

## EVALUATION OF THE EC SUPPORT TO MERCOSUR

### ***Abstract***

*The evaluation finds that, EC strategy was not very supportive of the model of integration which MERCOSUR had agreed upon. EU policies have limited the export capacity and performance of MERCOSUR, therefore partially offsetting the benefits realised through the assistance programmes, while it has been very effective in facilitating commercial flows and market expansion for MERCOSUR as well as facilitating trade within Member States.*

### **Subject of the evaluation**

The programme evaluated was designed to strengthen the capacity of Mercosur in the sub-regional integration area.

### **Evaluation description**

**Purpose:** of the evaluation was to extract lessons learnt from past co-operation experience in order better to fine-tune future co-operation once the Association Agreement negotiations with Mercosur are completed, and with the additional aim of supporting the process of creating a MERCOSUR common market. The study covers the 1992-2002 periods, and embraces an analysis of EC co-operation policy and projects implemented with MERCOSUR and its Member States in the areas supporting sub-regional integration.

### **Methodology:**

The evaluation was carried out in three phases: (i) The structuring phase aims were to define the evaluation issues, the overall framework of the analysis and to reconstruct the EC's strategy intervention logic; (ii) The field phase aims were to complete the data collected and to gather new information; (iii) The synthesis phase entailed analysis of all data collected previously to complete the answers to the evaluation questions and prepare the final conclusions and recommendations. These take into account the results of the seminar held in Montevideo on the 16 March, with representatives of the MERCOSUR partners. Furthermore the evaluation has been supported by a methodology based on three main components: qualitative analysis of documents and data from interviews, cluster analysis of the actions funded (a data base inventory was prepared and classified by sectors and then clustered according to the main areas of intervention of the EC projects funded between 1992 and 2002) and 4 Project case studies.

### **Main findings**

1. The strategy was not very supportive of the model of integration that the MERCOSUR agreed upon. The existence of protectionist EU policies has limited the export capacity and performance of MERCOSUR, thus partially offsetting the benefits realised through the assistance programmes.
2. The EC bilateral projects in MERCOSUR Member States aimed at enhancing national capabilities, and improving the social and economic environment, and reducing the existing asymmetries, have all been relevant to the strategy. However many of these initiatives have, for the most part, been actions in response to each country's short-term problems, and not with the long-term goals of the integration process.
3. As a result of EC co-operation MERCOSUR stakeholders' negotiating skills, and technical knowledge of regional institutions, have increased during the negotiation process. The projects have had a positive impact both on progress in the negotiations and in the effective preparation of a timetable and agenda for MERCOSUR.
4. EC assistance has invigorated and facilitated trade within Member States although not sufficiently to tighten commercial links between both blocs.
5. EC projects in economic integration have had a positive impact on intra-MERCOSUR commerce, improving market access. At the same time the technical capabilities of enterprises have indirectly benefited from EC initiatives on market expansion, establishment of networks, and creation of new business opportunities.
6. The extent of achievement of the planned objectives of the different projects has been limited. Ambitious objectives, restricted resources, and excessive rigidity in the administrative and managerial structures and procedures of both MERCOSUR and the EC, have adversely affected the effectiveness of the strategy. But despite these shortcomings at project level, the EC strategy has been very effective in facilitating commercial flows and market expansion for MERCOSUR.
7. The projects in which the asymmetries between the MERCOSUR countries were taken into consideration achieved the best results. However, initiatives and projects that were divided into equal

parts for each member country regardless of size, generated problems and implementation delays, and did not result in a reduction in intra-MERCOSUR disparities.

8. Administrative delays in Brussels and disagreements within MERCOSUR's Member States over management and project components seem to have constrained the efficiency of the strategy. Limited participation of MERCOSUR in the EC programming and implementation cycles was noted as well.
9. The low rate of disbursement demonstrates poor implementation performance. Both organisations had to undergo a learning curve in the initial years which affected the disbursement rate. While the rate of expenditure varied from project to project the programme has also suffered from the absence of adequate regional management in both blocs. Moreover, the absence of a proper co-ordinating mechanism within the EC structures for developing a coherent and integrated regional strategy diminished the potential impact that the actions taken could have had on the integration process.
10. MERCOSUR has survived political, organisational and technical disagreements within its members and also resisted a severe economic crisis; despite these factors, there have been sustainable achievements generating important political, technical and economic assets.
11. MERCOSUR's sustainability depends on its internal capacity to overcome the disagreements and conflicts evident in the negotiations and in the sub-regional market in recent years, and on deepening the policy co-ordination process.
12. The EC's strategic environmental priorities have not been applied in a systematic or structural way to address the MERCOSUR Member States' needs and priorities. Although most Country Programmes identify the environment as an area for attention, their scope and implementation have been limited to individual national problems, and no mechanisms are in place at regional level to support co-ordination and coherence between the different initiatives.
13. The thrust of the EC strategy in support of MERCOSUR's regional integration and of eliminating country asymmetries is counterbalanced by the negative effect of certain of the EC's external relations policies applied in Latin America in favour of neighbouring countries. There is no regional co-ordinating structure or mechanism to monitor the impact of external relations policies.

## **Recommendations**

### ***Recommendations at strategy level***

1. A medium and long term strategic plan to achieve integration should be prepared by the relevant EC Services, detailing each sector's objectives and goals. This plan should be supported by output, outcome, and impact indicators so the actions are measurable and capable of evaluation.
2. The EC should attempt to match its strategic interventions to the real MERCOSUR institutional framework. The following initiatives could contribute to strengthening of MERCOSUR institutional structures:
  - (i) The design of a special facility, targeting each specific group involved in the construction of MERCOSUR. Transferring know-how to the different subcommittees and working groups, or providing TA to institutions working in the integration process.
  - ii) Integration should also be sought from each Member State's government institutions, ministries, or special government agencies, transferring EC experience and know-how in design and management of the integration process within the context of national government perspectives.
  - iii) The construction of a "regional identity" from a sectoral perspective should be supported from within each Member State's sectors and institutions engaged in the integration process. The strategy should support construction of sector level networks that can contribute to integration.
  - iv) The regional programmes should systematically identify and address sectors and sub-sectors in each country where projects contribute not only to reducing existing asymmetries and increasing the economic development of the less advanced countries, but also to furtherance of the integration process.
3. The EC strategy should support activities aimed at reducing the existing gap between the political authorities of MERCOSUR and civil society, emphasising the concept of integration as a "tool for development".
4. The Commission needs to integrate a coherent external and environmental policy framework into its global strategy for the sub-region and increase co-ordination and coherence with bilateral interventions.

### ***Recommendations at co-ordination and policy coherence level***

5. Establish a formal co-ordination mechanism within the EC (AIDCO, DGs RELEX, Trade, Agriculture, etc.) on policy issues and enhance technical co-operation be enhanced. To this end, the construction of a formal system, namely an EC-MERCOSUR FORUM, is recommended.
6. Set up a formal consultation process through a Regional Steering Committee to improve co-ordination between the EC Delegations, under the auspices of the Delegation in Uruguay and Paraguay. Issues relating to implementation modalities, project execution, monitoring and evaluation should all be addressed at this forum.
7. Include a regional dimension in Country Strategy Papers. At the same time, each bilaterally-financed project should include outcomes linked to the regional integration process, whether in terms of coordination (i.e. creation of MERCOSUR networks) or of specific activities.

### ***Recommendations at project and management level***

8. Encourage increased MERCOSUR responsibilities in project identification and design. The Commission should provide TA to the MERCOSUR structures (i.e. to the GMC and to the technical committees and sub-committees including the Secretariat) to improve programming and project identification and design. The outcome of this initiative should be the preparation and presentation of a MERCOSUR Project Portfolio in which all administrative, legal and technical requirements, as well as EC and MERCOSUR strategic priorities, are reflected.
9. Promote the creation of a MERCOSUR centralized structure in which all technical co-operation issues can be dealt with efficiently. The creation of a single entity capable of negotiating and assuming legal responsibility for all MERCOSUR projects financed by international organizations would be an efficient mechanism for improving co-operation between MERCOSUR and the international donor community.
10. Adapt the EC Financial Regulation to the actual regional co-operation context of MERCOSUR and made more flexible so as to improve efficiency and contribute to full achievement of project objectives and thus to the EC's strategic objectives. The EC should consider introducing more flexible mechanisms particularly in Art. 164 on the legal, institutional and financial requirements for project selection and implementation. The EC's HQ should give power and authority to the Delegation in Uruguay to adapt the Financial Regulation to the existing institutional, legal, financial and technical structures and capacities of local and regional counterparts at all levels, while ensuring the existence of transparent implementation mechanisms subject to accountability, monitoring, evaluation and auditing.
11. Improve the EC project preparation cycle and notably time taken from project conception to actual implementation which needs to be shortened (in particular, identification and preparation of ToRs is too lengthy) and more flexibility should be introduced into ToRs so that changes that occur in the project environment can be reflected in adaptation of project activities. The EC Delegation of Uruguay and Paraguay should have the authority to approve such amendments.

### **Feedback**

- Extensive discussion of the draft final report with the Delegation and major stakeholders during a seminar in Uruguay and subsequent discussions with the main donors present in the field.
- Distribution within the Commission's Services involved; the Mercosur partners; the member states and other major donors in hard copy and/or via the Internet.
- Preparation of a *fiche contradictoire* to discuss implementation of recommendations.

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