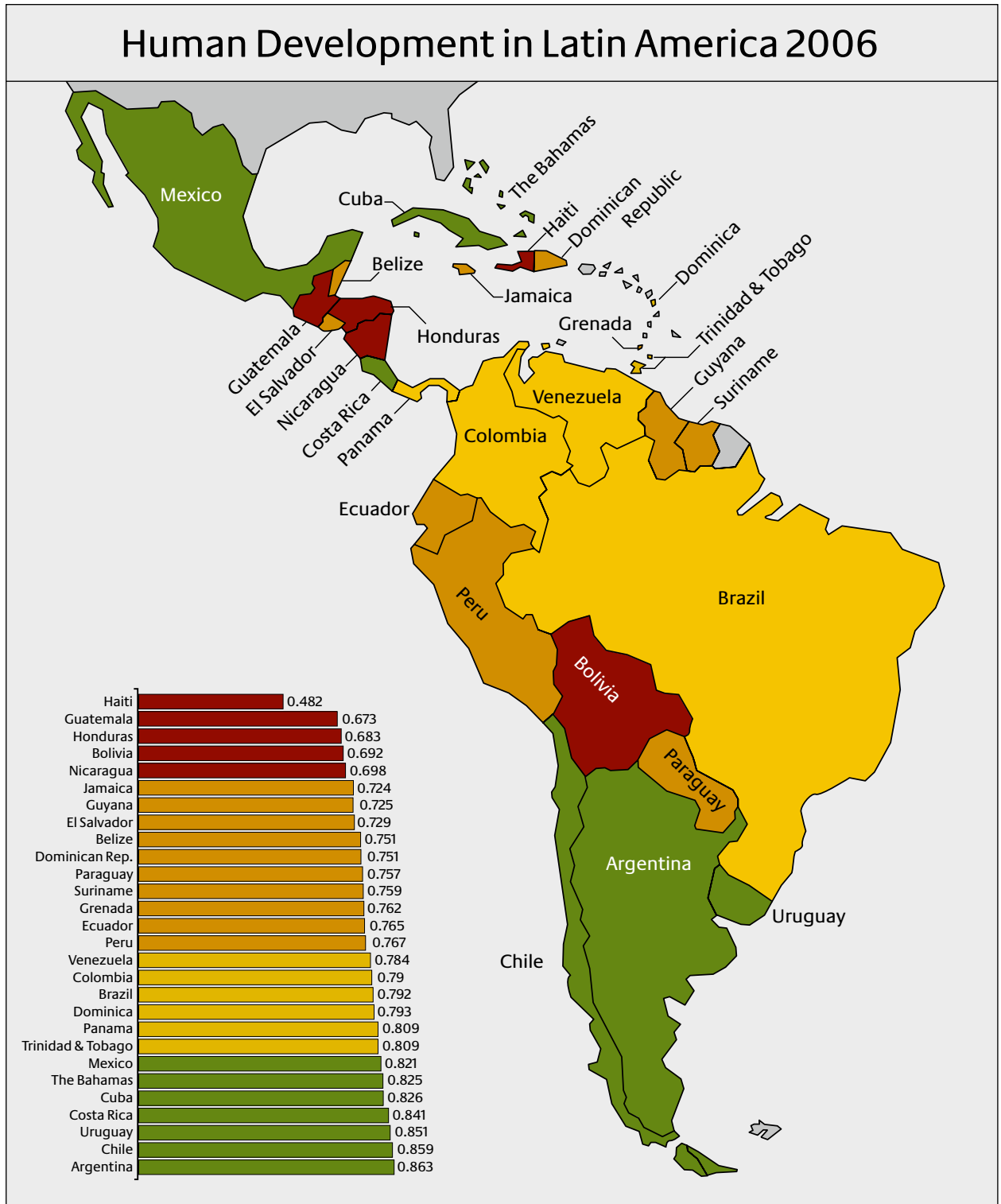


2004. 2005. 2006. 2007 commitments *		as a percentage	in million euros
Modernisation of the state, good governance		25.2	184.6
Tropical forests / biodiversity		22.2	162.6
Renewable energies and energy efficiency		12.8	93.8
Water supply and sanitation		10.7	78.7
Agriculture and rural development		8.7	64.2
Primary education		5.7	41.5
Other environmental issues (industrial environmental protection, watershed development, disaster prevention)		5.4	39.6
Sustainable economic development and finance		3.7	26.9
Other		3.4	24.9
HIV/AIDS		2.2	16.0
<b>TOTAL</b>		<b>100.0</b>	<b>732.8</b>

\* 2004-2007 commitments, including re-programming, excluding market funds

Sources: BMZ, Division 223 (Lumina)

**Figure 2**  
**Human development in Latin America at a glance**



Source: Human Development Report 2006 (data relate to 2004)

The Human Development Index (HDI) measures development by the following variables: gross domestic product (GDP) per capita, life expectancy and level of education (literacy and enrolment rate). Norway has the highest level of development = 0.965; Niger has the lowest level of development = 0.311. A value of approximately 0.7 is classed as „average level of development“ in a global comparison.

**Figure 3****Trends regarding achievement of MDGs in Latin America / Caribbean**

<b>Millennium Development Goal &lt;MDG&gt; *</b>	<b>Need for action in LAC compared to rest of world</b>	<b>Probability of achieving MDG by 2015 if development since 1990 continues linearly, according to the ECLAC</b>
<b>1. Eradicate extreme poverty and hunger</b>		
Reduce by half the proportion of people living in poverty and in extreme poverty	Medium	Extreme poverty: Possible if positive development between 2003 and 2007 continues. Poverty: Low, especially in countries with low level of development.
Reduce by half the proportion of people who suffer from hunger	Medium	Relatively high. Very good progress made in countries with low and high level of development.
<b>2. Achieve universal primary education</b>		
Ensure that all boys and girls complete a full course of primary schooling	Low, since high enrolment ratio already achieved	High but only medium in countries with high school drop-out rate.
<b>3. Promote gender equality and empower women</b>		
Eliminate gender disparity in primary and secondary education	Low, since roughly equal proportions of girls and boys already achieved	High
Increase the share of women in wage employment	Low, since share already high	Relatively high
<b>4. Reduce child mortality</b>		
Reduce by two thirds the mortality rate among children under 5	Medium	Relatively high. Very good progress being made only in medium-level to highly developed countries.
<b>5. Improve maternal health</b>		
Reduce by three quarters the maternal mortality rate	Medium	Relatively low. Maternal mortality rate during pregnancy and/or birth is high.
<b>6. Combat HIV/AIDS, malaria and other diseases</b>		
Halt and reverse the spread of HIV/AIDS	Medium	Relatively low: Especially the Caribbean is battling against the spread of AIDS. Good progress in fighting malaria; little in combating tuberculosis.

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**7. Ensure environmental sustainability**

Reverse the loss of forested land	High, since large areas of forested land under threat	Unachievable. The rate of deforestation and clearing has even increased.
Reduce by half the proportion of people without sustainable access to safe drinking water	Low to medium	High. Nevertheless, little improvement made in the countries in the Caribbean in particular and in countries with low level of development.
Achieve significant improvement in the lives of at least 100 million slum dwellers (by 2020)	High, since large proportion of slum dwellers	Relatively low. Improvements recognisable in only half of the relevant countries, in the others little change, sometimes set-backs.

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**8. Develop a global partnership for development**

Decent and productive work for young people	Medium	Very low. Unemployment/under-employment is especially widespread among young people, particularly in poor households.
Make available the benefits of new technologies (internet access)	Low, since already many users	Very high.
Address the special needs of the least developed countries	Medium	Medium. Problem of indebtedness will probably remain in poorer countries. Flows of ODA to Latin America will probably remain stable, concentrating more on poorer countries.

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\* Shortened version. The MDGs cover a total of 18 targets and 48 indicators.

Source: ECLAC 2005: MDGs. Latin American Perspective 2005.

Figure 4

**Topics / instruments of German development cooperation and possible utilisation in Latin America**

Topic / instrument	Bilateral	Subregional and regional approaches in Latin America	Anchor countries	Middle income	Lower (middle) income / HIPC	Conflict states/ fragile states	Cooperation with WB	Cooperation with IDB	Cooperation with ECLAC
Good governance	XX	•	•	•	XX	XX	•	XX	XX
Tropical forests	XX	XX	XX	XX	•		XX	•	XX
Renewable energies	•	XX	XX	XX	•	•	XX	XX	XX
Drinking water	XX	(KfW, InWEnt, foundations, GTZ)		•	XX	•	•	•	XX (Water dialogue)
Political dialogue (eg global structural policy)	XX	(ECLAC, InWEnt, foundations, GTZ)	XX	•	•	•			XX
HIV/AIDS	•	XX				•	•	•	
Tripartite cooperation		XX	XX	•					
Policy-based approach (e.g. budget support)	XX		•	•	XX	•	XX	•	
Close-to-market-level financial cooperation instruments (microfinance, SMMEs)	XX	•	XX	XX	•	•	•	•	

• Possible in principle (maybe only to a limited degree/partially)

XX Possible and can/should be used to a high degree

**Table 1**  
**Development of German development cooperation with Latin America / Caribbean**  
**(Sum of all bilateral and multi-country commitments)**

Year	Bilateral ODA net payments		Framework planning Financial and Technical Cooperation (target)			
	In million euros	as %-age of global portfolio	Fin. Coop. (mil. euros)	Tech. Coop. (mil. euros)	Total Fin. + Techn. Coop. (mil. euros)	as %-age of global portfolio
1990	461.6	12.5				
1991	417.9	10.8				
1992	444.1	10.6				
1993	484.3	12.7				
1994	365.5	10.6	152.0	66.3	218.3	11.9
1995	445.7	12.6	96.6	123.8	220.4	12.4
1996	657.0	18.8	100.0	136.7	236.7	12.5
1997	419.2	13.0	79.2	158.5	237.7	12.9
1998	419.4	13.4	111.7	91.8	203.5	13.3
1999	373.8	12.1	138.1	135.7	273.8	17.4
2000	375.5	12.9	64.4	59.8	124.2	12.1
2001	373.2	11.7	88.5	91.5	180.0	14.8
2002	376.9	10.7	81.0	64.0	145.0	10.8
2003	418.9	11.7	91.5	72.00	163.5	11.3
2004	533.5	17.3	91.0	60.0	151.0	10.5
2005	451.5	8.2	94.5	72.0	166.5	11.5
2006			83.0	56.2	139.2	10.4

Source: BMZ

**Table 2**  
**Technical Cooperation „in the wider sense“ with Latin America:**  
**German Development Service (DED) and integrated experts (CIM) \***

	German Development Service (DED)		Integrated experts (CIM)	
	Personnel seconded to Latin America	As %-age of global portfolio	Personnel seconded to Latin America	As %-age of global portfolio
1990	179	19	161	21
1991	201	21	184	22
1992	223	22	180	22
1993	232	22	193	23
1994	239	24	179	22
1995	247	25	199	24
1996	257	25	193	24
1997	209	20	177	24
1998	207	22	196	24
1999	223	26	190	26
2000	234	24	181	22
2001	215	23	131	19
2002	229	24	111	17
2003	223	23	91	14
2004	198	22	98	15
2005	214	22	106	17
2006	196	20	125	18

\* InWEnt's data broken down according to region are only available from 2005. InWEnt's expenditure for Latin America was 11.9 million euros in 2005 (12.9% of global portfolio), 13.8 million euros in 2006 (15% of global portfolio).

**Table 3**  
**BMZ commitments to church relief organisations, political foundations and private funding providers in Latin America**

Year	Church projects		Political foundations *	Private funding providers (Title 687 06) (mil. euros)	
	Commitment	Expenditure	Commitment	Commitment	Expenditure
1990	40	32.6		3.5	3.7
1991	39.1	37.6		3.2	4.2
1992	40.4	36.9		5.4	4.1
1993	39.5	40.1		4.8	3.7
1994	38.2	38.2		2.3	3.6
1995	38.5	34.9		3.0	3.2
1996	39.8	36.0		4.1	3.2
1997	38.9	36.0		3.8	3.7
1998	35.3	36.7		4.5	4.6
1999	35.7	33.4		4.1	3.8
2000	35.5	32.6	37.8	4.6	4.6
2001	36.1	34.3	46.3	5.9	5.1
2002	42.3	36.2	42.5	6.1	6.2
2003	40.9	35.5	44.2	6.4	4.7
2004	35.5	34.8	46.0	4.7	5.4
2005	41.6	37.6	49.4	6.5	5.9
2006	41.2	38.7	49.7	4.8	5.2

\* Excluding commitments by the Rosa Luxemburg Foundation for Latin America  
(because no statistics available)

Source: BMZ

**Table 4**  
**Development cooperation of multilateral donors and the EU Commission with Latin America**

Year	World Bank*	Inter-America Development Bank		European Union (excl. Caribbean islands)	
	(mil. US dollars)	(mil. US dollars)		(mil. EUR)	
	Commitment	Commitment	Expenditure	Commitment	Expenditure
1996	4,438	6,766	4,316		
1997	4,563	6,048	5,468		
1998	6,040	10,063	6,635		
1999	7,737	9,486	8,387		
2000	4,063	5,266	7,069	278	195
2001	5,300	7,854	6,459	300	152
2002	4,366	4,549	5,837	333	182
2003	5,820	6,810	8,902	329	280
2004	5,320	6,020	4,232	312	314
2005	4,966	7,148	5,323	329	376
2006	5,911	6,379	6,486	356	343

\* Figures for World Bank (IBRD and IDA) refer to fiscal years (fiscal year 2006: 1 July 2005 – 30 June 2006). The IDA share has been between 178 and 338 mil. US dollars p.a. since 2002.

Sources:  
Annual Report on the European Community's Development Policy 2006,  
The World Bank Annual Report 2006, IDB Annual Report

**Published by the**

**Federal Ministry for Economic  
Cooperation and Development**

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**Final editing** Jutta Wagner

**Officials responsible** Dr. Reinhard Tittel-Gronefeld

**As at** February 2008

