

# Sector Report



## Trade and Regional Integration



External Monitoring Service  
2006

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## List of Abbreviations

Abbreviation	Description
ADAPCCA	Support to the design and application of common Latin American policies
ALCA	Latin American Free Trade Area
ANDESTAD	EU-CAN Statistics Cooperation
ETA	European Technical Assistance
BID	Inter-American Development Bank
CAN	Community of Andean Nations
EC	European Commission
CERPYPE	Regional Development and Reinforcement of SME Provincial Support Structures
FA	Financial Agreement
DEC	Delegation of the European Commission
TAA	Technical and Administrative Arrangements
FOMIN	Multilateral Investment Fund
FOMYPE	Strengthening the Competitiveness of Micro and Small Enterprises in El Salvador
R&D	Research and Development
FDI	Foreign Direct Investment
INTI-UE	National Institute of Industrial Technology- European Union
OVI	Objectively Verifiable Indicators
JICA	Japanese International Cooperation Agency
MCCA	Common Central American Market
LF	Logical Framework
NAFTA	North American Free Trade Area
OECD	Organisation for Economic Co-operation and Development
PADUEM	Customs Cooperation EU - MERCOSUR
PAIRCA	Support Programme for Central American regional integration
PIAPYME	Integral Support to Small and Medium sized Enterprises
UNDP	United Nations Development Programme
AWP	Annual Work Plan
GWP	Global Work Plan
PWP	Provisional Work Plan
PROCOIN	Trade and Development and Investment Promotion Programme
PROTLCUEM	Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)
SMEs	Small and Medium sized Enterprises
SG-SICA	Secretary General of Central America's Integration System
FTA	Free Trade Area
EU	European Union

## **1. Objectives of the sector report on trade and regional integration**

This report summarises the results of the monitoring of trade and regional integration projects supported by the European Commission in Latin America during 2006. The report has four objectives:

- To highlight the main aspects of trade and regional integration in Latin America as well as the main features of EC cooperation towards Latin America in this field.
- To outline the conclusions of the monitoring carried out in the different countries and to present the scores awarded to the different projects, highlighting some of the principal observations made about the various projects included in the sample.
- To present the lessons learnt and the recommendations made in some of the monitoring reports with regard to the five standard monitoring criteria: relevance and quality of design, efficiency, effectiveness, impact and sustainability.
- To motivate debate on the various trade and regional integration projects the EC supports in the region. Although there are clear differences among the projects, there are also important similarities and this report allows for the comparison of experiences from different countries.

## **2. Regional Context for Trade and Integration**

In Latin America, the further north a country is the closer its commercial dependency on the US becomes. Thus the bilateral relationship with the US is significant across the region but is strongest in Mexico and Central America. The geographical closeness of the US and the tremendous gravitational effect that its economy exerts on Latin America generates a desire on behalf of these countries to diversify their exports, particularly towards the European Union (EU).

Exports from the European Union to Latin American countries were worth 54.588 million euros in 2005 representing 5.1% of the total of its exports, whereas imports to the EU from Latin America amounted to 64.508 million euros representing 5.5% of the total of its imports. On the other hand, the amount of foreign direct investment (FDI) from the Community towards Latin America was close to 36 million euros that same year, representing 31% of the total foreign investment of the EU, a percentage considerably higher than that achieved in trade. In the case of FDI, European investments are aimed at countries such as Mexico, in order to gain access to the markets of partners in the North American Free Trade Agreement (NAFTA), and also to countries such as Brazil so as to exploit the possibilities offered by such large internal markets.

Latin America's trade negotiations with the EU are substantially different from those with the US. In the case of the latter, two clear patterns have

emerged: on the one hand, the countries that have Free Trade Agreements (FTAs) with the US, such as Mexico, Chile, Central America and The Dominican Republic as well as those currently in negotiations such as Panama, Colombia, Peru and Ecuador; and on the other hand, countries headed by Brazil that have refused to sign similar agreements and gone so far as to block the plan to build a North-South American Free Trade Area (ALCA). In contrast, there are already two countries, Mexico and Chile, that have FTAs with the EU and three regions, the Central American Common Market (CACM), The Community of Andean Nations (CAN), and MERCOSUR that have shown an interest in establishing Association Agreements with the EU. The process is clearly moving at a slower pace than the negotiations with the US but it is worth highlighting that all countries without exception, have declared an interest.

Another important difference as regards the US negotiations is that the agreements would not be limited to FTAs but would be similar to Association Agreements. This would imply the addition of political dialogue and cooperation as well as the standard commercial content. Moreover, negotiations with the EU do not hinder the sub regional integration processes but tend to promote a certain degree of synergy that will probably reinforce these integration processes.

As regards these sub regional integration processes in Latin America it is clear that the rhetoric has exceeded any real advances. Latin America has an integrationist tradition that goes back to the 60s and even prior to that, but in reality this has not translated into a noticeable flow of intra-regional trade. And although these exchanges should not be underestimated, they are nowhere near the levels that the EU or NAFTA countries reach in their internal trade.

The projects supported by the European Commission with a view to promoting trade and regional integration in Latin America are targeted at the following priorities: improvement of productivity, diversification of export markets (with an emphasis on the EU as a natural alternative to the US), enforcement of regional integration processes (learning from the EU experience) and fostering the dynamism of Small and Medium sized Enterprises (SMEs).

Latin America has increased both its openness to trade and its exports but continues to suffer from numerous limitations. Some countries have managed to increase their participation in world markets but others have had to deal with strong competition from regions such as Asia, and particularly China. Thus, the objectives of these types of projects (such as an increase in productivity or an increase in export diversification) fit perfectly with government policies as they are initiatives stimulating strategies that are very relevant to Latin American economies.

### 3. European Commission Policy towards Latin America

Europe and Latin America have a long standing tradition of bilateral agreements, going back to the 60s, when European reconstruction had more or less been completed. Apart from being the second most important commercial partner and the main investor in Latin America, the EU has also been its main donor.

This bilateral relationship is outlined in the document "A reinforced association between the EU and Latin America" released in 2005. Some of the main goals highlighted in this document include:

- To create a strategic relationship reinforced by a network of association agreements in which all countries of the region take part, thereby facilitating their integration;
- To maintain a real political dialogue that reinforces the influence of both regions in the international scene;
- To develop effective sector discussions in order to reduce inequality and promote sustainable development;
- To contribute to creating a stable and predictable framework that would help Latin American countries to attract more European investments, contributing in the long term to their economic development;
- To adapt the provision of aid and cooperation to the needs of the countries in question;
- To increase mutual understanding through education and culture.

Moreover, the EC proposed to work in the following areas:

- The consolidation of a multilateral trading system;
- A deepening of the association agreements currently in force;
- The negotiation of association and bi-regional Free Trade Agreements;
- The easing of access to the European market by Latin American companies;
- Strengthening of the dialogue on obstacles to trade and investment;
- Strengthening of the dialogue to promote macroeconomic stability, essential to stimulating trade and investment.

In this way, the EC responded to a series of high level meetings among European, Latin American and Caribbean Heads of State which had begun

in June 1999 with the Rio Summit, followed in May 2002 by the Madrid Summit and in May 2004 by the Guadalajara Summit, until the most recent Vienna Summit in May 2006. The issues discussed in each meeting have tended to coincide – trade, investment, regional integration, political dialogue, etc. with an emphasis in the last summit on the negotiation of association agreements with the three Latin American sub-regional processes.

#### 4. Representativity of the external monitoring 2006

The external monitoring that took place in 2006 covered a total of twenty ongoing projects – including AL INVEST III – and two projects monitored ex post. The amount of financing involved was 265.8 million euros distributed as follows: 74.5% ongoing projects, 22.7% AL-INVEST III initiatives (also in execution) and 2.8% ex post projects. The breakdown by priority areas was as follows: 76.2% corresponding to trade and development projects, 18.6% to regional integration projects and the remaining 5.2% to a project on governance and institutional strengthening and another on food security and sustainable development.

Excluding AL-INVEST III, the average budget of the ongoing projects is 8.3 million euros. Although country projects predominate, we can see from Table 1 that some regional projects are also targeted at MERCOSUR, MCCA and the CAN. The implementing agencies are typically government entities or those pertaining to the regional integration schemes but sometimes they are universities or other non governmental organisations. In some cases the Financial Agreements go back to 1999 but it can be said that they are generally more recent.

Table 1: Projects monitored in 2006

ONGOING			
Country	Project N.	Name	AMOUNT
Brazil	2003/002-446	Technological Centres Network and SME Support in Brazil	8,000,000
MERCOSUR	1999/001-052	Customs Cooperation EU - MERCOSUR (PADUEM)	5,300,000
Uruguay	2004/005-906	Technological Development in Key Sectors of the Uruguayan Economy	3,000,000
MERCOSUR	2004/005-916	Harmonization of technical standards and regulations and conformity procedures in MERCOSUR	4,000,000
Paraguay	2004/016-713	Strengthening the Competitiveness of the Export Sector in Paraguay	13,000,000
Guatemala	2001/002-393	Investment and Trade Promotion – Support to Micro and Small Businesses	6,000,000
Mexico	2003/002-448	Integral Support to Small and Medium sized Enterprises (PIAPYME)	12,000,000
Mexico	2004/006-068	Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)	8,000,000

Chile	2003/005-755	Support for the Creation and Development of Innovative Businesses	17,200,000
Chile	2003/005-904	Application Fund for the EU-Chile Association Agreement	5,000,000
Argentina	1999/002-488	Improvement of the Argentinean Economy's Efficiency and Competitiveness (INTI-UE)	6,200,000
Argentina	2004/016-705	Improvement of the Productivity of SMEs in the Industrial Forest Sector	6,000,000
El Salvador	2005/016-805	Strengthening the Competitiveness of Micro and Small Businesses in El Salvador (FOMYPE)	10,000,000
Andean Community	2002/005-852	EU-CAN Statistics Cooperation (ANDESTAD)	5,000,000
Central America	2003/005-754	Support Programme for Central American regional integration (PAIRCA)	15,000,000
Central America	2005/016-839	Support for the design and application of common Latin American policies (ADAPCCA)	10,000,000
Panama	2001/005-726	Support to the International Technology Park of Panama	7,700,000
AL INVEST		AL INVEST III Programme	47,980,000
Bolivia	2002/005-847	Trade and Investment Promotion Programme (PROCOIN)	6,300,000
Ecuador	2004/005-703	Economic Cooperation (Expo Ecuador)	10,000,000
<b>EX-POST</b>			
Argentina	1994/004-765	Regional Development and Reinforcement of SME Provincial Support Structures	5,500,000
Peru	2000/011-424	Technical Assistance to SMEs	490,011

## 5. Overall conclusions of external monitoring 2006

### 5.1 Overall Results

External monitoring was based on the five parameters established by the EC: relevance and quality of design, efficiency, effectiveness, potential impact and sustainability. Overall general results are presented in Table 2 and Graph 1, whilst individual project results can be found in Table 3 (in both cases the ongoing project AL-INVEST III is not included as it is the subject of a separate report).

Scores by parameter will be seen later on but the breakdown of the total number or scores shows that only 1.9% received an "a" (very good), 38.1% got a "b" (good), the majority, with 42.9%, got a "c" (problems), 12.4% got a "d" (serious deficiencies) and 4.8% did not receive a score.

The overall result is worrisome as it enables three initial conclusions to be drawn. Firstly, not a single project related to trade and integration was classified as excellent or very good, as hardly any "as" (very good) were awarded. Secondly, it is disturbing to discover that the classification that predominates is "c" (problems) and thirdly, there are several cases in which projects are awarded a "d" (serious deficiencies) revealing serious flaws. In

a number of cases no score was awarded mainly due to the lack of progress made by projects and in particular to start up difficulties.

Table 2: Summary of the scores awarded according to the monitoring parameters

	QoD	Eff	Effec	Imp	Sust
<b>ONGOING</b>					
<b>A</b>	0	0	0	1	1
<b>B</b>	10	1	5	8	9
<b>C</b>	9	12	10	7	4
<b>D</b>	0	6	4		3
<b>N/A</b>	-	-	-	3	2
<b>total</b>	19	19	19	19	19
<b>EX-POST</b>					
<b>a</b>	0	0	0	0	0
<b>b</b>	1	1	2	1	2
<b>c</b>	1	1	0	1	0
<b>d</b>	0	0	0	0	0
<b>total</b>	2	2	2	2	2

Graph 1: Scores per parameter

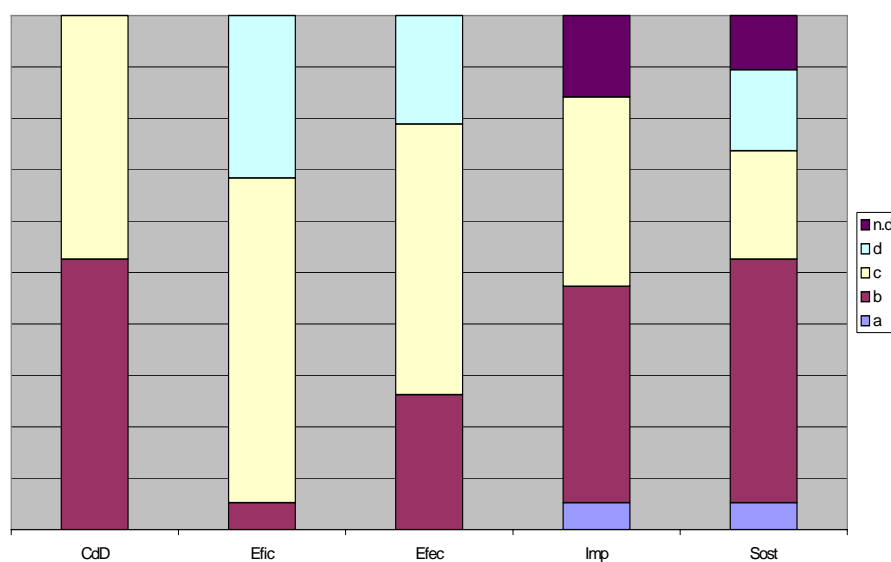


Table 3: External Monitoring Results 2006

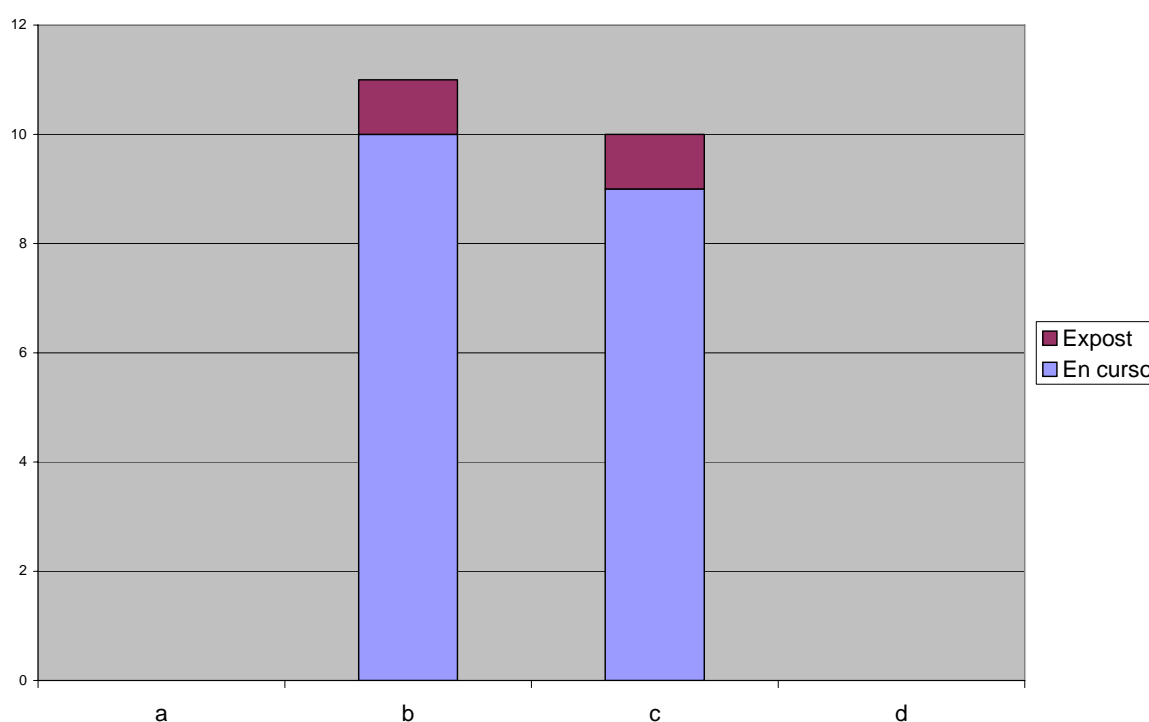
Project N.	Name	R/QoD	Eff	Effcy	Imp	Sust
<b>ONGOING</b>						
2003/002-446	Technological Centres Network and SME Support in Brazil	c	c	c	c	c
1999/001-052	Customs Cooperation EU - MERCOSUR (PADUEM)	b	d	d	c	c
2004/005-906	Technological Development in Key Sectors of the Uruguayan Economy	c	c	c	b	b
2004/005-916	Harmonization of technical standards and regulations and conformity procedures in MERCOSUR	c	d	d	n/a	d
2004/016-713	Strengthening the Competitiveness of the Export Sector in Paraguay	b	c	b	c	b
2001/002-393	Investment and Trade Promotion – Support to Micro and Small Businesses	c	c	c	b	b
2003/002-448	Integral Support to Small and Medium sized Enterprises (PIAPYME)	b	c	b	b	c
2004/006-068	Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)	b	d	d	n/a	n/a
2003/005-755	Support for the Creation and Development of Innovative Businesses	b	c	c	a	a
2003/005-904	Application Fund for the EU-Chile Association Agreement	c	c	c	b	b
1999/002-488	Improvement of the Argentinean Economy's Efficiency and Competitiveness (INTI-UE)	c	c	c	c	c
2004/016-705	Improvement of the Productivity of SMEs in the Industrial Forest Sector	b	d	c	c	b
2005/016-805	Strengthening the Competitiveness of Micro and Small Businesses in El Salvador (FOMYPE)	b	c	c	b	b
2002/005-852	EU-CAN Statistics Cooperation (ANDESTAD)	b	b	b	b	b
2003/005-754	Support Programme for Central American regional integration (PAIRCA)	c	c	c	c	d
2005/016-839	Support for the design and application of common Latin American policies (ADAPCCA)	c	c	b	n/a	n/a
2001/005-726	Support to the International Technology Park of Panama	b	c	c	b	b
2002/005-847	Trade and Investment Promotion Programme (PROCOIN)	c	d	d	c	d
2004/005-703	Economic Cooperation (Expo Ecuador)	b	b	b	b	b

EX-POST						
1994/004-765	Regional Development and Reinforcement of SME Provincial Support Structures	c	c	b	c	b
2000/011-424	Technical Assistance to SMEs	b	b	b	b	b

## 5.2 Relevance and Quality of Design

Relevance and quality of design receive a "b" (good) in 52.4% of the cases reported and a "c" (problems) in the remaining 47.6%. It is worth noting that no project receives an "a" but neither are any "ds" recorded. This absence of extreme scores is due in large part to the different scores assigned to the two distinct sub components in this category which basically cancel each other out. If this parameter had been divided into two, undoubtedly relevance would have received numerous "as" (very good) whilst quality of design would have scored several "ds" (serious deficiencies).

Graph 2. Relevance and Quality of Design



### ➤ Relevance

The relevance of projects is never questioned; on the contrary, it is frequently highlighted. It can be confirmed that in all of the cases under review the EC had detected an area in which the beneficiary country or countries is experiencing problems therefore the technical assistance provided by European experts as well as other aspects of projects are of particular importance. The following are just some examples of the very positive comments made in the monitoring reports.

The “Customs Cooperation EU - MERCOSUR (PADUEM)” project provides an adequate response to the Harmonization of legislation and regulations required by the MERCOSUR customs union. Moreover it is of great relevance to the EU as it is in line with the priority given to regional integration.

The relevance of the project on the “Harmonization of technical standards and regulations and conformity procedures in MERCOSUR” is also highlighted as all of its participants agree on the importance of the subject for promoting integration and improving commercial ties with the EU.

Similarly, in the case of the “Technological development in key sectors of the Uruguayan economy” this project is in line with the government's commitment to improving competitiveness and productivity through technological innovations.

Likewise, the project “Investment and Trade Promotion – Support to Micro and Small Businesses” aims to resolve the principal problems facing small and micro businesses in an integrated fashion by prioritising three areas: improvement of financial and non financial services, improvement of the actual situation of small and micro enterprises (SMEs) and improvement of the integration of the Guatemalan economy.

The project on “Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)” is also considered essential to Mexico's export diversification given the country's high level of dependence on the US market. It should also help rectify areas where there has been friction in Mexico-EU bilateral relations. If these issues were resolved, it would greatly improve relations in matters of trade and investment between the two.

The project “Support to the design and application of common Latin American policies (ADAPCCA)” is also considered as relevant as it supports the customs union in Central America, an initiative that is currently supported by another EC project.

### ➤ **Quality of Design**

Contrary to relevance, there is hardly any project in which the quality of design is not questioned. The assessment reveals serious problems with the identification missions responsible for the original project designs, as well as with the implementing entities who fail to update and correct the Logical Frameworks (LFs) and other tools required for the start up of projects.

The LFs are incessantly criticised. They exist but are not often adequately used. There is confusion among objectives, results and activities and there is an absence of adequate Objectively Verifiable Indicators (OVIs). The involvement of beneficiaries was not taken into account and LFs are not updated. Moreover, some of the projects risk ending up as a series of one-off isolated actions without ever managing to achieve their overall objectives (lack of coherence among the different levels of the intervention logic).

One of the criticisms that is common to most projects is the lack of clarity and knowledge of EC procedures by national and regional counterparts, which has caused frustration on behalf of the beneficiaries and which risks non-compliance with the N+3 rule in a good number of projects. In a number of cases, extensions to the Financial Agreements are proposed in order to enable objectives to be achieved. If this is not done, a number of projects will not be able to reach the targets originally set. There are also a series of one off criticisms with regard to the quality of design of most projects that include the following:

In the project "Customs Cooperation EU - MERCOSUR (PADUEM)" too much emphasis is put on the use of European Technical Assistance (ETA) when there are plenty of qualified local experts available. On an administrative level most of the problems reported are due to the lack of an executive structure on behalf of the project's counterpart.

One of the most significant problems identified in the project "Harmonization of technical standards and regulations and conformity procedures in MERCOSUR" is that none of the foreseen actions have been implemented due to the disagreement between the implementing agencies and those responsible for the project with the EC about changing some of the basic conditions laid out in the Technical and Administrative Arrangements (TAAs). The counterpart requested the cancellation of two of the four expected results because they had already been achieved by the time the FA was signed. Another strong criticism is the lack of participation by the regulatory bodies from Uruguay, Brazil and MERCOSUR which is also due to an error in the TAAs.

In the case of the project on "Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)", to date, neither the Global Work Plan (GWP) nor Annual Work Plan (AWP) have been prepared. Furthermore, the importance of training activities had been initially underestimated (possibly due to Mexico's membership of the OECD) and the need for greater transfer of knowledge from European experts that only emerged later.

In the "Support Programme for Central American regional integration (PAIRCA)" the problems are not due to poor administration but rather to the original design which does not take account of the actual reality prevailing in Central America. Too many actions are included considering that two of the beneficiaries are among the most dubious in terms of regional integration and a third one has a very precarious record. Moreover the placing of PAIRCA as an independent unit within the Secretary General of Central America's System of Integration (SG SICA) was clearly misguided as it has created endless confrontations and contributed to the projects near breakdown.

The project "Support to the design and application of common Latin American policies (ADAPCCA)" risks ending up as a myriad of small actions as there is no prioritising. Again, the mistake goes back to the TAAs which included topics that were too ambitious given Central America's institutional capacity and experience. Moreover, the GWP instead of decreasing the

number of topics is increasing them. The mistake was to rely solely on the experience of the implementing agency rather than seeking advice from other institutions and partners that have dealt with the same issues in the past. Notably, the project could benefit from the experience of similar projects such as PROTLCUEM.

In the case of the AL –INVEST project, certain aspects of the design were assessed, including the following: a) the experience of the operator with AL-INVEST, emphasising its participation in the current phase III; b) the advantages and limitations of the AL-INVEST network; c) the level of coverage by the operator of the SME sector d) the relevance of the projects financed with AL-INVEST funds with regard to the internationalisation strategy and activities of the operator and the institution in which it is based; e) whether the needs of the operator are matched by the tools provided by AL-INVEST; f) whether AL-INVEST regulations are adapted to the needs of the operator; g) the strengths and weaknesses of assuming the role of principal operator as distinct from a partner's role h) the relationship between the total of activities undertaken versus those achieved as an operator; i) the outlook for the remaining time frame for AL-INVEST III.

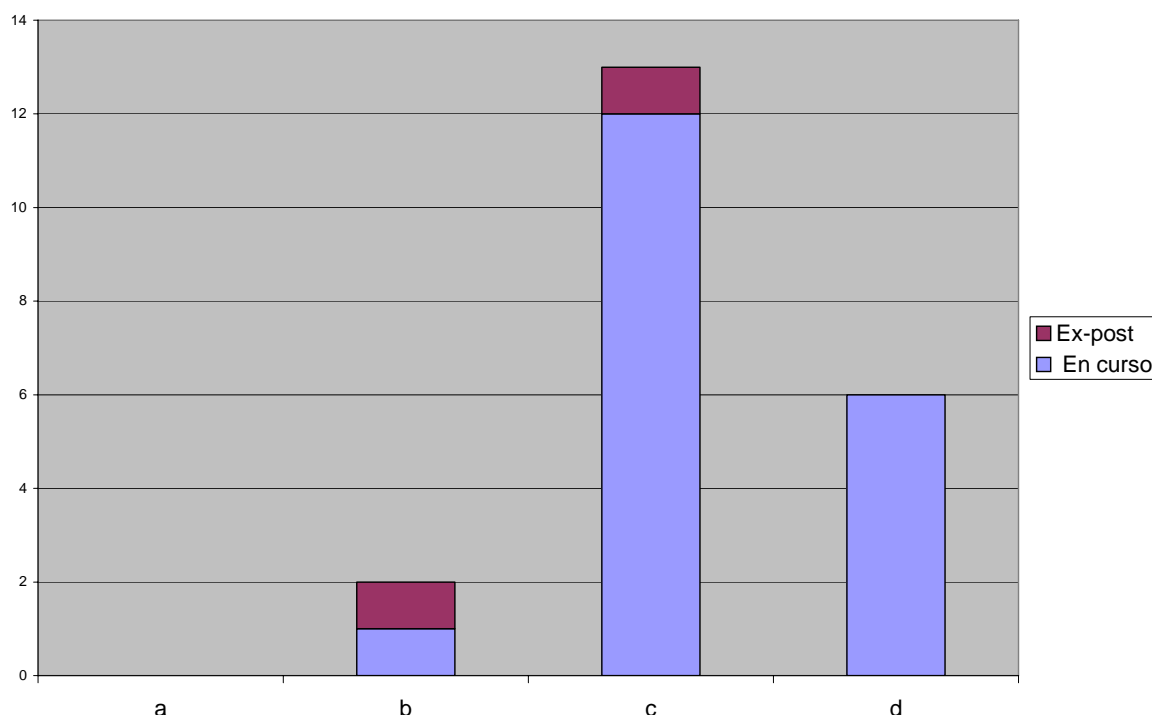
With regards to the results, "b" (good) was the predominant grading with more than 50%, followed by "a" (very good) and "c" (problems) with approximately 20% each. The assessment is therefore generally good but not excellent.

### **5.3 Efficiency**

Efficiency is generally assessed more negatively than Quality of Design. There are no "as" (very good), only 9.5% of total scores are "b" (good), 61.9% are "c"(problems) and 28.6% "d" . The tendency towards the right is very clear from the graph 3 (see below), confirming that the majority of the projects under review experienced problems during their implementation.

Although it would be difficult to attribute responsibility for these failings to any one factor, it is clear that not only the implementing organisations are to be blamed. Beneficiary governments, EC Delegations and even EC rules and regulations also play a part. In the projects under review, the problems in efficiency arise primarily from the difficulty of reconciling the European budgeting system with that of the beneficiary countries.

Graph 3. Global Efficiency



One of the most frequent criticisms cited by monitors are the delays in undertaking activities. Delays in the elaboration of GWPs and AWP are also identified. Criticisms of this nature are frequent and in certain cases when the amount of funds spent is compared with the time incurred, the gap between the two is huge. Other more specific difficulties include the following:

The project "Improvement of the Argentinean Economy's Efficiency and Competitiveness (INTI-UE)" had problems with the cost of equipment, as some of the bids presented were over budget and besides, they did not comply with the established technical requirements.

In the project "Support for the Creation and Development of Innovative Businesses" in Chile, the government did not comply with some of the conditions established prior to the signing of the FA. Moreover, problems with the ETA also delayed execution.

In the project "Application Fund for the EU-Chile Association Agreement", the disbursement of counterpart funds was delayed and in addition, there were other delays due to the difficulties that arose in trying to reconcile European and Chilean standards. Furthermore, serious problems were encountered in purchasing the necessary equipment due to delays in the approval of a derogation from the Commission's "rules of origin" and to the time required for the ex ante analysis of tenders. Criticisms of the "Improvement of the Productivity of SMEs in the Industrial Forest Sector" project include the changes proposed by the counterpart as regards the Reference Centre and the management of funds that required a rider to the FA. Furthermore, the very cumbersome communication system between

the implementing agency and the Ministry for Agriculture, Fisheries, Livestock and Food, and between the latter and the EC Delegation, and vice versa, inevitably created coordination problems and slowed everything down.

The project "Strengthening the Competitiveness of Micro and Small Businesses in El Salvador (FOMYPE)" still does not have an approved internal code of conduct and systems in place need more developing. There are also significant delays arising from the lengthy approval process by both parties, firstly by the "Technical Agency for External Financing" and secondly by the EC Delegation.

In the project "EU-CAN Statistics Cooperation (ANDESTAD)" the availability of funds from the CAN is questionable. However, flexibility on behalf of the EC Delegation is acknowledged with regard to the application of the N+3 rule as it is currently using the GWP as a contractual document. The risk of having too many work meetings without ever reaching the established targets is also mentioned.

In the case of the "Support to the International Technology Park of Panama" project, the limited availability of the ETA coordinator coincides with the periods when the project most needs this support. Other reasons put forward to explain the delays include: tendering processes that are inappropriate in the Panamanian context, problems with some of the tenders and the lengthy EC approval system. There is however, very good coordination with other projects, in particular good complementarity with the support provided by with the Intra-American Development Bank (BID) and the World Bank to the "City of Knowledge".

The efficiency of the "Trade Development and Investment Promotion" project in Bolivia is very poor. There have been problems from the start with regards to the counterpart funds meant to cover the Executive Director's salary and the rental of the project's offices as well as with the change in the economic vision of the new government which should have obliged the project to adapt its design.

The programme of "Economic cooperation in Ecuador" (EXPO ECUADOR) is one of the few projects where the implementing agency is efficient. The breaking up of the service contracts in different lots was well thought out as it provided maximum efficiency. The quality of the services employed is also excellent. The only criticisms are the lack of a relationship with AL-INVEST and a lack of coordination of activities with the CAN.

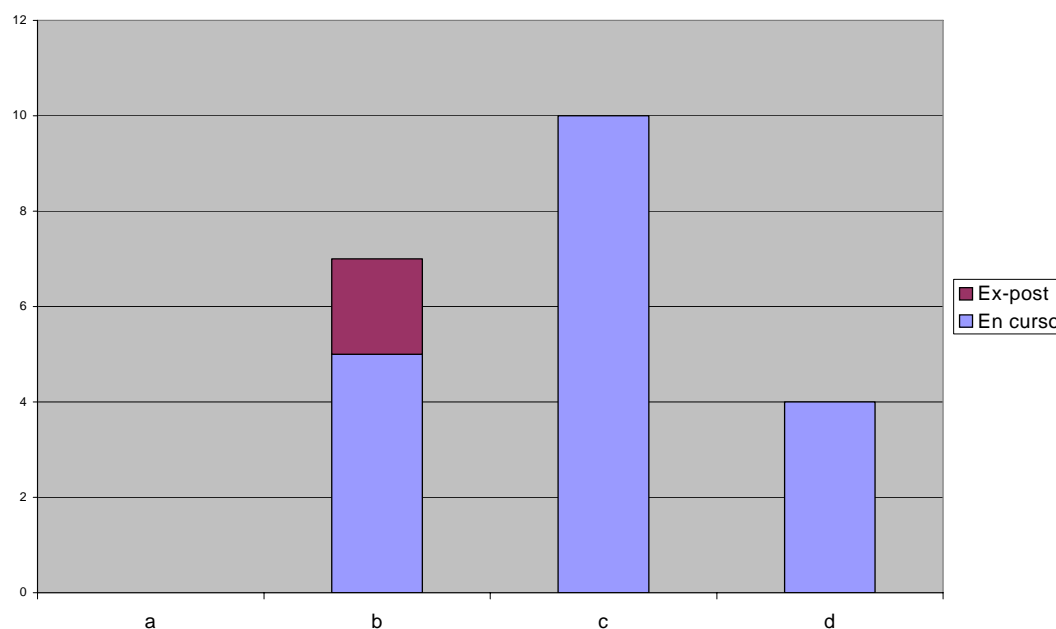
With regard to AL-INVEST the assessment in terms of efficiency was based on the following : a) internal workings of the ECEs; b) institutional visibility; c) management by the AL-INVEST consortium; d) presentation, selection and approval processes for the proposals presented by operators; e) financial and administrative execution of the agreements; f) compliance with the management's OVIs; g) efficiency of the collaboration with other operators; h) follow-up ex-post of companies by the operator; i) follow-up of projects by the AL-INVEST consortium; j) alternative mechanisms used to encourage SMEs to declare the results obtained.

Here again, "b" scores (good) predominate with more than 50%, followed by "cs" (problems) with more than 30% and then the "as" with approximately 10%.

## 5.4 Effectiveness

Effectiveness achieves a higher result than efficiency. Although no "as" (very good) are registered, the number of "bs" (good) amounts to 33.3%, but again it is the "c" scores (problems) that prevail with 47.6% followed by 19.0% of "ds" (serious deficiencies). Thus, as can be seen from the graph below, the overall result for effectiveness still veers towards the right. It would appear that the principal problem is that most of the projects are not reaching the objectives they set out to achieve in their FAs.

Graph 4. Global Effectiveness



With regards to effectiveness, the criticism most frequently cited in the monitoring reports is that the delays incurred initially (which in some cases were excessive) are now putting the achievement of project objectives at risk.

In the case of the project "Technological Centres Network and SME Support in Brazil", mistakes were made in the planning of activities and there is a gap between the project's objectives and those of the beneficiary companies.

In the project "Customs Cooperation EU-MERCOSUR (PADUEM)" there is an incompatibility between EC regulations and MERCOSUR's structure. This is exacerbated by a lack of clarity and flexibility on behalf of the EC Delegation with regard to the application of these regulations.

The usefulness of the services provided by the programme "Integral Support to Small and Medium sized Enterprises (PIAPYME) (PIAPYME)" has

varied among the different operators as some have managed to use these services to promote their activities whereas for others, the added value has been limited and has simply comprised basic, small scale activities.

In the project "Strengthening the Competitiveness of the Export Sector in Paraguay" effectiveness is rated positively as there is a high level of participation and a high level of commitment from all of the actors involved. Proof of this is the fact that in certain cases, participants advanced their own funds to help start activities.

Although the project on "Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)" has not yet begun activities, it could benefit from potential synergies with other projects such as PIAPYME and AL-INVEST as long as the appropriate mechanisms to do so are put in place. This collaboration would of course have to take into account that the direct beneficiaries in the case of PROTLCUEM are more on the macro level with Government authorities whereas the other two projects operate on the micro level with public and private entities.

Due to the delays incurred to date, it is very unlikely that the "Support for the Creation and Development of Innovative Businesses" project in Chile will be effective despite the fact that the country has a State policy in this area, that the implementing agency is specialised in the subject and that a highly qualified workforce is in place.

In the project "Improvement of the Argentinean Economy's Efficiency and Competitiveness (INTI-UE)" the main problem with regards to effectiveness arises from an inability to guarantee the beneficiaries' access to results and services. Access by the target group depends on the capacity of the research centres who are intermediate beneficiaries, and their links with SMEs vary significantly as well as their ability to reach, convoke and familiarize SMEs on matters of technology and standards.

In the case of the "Support Programme for Central American regional integration (PAIRCA)" studies are not circulated among experts and beneficiaries but simply placed on the web; they are therefore not leading to the elaboration of appropriate action plans outlining the measures to be adopted. Neither has the project managed to create synergies with other similar EC projects. Furthermore, there are too many action plans and given that some of them are only just beginning and that the majority of the beneficiaries are complex institutions, it is unlikely that project objectives will be attained.

The project for the "Support to the design and application of common Latin American policies (ADAPCCA)" should join forces with the other EC project on support for the creation of a customs union as they are both broaching the question of a customs union albeit from different perspectives. It is pointed out that if ADAPCCA doesn't manage to focus and prioritise its key areas for intervention, it risks ending up with numerous consultancies but without having achieved much influence on local decision makers, thereby failing to establish common policies or at least some degree of harmonisation.

In the project "Regional Development and Reinforcement of the SME Provincial Support Structures (CERPYMES)", actions taken with provincial agencies and businesses were effective and the beneficiaries showed satisfaction with the project. There were however fewer participants than anticipated.

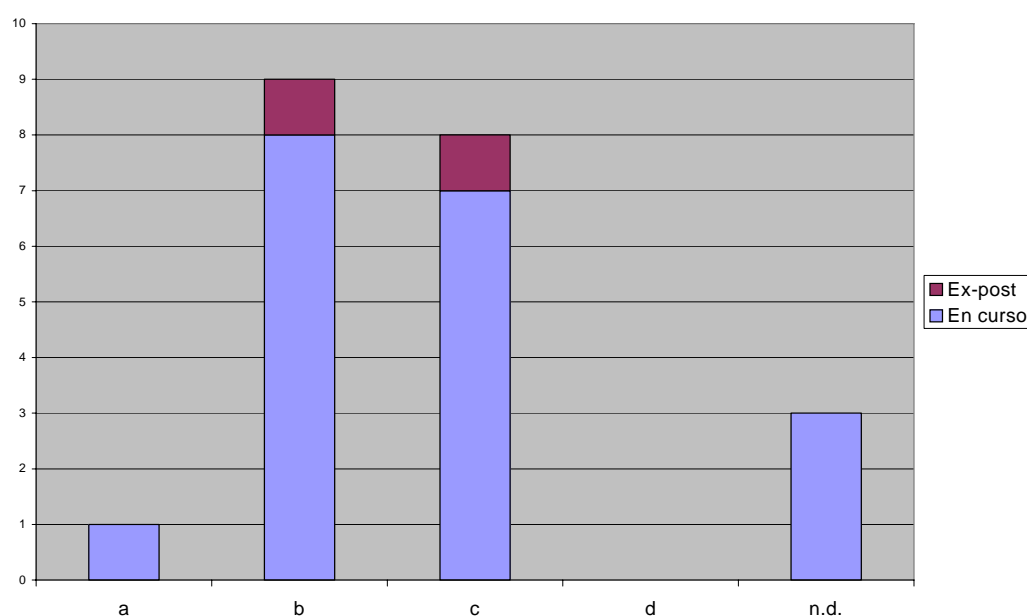
In the project "Technical Assistance to SMEs" in Peru the companies were satisfied with the services provided and in particular with the increase in their incomes and indirect employment. One of the weaknesses identified was that there was only a need for one of the services offered in 90% of cases thereby failing to achieve a more integrated approach. Another limitation identified was the culture of non-payment for business development services as there are too many on offer. There is also a lack of association among micro, small and medium sized enterprises (MIPYMES) and of the institutionalisation of a strategy that would include other public and private institutions in a sustainable way.

In the case of AL-INVEST the assessment was made on the basis of the following criteria: a) profile of the SMEs that require its services, b) objectives reached, namely its internationalisation strategy, c) business volume increase and internationalisation of participating businesses, d) institutional strengthening of the operator, e) actions carried out without AL-INVEST financing.

Yet again the most frequent score was "b" (good) with 60%, followed by "c" (problems) in 25%.

## 5.5 Impact Perspectives

Graph 5. Global Impact



It is in this parameter that the first “a” score is recorded (very good) in this monitoring exercise. “b” scores (good) are awarded in 42.9% of cases and 31.8% are “cs” (problems). There are no “ds”. The remaining 14.3% do not receive a score. In the graph above, there is therefore a slight veering towards the left. By way of conclusion therefore it would seem that despite the limitations found in terms of quality of design, efficiency and effectiveness, projects are managing to have an impact on the beneficiary countries. It might be because the needs of these countries are so great that even badly designed and administered projects are better than none at all.

The potential impact of the “Technological Development in Key Sectors of the Uruguayan Economy” project is considered to be good. This is mainly thanks to the government’s commitment to a policy on technological innovation that would help improve Uruguay’s regional and international competitiveness. Moreover, the implementing entity has formed strong strategic alliances with the IDB, the Multilateral Investment Fund (FOMIN), the UN Development Programme (PNUD) the Institute Pasteur and the Japanese International Cooperation Agency (JICA).

The project “Investment and Trade Promotion – Support to Micro and Small Businesses” also has good impact perspectives. This is due to the potential for replication thanks to the existence of a coordination group of donors in this sector. It also helps that the implementing unit is based in the Ministry of Economy which allows for better coordination as well as ensuring high levels of participation in the project.

In order to reach its objectives, the programme “Integral Support to Small and Medium sized Enterprises (PIAPYME)” should focus on well established businesses as it is more likely that they will be in a position to pursue trade relations with Europe. Activities therefore need to be improved as to date they have been too broad and too basic.

In the programme for “Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)” it is impossible to estimate its potential impact as it has not yet begun. Nevertheless, beneficiary entities have shown a strong interest in Mexico’s improvement of its trade and investment relationship with the EU. Though complex, it is felt that a better understanding and application of EU norms would improve the quality of Mexican goods and services thereby having a positive effect not only on Mexico-EU relations but also on Mexico’s trade relations in general. Beneficiary entities tend to be the same as those that are involved in the TLCUEM project which would allow the projects to advance together in line with the actions taken by decision makers.

It is in the “Support for the Creation and Development of Innovative Businesses” that the sole “a” awarded in this category appears. Impact potential is considered to be excellent given that the project forms part of a broader national strategy in favour of innovation in addition to the country’s focus on exports. A resistance to investing in R&D on behalf of companies is however noted.

The project "Customs Cooperation EU-MERCOSUR (PADUEM)" is experiencing difficulties as its formulation was very ambitious given the level of progress as regards MERCOSUR's establishment of a common market. As a result, the project was unrealistic with respect to the targets to be achieved in only five years.

The project "Regional Development and Reinforcement of SME Provincial Support Structures (CERPYMES)" was of limited duration and only affected an insignificant number of companies thereby limiting its impact. In addition, it lacked visibility. On the other hand, since 2003 the country has grown in all the sectors identified and the internationalisation of SMEs has become a reality.

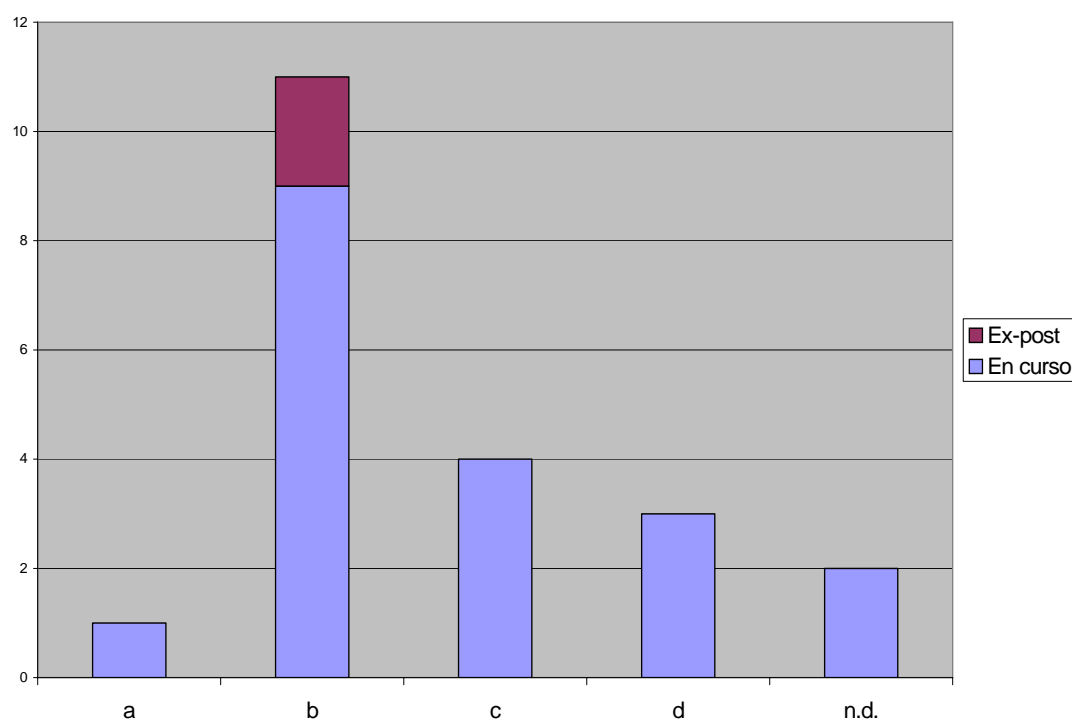
The following criteria were used in the assessment of AL-INVEST: a) level of interest of all involved as regards trade relations with Europe; b) the volume of business generated; c) the increase in the number of relationships between operators and companies on a south-south level and d) the problems/obstacles related to the above. In terms of results, "b" (good) was awarded in nearly 60% of cases, "c" (problems) in 25% and the rest was distributed among "a" and "d".

## **5.6. Potential Sustainability**

The results obtained in sustainability are similar if not slightly better than those in impact. There was only one "a" awarded (very good), but 52.4% obtained a "b" (good), 19.0% a "c" (problems) 14.3% obtained a "d" (serious deficiencies) and 9.5% received no qualification.

It is interesting to see how despite the problems in design, efficiency and effectiveness there is clearly some optimism with regards to a project's sustainability once EC cooperation ends.

Graph 6. Sustainability



In the case of projects related to SMEs it is often pointed out that companies rarely attach sufficient value to a project's actions, therefore once donations have ended and market prices are charged, they frequently cease to exist.

In the project "Customs Cooperation EU - MERCOSUR (PADUEM)" sustainability is affected by the intergovernmental nature of MERCOSUR which translates into an asymmetrical system of support from the member states and a lack of executive power on behalf of a supranational structure.

The project "Technological Development in Key Sectors of the Uruguayan Economy" is economically viable. The laboratories are already working in their respective sectors and they should be able to cover their operational costs as of the second year of implementation. Moreover there is a high level of ownership and political support from the government which, in its structural reform gives priority to industrial innovation in order to increase exports. In addition, the current tax reform provides incentives for R&D and a law is being formulated in support of technology and innovation.

In the project "Strengthening the Competitiveness of the Export Sector in Paraguay" potential sources of income have to be found in order to make it self-sufficient. With regard to political sustainability the National Competition Council will ensure that feedback from the actions undertaken by the project will be exploited in the elaboration of relevant policies. Similarly, there is a high level of commitment from the different parties involved despite the lack of leadership.

The project "Investment and Trade Promotion – Support to Micro and Small Businesses" is considered as potentially sustainable as it forms part of the Ministry of Economy. Another positive aspect is that the project includes resources, actions and indicators in order to ensure that gender is treated as a cross cutting issue.

In the Programme "Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)" it is not possible to assess the potential level of sustainability as activities have not yet begun. However, it is asserted that some results should be achieved towards the end of the project but it will still be necessary to continue with training and technical assistance in the case of others. There is no doubt that sustainability would be very hard to achieve if the EC were to withdraw its support. Without the existence of a project such as this one the Mexican government would not have such a strong interest in the EU market.

The sustainability of the project "Harmonization of technical standards and regulations and conformity procedures in MERCOSUR" presents serious problems as the current design has failed to involve all implementing organisations and final beneficiaries.

In the "Support Programme for Central American regional integration (PAIRCA)" there is little chance of sustainability once project support has finished. On the one hand there is no tradition of providing financial support to regional projects and on the other hand, the project includes some of the more questionable of the institutions involved in the regional integration process in Central America. Moreover, it is unlikely that additional support will be forthcoming from other partners until such time as member governments specify the form that institutions such as the Central American Parliament or the Central American Court of Justice will take.

In AL-INVEST the following aspects were assessed: a) perspectives for continuation of the network once financing is over; b) probability that European operators will continue to participate in European events; c) probability that services will continue to be made available to companies and d) level and modality of self-financing of the operators.

As in the cases of the other parameters, "b" scores predominate with more than 50%, followed by "c" (problems) and "a" (very good) with the former above and the latter below 20% respectively.

## **6. Lessons learnt and recommendations**

### **6.1 Relevance and quality of design**

In numerous cases there are recommendations with regard to the elaboration of GWPs and AWP together with references to the need to revise the Logical Frameworks and in particular to specify OVIs. One could therefore conclude that despite the fact that the Logical Framework methodology, which was established by the EC, has been the subject of

intense training for both Delegation staff as well as directors and other key personnel in cooperation projects, it is still not fully understood. In certain cases it would appear that it is not even understood by the experts designing the projects in the first place.

On numerous occasions, monitors recommend that activities be prioritised or else they risk being reduced to a series of isolated uncoordinated actions. For instance in the case of the project "Support to the design and application of common Latin American policies (ADAPCCA)" there should be a reduction in the number of issues to be tackled, particularly those for which the implementing entity has no prior experience. Moreover the project should take advantage of the experience of similar projects particularly those supported by the EC such as PROTLCEUM.

## 6.2 Efficiency

Table 4 allows for a comparison to be made between the time that has lapsed since the beginning of a project and the expenditure incurred to date. One of the principal conclusions arising from this analysis is that the projects in question have had serious start up and implementation problems due to either the ineffectiveness of the implementing organisations, their difficulty in reconciling local budget regulations with those of the EC, the inflexibility of EC rules or a combination of all of these. Consequently specific targets are not always reached and activities are often rushed in order to comply with the N+3 rule.

Table 4: Comparison between time lapsed and project expenditure

Projects	% of total	
	Time Spent	Expenditure
Technological Centres Network and SME Support in Brazil	46.3	0.0
Customs Cooperation EU - MERCOSUR (PADUEM)	78.3	0.1
Technological Development in Key Sectors of the Uruguayan Economy	47.6	5.4
Harmonization of technical standards and regulations and conformity procedures in MERCOSUR	47.2	0.0
Strengthening the Competitiveness of the Export Sector in Paraguay	31.3	0.0
Investment and Trade Promotion – Support to Micro and Small Businesses	41.7	4.7
Integral Support to Small and Medium sized Enterprises (PIAPYME)	38.9	9.7
Support to the EU-Mexico Free Trade Agreement (PROTLCEUM)	23.6	0.0
Support for the Creation and Development of Innovative Businesses	51.9	3.2
Application Fund for the EU-Chile Association Agreement	56.3	7.2
Improvement of the Argentinean Economy's Efficiency and Competitiveness (INTI-UE)	87.5	28.6
Improvement of the Productivity of SMEs in the Industrial Forest Sector	29.1	0.0

Strengthening the Competitiveness of Micro and Small Businesses in El Salvador (FOMYPE)	25.0	0.6
EU-CAN Statistics Cooperation (ANDESTAD)	22.9	3.9
Support Programme for Central American regional integration (PAIRCA)	62.5	7.9
Support for the design and application of common Latin American policies (ADAPCCA)	15.0	1.3
Support to the International Technology Park of Panama	50.0	3.7
AL INVEST III Programme	57.1	15.6
Trade and Investment Promotion Programme (PROCOIN)	50.0	9.1
Economic Cooperation (Expo Ecuador)		

In several cases, meetings were suggested for all parties involved in order to discuss actions to be taken in the near term and/or to reconsider the viability of some of the actions planned in the original GWPs. These meetings are seen as a means for improving collaboration among all parties and are recommended both internally as well as with the EC Delegation. There is however a risk of a "meeting overload" that was mentioned by some of the monitors.

Common to all projects is the desire to have a deadline extension so that projects are not obliged to undertake activities in such a rushed manner. More often than not, reference is made to the difficulty of complying with the N+3 Rule. This revision would of course mean a readjustment of objectives and budgets.

Another suggestion is to create an internal monitoring system that would put as much emphasis on the achievement of results and objectives as is currently placed on the implementation of activities.

Many of the recommendations made are found in the "Application Fund for the EU-Chile Association Agreement" project: a) create a consolidated LF on different levels where the specific objective of each project is treated as an activity and where potential risks and OVI are identified, b) update the calendar of activities for each project based on the changes made to the timetable, c) update the budget situation, d) speed up the control procedures and disbursements made to projects, e) strengthen and train the administrative structure, f) update and use the LF as a tool for monitoring and control, e) speed up the drafting and presentation of consolidated reports.

In a number of cases, the need to improve the physical aspects of some of the projects' premises is mentioned.

In the case of the project "Integral Support to Small and Medium sized Enterprises (PIAPYME)" a new planning and contracting scheme for integrated projects is recommended. In addition, each project should be ruled by a contract linking the implementing entity with the operators and the companies clearly defining the obligations of all parties.

### 6.3 Effectiveness

Effectiveness goes hand in hand with efficiency. Problems with the latter will have an effect on a project's capacity to reach its objectives. This is why overcoming the difficulties mentioned above would be the best recommendation to improve effectiveness.

A frequent suggestion made in the case of projects targeted at SMEs is the creation of a map of all current initiatives in favour of SMEs with a view to avoiding duplication of effort and in order to enable the identification of potential synergies between projects. Another recommendation that appears frequently is the need to set up, regulate and start running the "advisory committees" as foreseen by the FA.

The project for the "Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)" should establish a relationship with similar existing projects (such as PIAPYME) in order to learn from them.

### 6.4 Potential Impact

A general conclusion is that the impact of any given project will greatly depend on the level of commitment of the country or region where it is based. This is particularly relevant in the case of regional projects. For instance, the project "Customs Cooperation EU - MERCOSUR (PADUEM)" is always going to be dependent on MERCOSUR's internal level of integration. Future initiatives should therefore be more realistic and more in line with regional commitments.

Projects clearly represent only one of many factors contributing to the promotion of a specific sector or an action plan in any given country (or countries). Their impact can therefore be enhanced or limited by a series of other factors such as economic trends or government policies. In the case of the project "Support to the design and application of common Latin American policies (ADAPCCA)" it is therefore necessary to consider a variety of different scenarios of regional integration ranging from: positive, intermediate and negative.

### 6.5 Potential Sustainability

Projects targeted at SMEs should lay more emphasis on the payment for services in order to ensure self sufficiency.

As mentioned above, National boards or committees should also be created in those cases where it has not been done to date. In any event the key factor to ensure sustainability is the level of ownership felt by the beneficiaries. It is also clear that there is greater sustainability when projects are embedded in government entities.

With regards to the "Economic Cooperation Expo Ecuador" project, promotion of the methodology used by the project is recommended in order to inspire institutional policies for export promotion with a view to ensuring the sustainability of future EC support in this field.

## Annex: List of Projects

MR Code	Project Title	Priority
<i>On going</i>		
MR-30305.02	Technological Centres Network and SME Support in Brazil	Trade and Development
MR-30303.02	Customs Cooperation EU - MERCOSUR (PADUEM)	Regional Integration
MR-30408.01	Technological Development in Key Sectors of the Uruguayan Economy	Trade and Development
MR-30402.01	Harmonization of technical standards and regulations and conformity procedures in MERCOSUR	Regional Integration
MR-30403.01	Strengthening the Competitiveness of the Export Sector in Paraguay	Trade and Development
MR-30322.02	Investment and Trade Promotion – Support to Micro and Small Businesses	Trade and Development
MR-30338.02	Integral Support to Small and Medium sized Enterprises (PIAPYME)	Trade and Development
MR-30427.01	Support to the EU-Mexico Free Trade Agreement (PROTLCUEM)	Trade and Development
MR-30227.02	Support for the Creation and Development of Innovative Businesses	Trade and Development
MR-30228.02	Application Fund for the EU-Chile Association Agreement	Institutional Capacity/Good Governance
MR-30201.03	Improvement of the Argentinean Economy's Efficiency and Competitiveness (INTI-UE)	Trade and Development
MR-30432.01	Improvement of the Productivity of SMEs in the Industrial Forest Sector	Food Security and Sustainable Rural Development
MR-30435.01	Strengthening the Competitiveness of Micro and Small Businesses in El Salvador (FOMYPE)	Trade and Development
MR-30444.01	EU-CAN Statistics Cooperation (ANDESTAD)	Regional Integration
MR-30373.02	Support Programme for Central American regional integration (PAIRCA)	Regional Integration
MR-30455.01	Support for the design and application of common Latin American policies (ADAPCCA)	Regional Integration
MR-30245.03	Support to the International Technology Park of Panama	Trade and Development
Final Report	AL INVEST III Programme	Trade and Development
MR-30356.02	Trade and Investment Promotion Programme (PROCOIN)	Trade and Development
MR-30379.02	Economic Cooperation (Expo Ecuador)	Trade and Development
<b>EX-POST</b>		
MR-30092.02	Regional Development and Reinforcement of SME Provincial Support Structures	Trade and Development
MR-30116.02	Technical Assistance to SMEs	Trade and Development